

Equity Strategy

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Market to end up fading the technical distortions, as well as get more comfortable with certain fundamental headwinds

- The recent retracement in broad stock indices, to a large extent driven by technical distortions, is making investors worry that there could be more sustained losses in store, and there is a healthy skepticism toward the chorus of pundits who immediately declared a buying opportunity. While there are likely fundamental, and not only technical, drivers behind the weakness, which could linger, **we believe that these roadblocks might not be in position for long.**
- **Technically**, the concerns over the [froth](#) from liquidity spilling over into the financial markets have been flashing red for a while, and a number of tactical indicators were stretched – see [Dec Chartbook](#), but these are stabilizing, and the **short squeeze appears well advanced** - see pages 7 and 8. **100% of the time post the VIX spike, such as seen last week, stocks would be higher over 1 and 6 months**, outside recessions - see page 10. Beneath the surface, the consolidation was going on for 2 months now, with Value/Momentum down 9% in Europe, and as much as 15% in the US since early December. The excess is being taken out, leading to a better starting point.
- **Fundamentally**, a firmer USD, stalling bond yields and mixed earnings reaction are obstacles, and **China credit impulse is peaking**. As indicated in our [January Chartbook](#), equities still need to work through the third virus wave & resulting lockdowns, where the February dataflow is likely to remain poor. Georgia Democrat win was offset by some USD firming, which typically acts as a headwind, as well as the investor skepticism that the greater stimulus package actually passes, hurting bond yields. In addition, the market has been absorbing the most challenging reaction to earnings results in years – see page 33, as well as peaking in EPS revisions, with Eurozone back into negative territory. However, **the market, in our view, is closer to be able to look through most of these headwinds, and refocus on the likely activity re-acceleration in March-April timeframe.** We still believe risk assets will advance in 1H, adding into dips:
 - 1) The delta is coming, **we look for the current weakness to give way to stronger PMIs from Q2**, helped by an acceleration in M1 and the fading of the virus impact on economic activity. We expect fears of the “fiscal cliff” to continue to be pushed out, with the further rounds of stimulus forthcoming. Credit spreads are well behaved.
 - 2) Excess liquidity and the central banks’ support will stay in place, but they might not keep bond yields anchored at lows. Bond yields could start grinding higher as wage growth and the velocity of money are bottoming. Inflation forwards and yields have opened up a large gap – page 58. USD weakening typically benefits risky assets.
 - 3) Q4 season is receiving a mixed reaction, but even though consensus earnings projections for this year are elevated at face value, in the past recovery years they didn’t tend to disappoint - see page 35.
 - 4) In absolute terms, P/E multiples are high, but not equity yield vs credit & bond yield. The stage of the cycle is supportive, where P/Es show a strong positive correlation to EPS momentum – page 51. **J.P.Morgan CAZENOVE**
 - 5) Investor positioning and sentiment are stabilising.

We expect the lagging regions to catch up this year

- We held a bullish view on the US within DM, and on China within EM last year. Given the significant regional dispersion seen last year, where US & China have outperformed others by 20-30%, we have called to **take profits on these regional trades, looking for the laggards to start catching up**, and expect this to extend through 2021.
- **OW EM.** Within EM, we held OW on China in 2020, and were cautious on EM ex Asia. China still appears fundamentally attractive, in our view, through resilient activity, credit and housing markets, as well as appreciating CNY. However, China credit impulse is likely peaking, there could be a narrowing in performance spread between China and the rest of the EM, as China is more Tech driven, and the rest of EM is tilted to Value. Overall, EM looks attractive we think, given likely easing in trade uncertainty, stronger EM FX, light positioning and the global activity acceleration in 2021.
- **OW Eurozone.** We were cautious on Eurozone in 2020, but upgraded in November. Eurozone is trading cheap and is a beneficiary of stable peripheral spreads, Recovery Fund uncertainty has been ironed out and the labour market is resilient. Crucially, style switch into Value is likely to help the region. Eurozone is a beta play on the global activity, and this could lead to a stronger run in 1H '21. Within Eurozone, we prefer domestic plays to exporters, and periphery to core.
- **OW Japan.** Japan is a traditional global cycle play, with positive correlation to bond yields and to PMI direction. It is Value tilted, Japanese valuations appear attractive and positioning looks light.
- **Neutral US.** We held US OW, as the region was benefitting from an exceptional Fed backstop and is more Growth heavy, which we believed would be the winner in the early stages of the recovery. We took profits on the trade given a very strong run, and a likely stalling in Tech leadership ahead.
- **Neutral UK.** Last summer, we closed our longstanding UW UK stance. This was partly induced by a significant UK underperformance, where it is, by far the worst large region in 2020, and has significantly lagged both the US and Europe ever since the Brexit referendum. Given the poor run, **UK valuations now look very attractive**. Also, a **large gap has opened up between FTSE100 and bond yields, as well as vs the GBP**, and dividends are likely to come back. Having said that, **UK is not a Value play, and while it might not lag so dramatically anymore, it is unlikely to be an outperformer**. UK was behind other markets in every single Value rally seen in the past 10 years – see page 106. Also, UK equities show an inverse correlation to bond yields, GBP and PMIs, as well as have a lower than 1 beta to global equities. Within the UK, we believe certain Domestic plays, such as Homebuilders, Banks and Utilities, are still attractive. We were very bullish on Miners, but are tactically taking profits on the group.

Tactically taking profits on Miners, post a big run... adding to Telecoms...

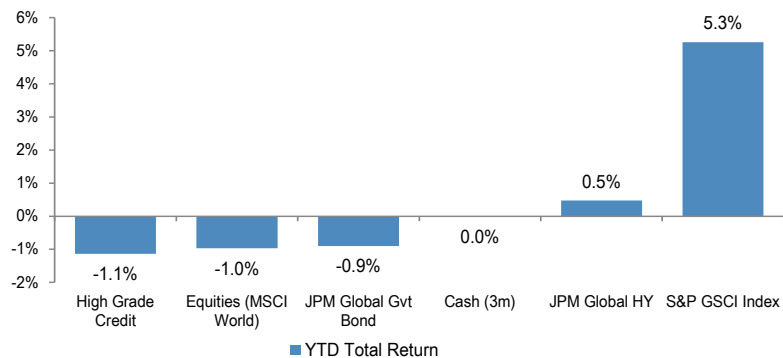
Value has been a loser for 2 months now, this might lead to a better entry point

- **We argued for a start of Value rotation in November**, upgrading just ahead of US elections, but also pointed to consolidation in early December, given stretched technicals, and a strong November spike. We believe the stalling in Value seen over the past two months is healthy, the froth has been taken out, and this might lead to a better entry point. We think that Value will show further gains this year. The starting point remains extreme, as seen in depressed multi-year price and valuation relatives.
- **The magnitude of the mean-reversion will depend on the path of USD and bond yields.** Beyond the current dislocation, **we believe that these will fall in line, creating a '16-'17 type of a backdrop.** Bond yields could grind higher in 1H of 2021, USD could keep weakening and there will be further stimulus. Labour markets will continue healing and the virus impact will likely be fading. We advised at the start of November to take profits on our long-standing Tech OW, and have added to Financials, both Banks and Insurance.
- **Tactically take profits on Miners, given the big run**, and a likely peaking in China credit impulse, in addition to some tightening in liquidity, as seen in spiking repo rates – page 12. We see this as a short-term profit taking, as Miners could continue to benefit if reflation takes hold and if USD weakens further, and have resilient balance sheets. Energy has been an abysmal performer last year, is a recovery play, and could show some better relative trends vs Miners near term, but oil prices might not move up all that much given potential supply additions and ESG remains a headwind for the sector. Capital Goods and Chemicals are more tilted to Quality these days. Consumer Cyclical could continue consolidating near term, given a huge spike in November, but are attractive on a 1-2 year horizon.
- **OW Banks.** Banks look very cheap, on 0.5x P/B, their balance sheets are resilient this time around, without the need for dilution. Dividends could be reinstated and any move up in bond yields would be welcome for the sector. **OW Insurance.** Credit spreads are holding up well.
- **Neutral Tech.** We held OW Tech in 2020, as well as the whole of 2019, but have taken profits at the start of November. We continue to believe that Tech fundamentals are supportive, through strong balance sheets, significant buybacks and structural tailwinds, making this a very different setup to 2001, but the relative outperformance could start waning as cyclical tailwinds for Tech are turning and earnings base effects are tougher – see page 164.
- **General caution on Defensives**, driven by the expectation of higher PMIs, earnings and bond yields. Within this, we are staying **OW Utilities.** Utilities benefit from “Green Deal”, robust CO2 prices and strong cash flow. Healthcare is attractively priced, but could be hurt as sector earnings undershoot the broader market – see page 153. **We have been UW Telecoms for a long while, but are tactically upgrading them now**, and our bottom-up analysts point to selected positives.

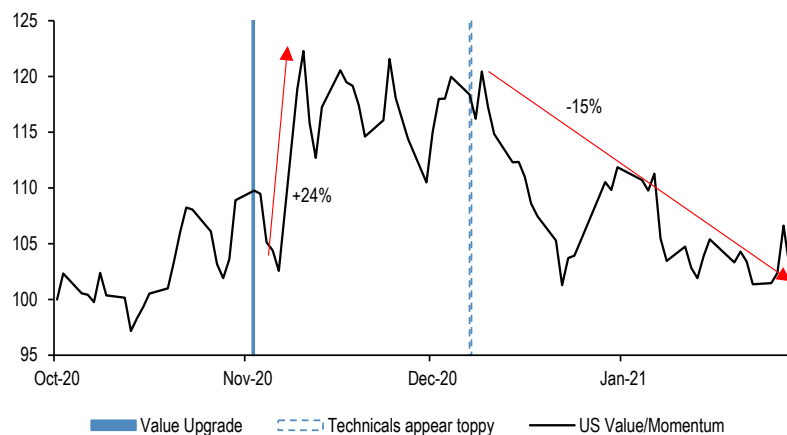
Equities are seeing more mixed performance, especially beneath the surface...

- Value style has been struggling in December & January, post a great November run.

Ytd asset class performance

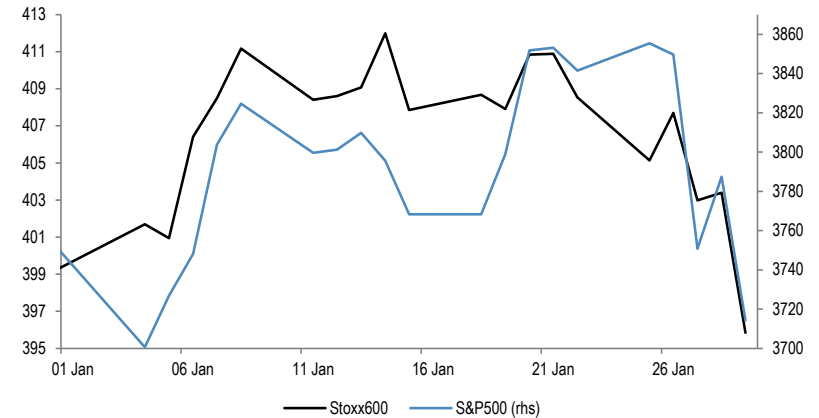


US Value vs Momentum



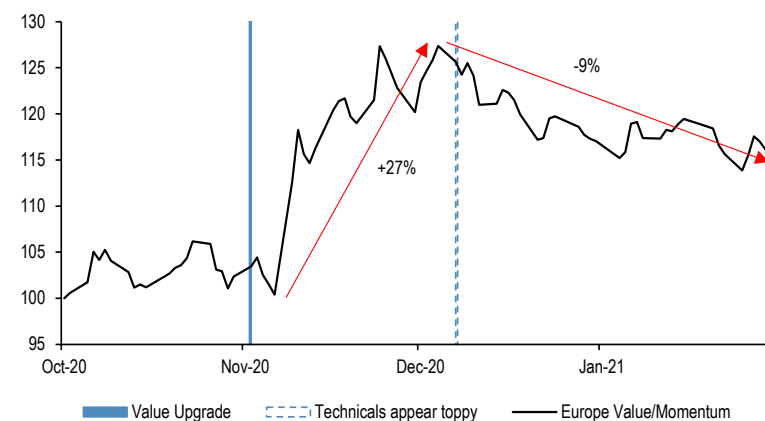
Source: Bloomberg Finance L.P.

S&P500 and Stoxx600 ytd



Source: Bloomberg Finance L.P.

European Value vs Momentum



Source: Bloomberg Finance L.P.

...technically, the short squeeze, which also resulted in de-risking of long positions, is running its course...

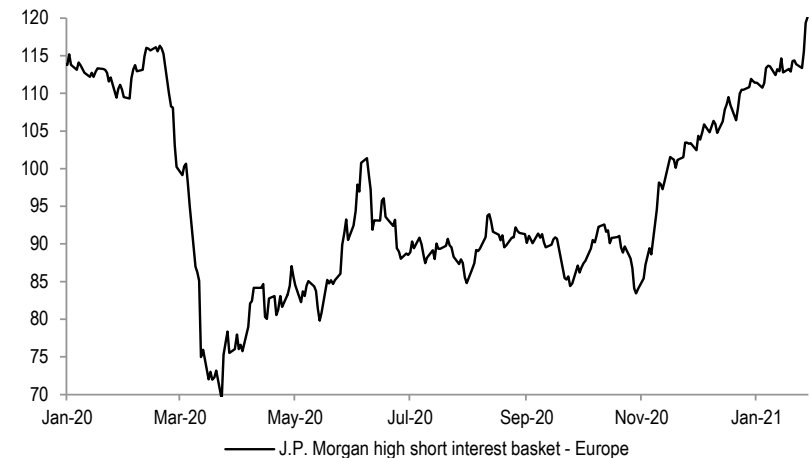
- The short squeeze, triggered by retail investors piling into some of the most shorted stocks, has created increased volatility for the overall market. J.P. Morgan basket of high short interest stocks in the US, JPTASHTE, is up 46% ytd.
- In comparison, JPEUMSHO, the basket of most shorted EU names, is only up 5% ytd, possibly a reflection of lower penetration of retail investors in the European market.

Performance of 50 most shorted stocks in Russell 2000 - Long term



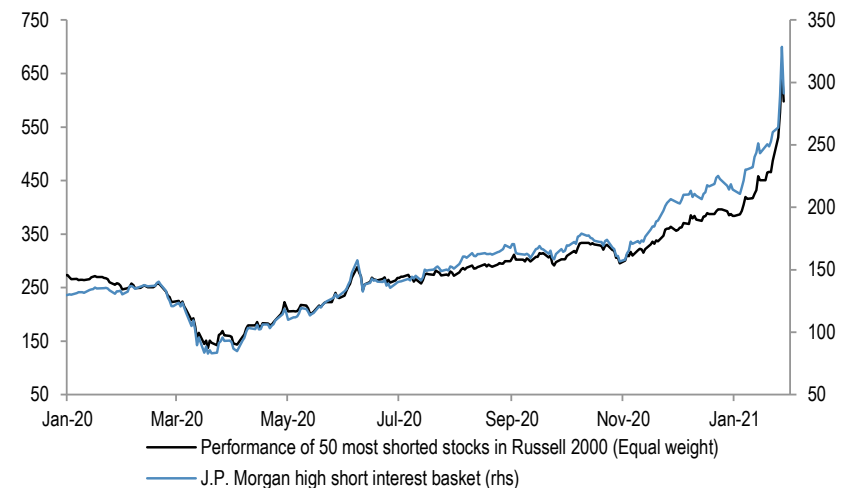
Source: J.P. Morgan, Bloomberg Finance L.P. Note: Rebalanced to 50 stocks with the highest short interest at the beginning of each year.

J.P. Morgan high Short interest Basket - Europe



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

Performance of 50 most shorted stocks in Russell 2000 & J.P. Morgan high Short interest Basket - US



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

J.P.Morgan CAZENOVE

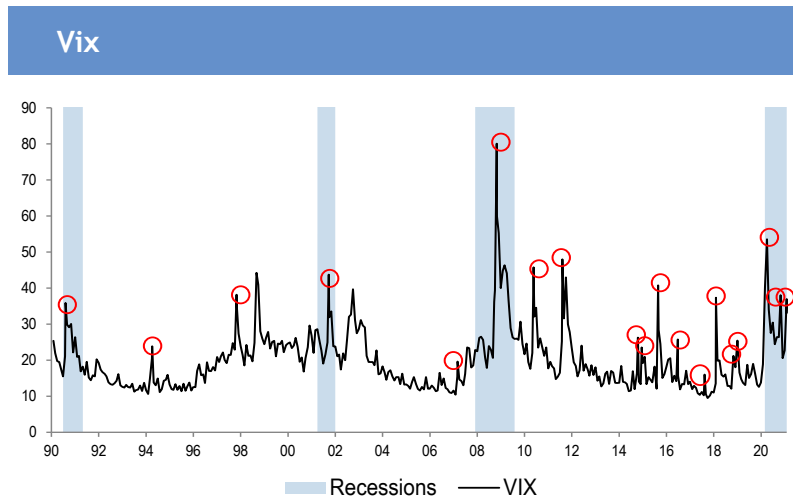
...the 50 most shorted stocks in the Russell 2000 are on average up 74% ytd...

50 most shorted stocks in Russell 2000 index

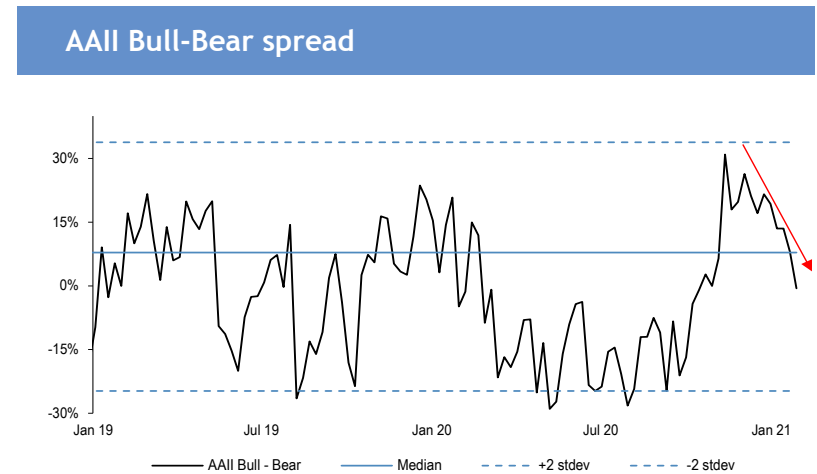
Ticker	Name	Short Interest as a % of float, 2020 end	YTD returns
GME UN Equity	GAMESTOP CORP-CLASS A	144%	1551%
DDS UN Equity	DILLARDS INC-CL A	91%	50%
BBBY UW Equity	BED BATH & BEYOND INC	64%	99%
LGND UQ Equity	LIGAND PHARMACEUTICALS	65%	86%
FIZZ UW Equity	NATIONAL BEVERAGE CORP	62%	105%
SPWR UW Equity	SUNPOWER CORP	54%	111%
AMCX UW Equity	AMC NETWORKS INC-A	59%	39%
MAC UN Equity	MACERICH CO/THE	59%	55%
SUMO UW Equity	SUMO LOGIC INC	48%	31%
ASO UW Equity	ACADEMY SPORTS & OUTDOORS IN	55%	6%
SKT UN Equity	TANGER FACTORY OUTLET CENTER	49%	59%
TR UN Equity	TOOTSIE ROLL INDS	45%	32%
GOGO UW Equity	GOGO INC	45%	50%
AXDX UR Equity	ACCELERATE DIAGNOSTICS INC	48%	44%
ESPR UQ Equity	ESPERION THERAPEUTICS INC	39%	29%
SRG UN Equity	SERITAGE GROWTH PROP- A REIT	41%	44%
OTRK UQ Equity	ONTRAK INC	38%	29%
IRBT UW Equity	IROBOT CORP	37%	58%
PLCE UW Equity	CHILDREN'S PLACE INC/THE	38%	41%
BGS UN Equity	B&G FOODS INC	36%	35%
PRTS UW Equity	CARPARTS.COM INC	39%	36%
CLVS UW Equity	CLOVIS ONCOLOGY INC	36%	69%
RGS UN Equity	REGIS CORP	33%	7%
SFIX UW Equity	STITCH FIX INC-CLASS A	34%	74%
GTT UN Equity	GTT COMMUNICATIONS INC	29%	38%
HRMY UQ Equity	HARMONY BIOSCIENCES HOLDINGS	36%	-3%
PETS UW Equity	PETMED EXPRESS INC	34%	19%
ZYXI UR Equity	ZYNEX INC	31%	40%
VXRT UR Equity	VAXART INC	32%	80%
WKHS UR Equity	WORKHORSE GROUP INC	32%	77%
IGMS UW Equity	IGM BIOSCIENCES INC	32%	12%
REV UN Equity	REVLON INC-CLASS A	32%	5%
RVP UA Equity	RETRACTABLE TECHNOLOGIES INC	35%	62%
SRNE UR Equity	SORRENTO THERAPEUTICS INC	31%	99%
FLGT UQ Equity	FULGENT GENETICS INC	28%	92%
FLWS UW Equity	1-800-FLOWERS.COM INC-CL A	28%	18%
PGEN UW Equity	PRECIGEN INC	33%	-14%
AFIB UW Equity	ACUTUS MEDICAL INC	37%	-3%
M UN Equity	MACY'S INC	35%	42%
CNK UN Equity	CINEMARK HOLDINGS INC	31%	25%
CVM UA Equity	CEL-SCI CORP	28%	90%
INSG UW Equity	INSEEGO CORP	27%	27%
TRHC UQ Equity	TABULA RASA HEALTHCARE INC	27%	30%
MDGL UW Equity	MADRIGAL PHARMACEUTICALS INC	27%	8%
EBIX UW Equity	EBIX INC	29%	40%
CAKE UW Equity	CHEESECAKE FACTORY INC/THE	27%	27%
VBIV UR Equity	VBI VACCINES INC	28%	24%
INO UW Equity	INOVIO PHARMACEUTICALS INC	34%	40%
OPK UW Equity	OPKO HEALTH INC	30%	39%
RXT UW Equity	RACKSPACE TECHNOLOGY INC	26%	27%
Average			74%

...some tactical indicators that were stretched post the big Q4 rally appear to be stabilizing... Vix has spiked...

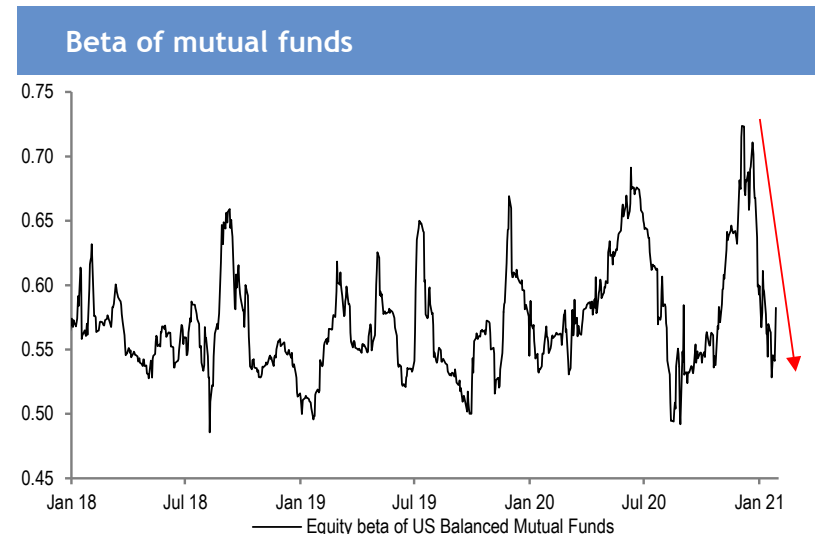
- A number of technicals which appeared stretched in December are improving, but not all.
- Beta of equity funds has fallen.
- Bull-Bear has come off record levels, RSIs have improved and Vix has spiked.
- However, short interest proxy has moved to new lows.



Source: Bloomberg Finance L.P.



Source: Bloomberg Finance L.P.



Source: J.P. Morgan Flows and Liquidity

...once VIX sees a spike such as last week's, the market was up 100% of the time over the next 1 and 6 months, outside recessions

- Post the spikes in VIX such as current, equities tended to advance most of the time over the following months.

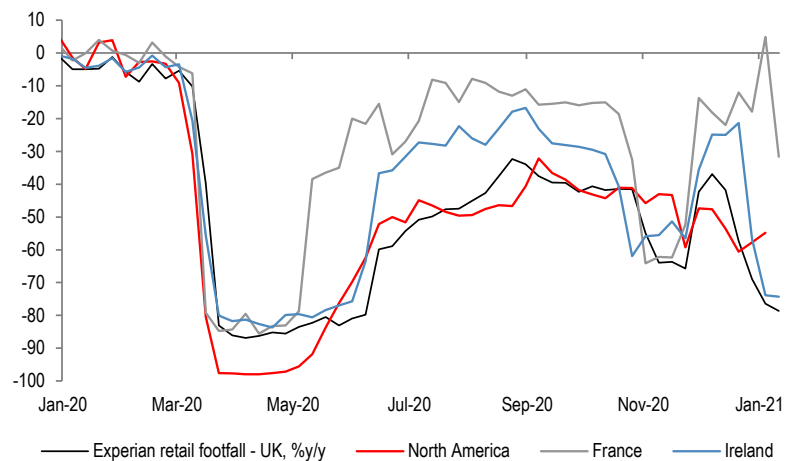
S&P500 performance post VIX spikes						
	Level of VIX	Performance on the day	+1 month	+3 month	+6 month	+12 month
Aug 90	35.9	-3%	-4%	-7%	7%	15%
Apr 94	23.9	-2%	3%	2%	4%	13%
Oct 97	38.2	-2%	6%	8%	23%	20%
Sep 01	43.7	-3%	9%	16%	17%	-12%
Mar 07	19.6	-1%	5%	11%	7%	-4%
Sep 08	36.2	-5%	-19%	-22%	-33%	-12%
Oct 08	80.1	-3%	5%	0%	1%	13%
May 10	45.8	-4%	4%	0%	12%	23%
Aug 11	48.0	-7%	6%	14%	21%	20%
Oct 14	26.3	-1%	10%	7%	13%	9%
Dec 14	23.6	-1%	2%	5%	6%	3%
Aug 15	40.7	-4%	2%	10%	2%	16%
Jun 16	25.8	-4%	7%	6%	11%	22%
Aug 17	16.0	-1%	1%	6%	7%	16%
Feb 18	37.3	-4%	3%	1%	7%	2%
Oct 18	25.0	-2%	2%	-5%	6%	7%
Dec 18	36.1	-3%	12%	19%	25%	37%
Aug 19	24.6	-3%	5%	8%	17%	15%
Feb 20	25.0	-3%	-24%	-8%	6%	-
Jan 21	37.2	-3%	-	-	-	-
Median		-3.0%	4.3%	5.9%	7.2%	14.3%
Average		0.5%	1.8%	3.8%	8.4%	11.2%
% positive		0%	84%	74%	95%	83%
Outside recessions						
Median		-2.4%	4.4%	6.6%	9.3%	15.8%
Average		0.2%	4.8%	6.7%	11.6%	14.2%
% positive		0%	100%	93%	100%	93%
Inside recessions						
Median		-3.2%	-4.2%	-6.8%	6.4%	0.7%
Average		-3.5%	-6.7%	-4.3%	-0.3%	1.1%
% positive		0%	40%	20%	80%	50%

Source: Bloomberg Finance L.P.. *50% spike in VIX vs 1month moving average

Fundamentally, we think the current period of consolidation will not last long... lockdowns are getting absorbed, with improvement expected from March...

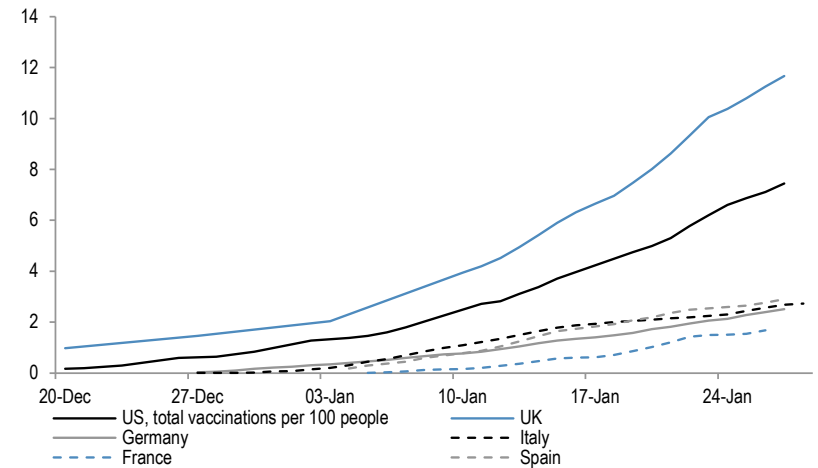
- The near-term headwinds are not just technical. Stocks are having to negotiate continued lockdowns, stronger USD, falling BY and challenging reaction to Q4 EPS results.
- We think February will remain problematic from the dataflow perspective, but the delta will start to look much more favourable on this front from March-April. Base effects appear very easy.

Retail footfall by country



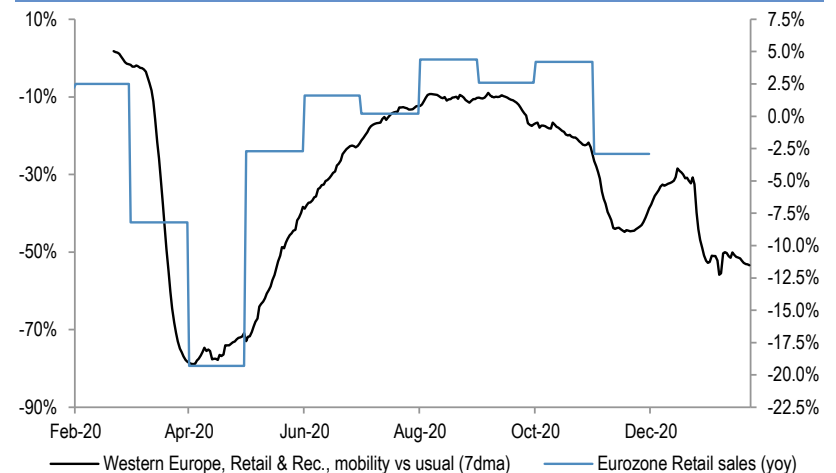
Source: Experian, Prodc, Bloomberg Finance L.P.

Total inoculations per 100 people



Source: [OurWorldInData](https://ourworldindata.org/)

Western Europe retail mobility and retail sales



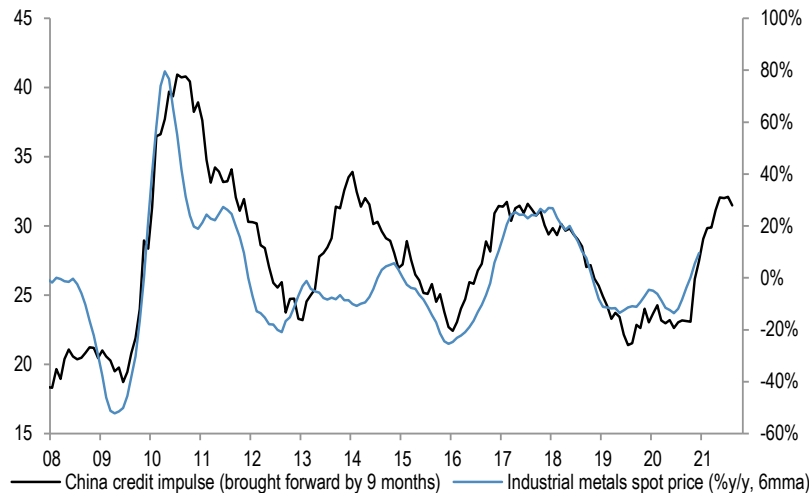
Source: Google LLC, COVID-19 Community Mobility Reports, Bloomberg Finance L.P.

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...we acknowledge that China credit impulse appears to be peaking...

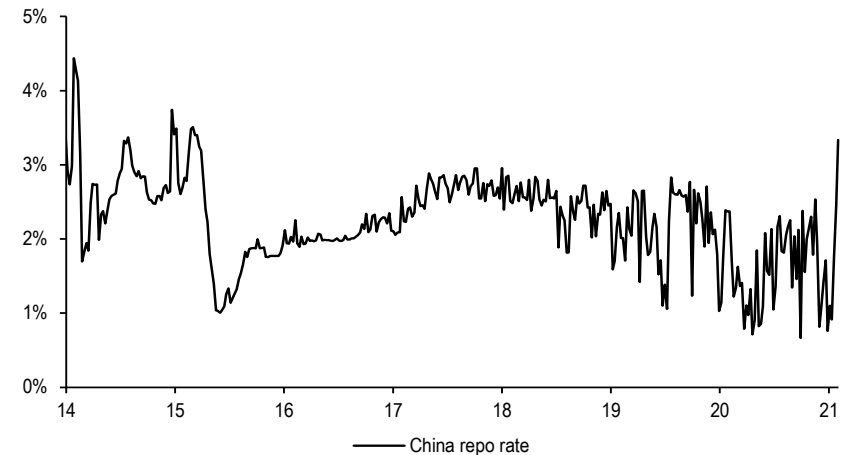
- JPM view is that the recent spike in China repo rate is transitory, but it is nevertheless a concern.
- China credit impulse appears to be peaking. It tended to lead industrial metal prices by 6-9 months.
- The outperformance of Miners vs Energy is strongly linked to relative commodity prices. Potentially, the turn is coming in this relative trade.

China credit impulse and industrial metals spot prices



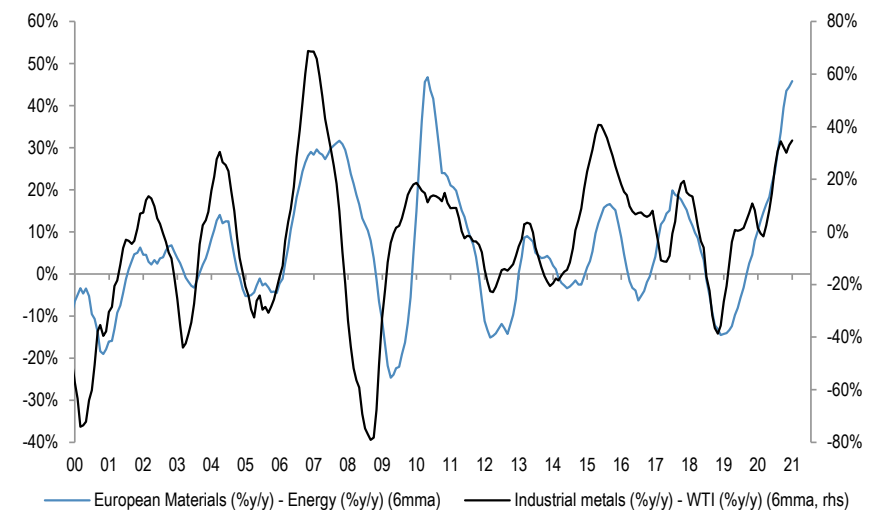
Source: J.P. Morgan, Bloomberg Finance L.P.

China Overnight repo rate



Source: Bloomberg Finance L.P.

European Materials vs Energy and industrial metals vs WTI

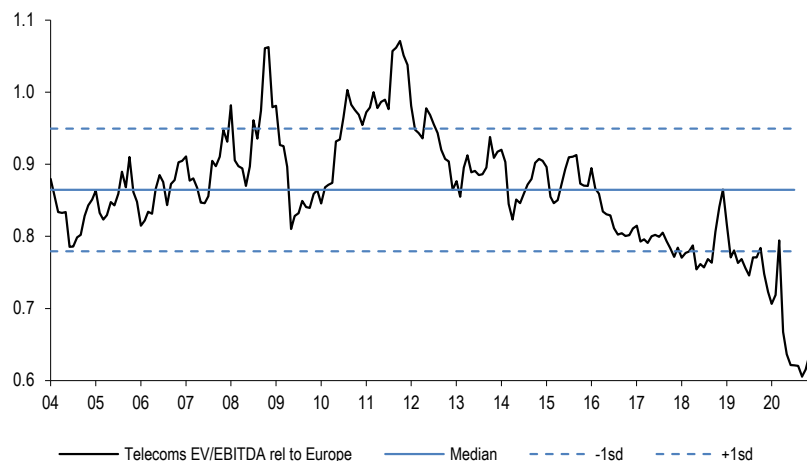


Source: Datastream

...tactically, we take profits on our Mining OW, and add to Telecoms

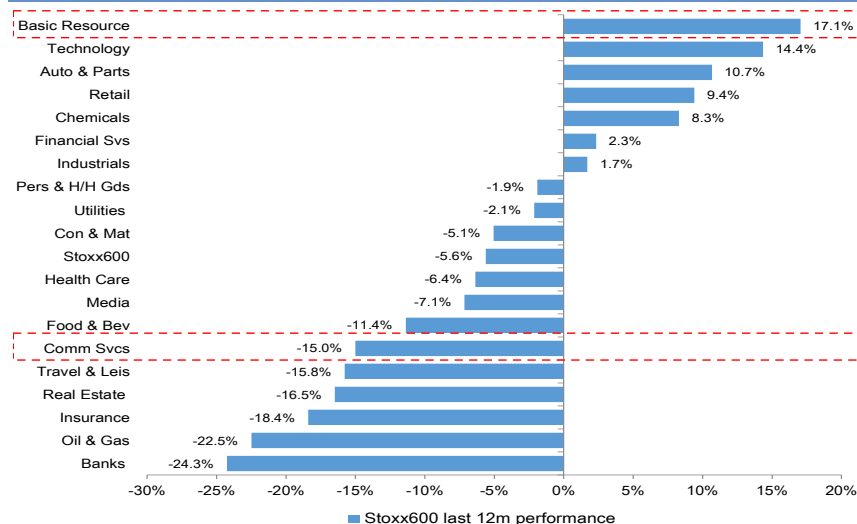
- Miners have been the best-performing sector in the last 12 months, and we believe one should take profits, especially as China credit impulse appears to be peaking. We see this as a tactical move, where a number of fundamental supports are staying for the sector.
- On the other side, Telecoms were one of the worst performers, and we are closing our long standing UW position.

European Telecoms EV/EBITDA relative



Source: Datastream

Stoxx600 last 12m sector performance



Source: Bloomberg Finance L.P

We believe that one should keep using periods of weakness to add: 1) the current mini “W” stage of the cycle to give way to stronger activity from Q2...

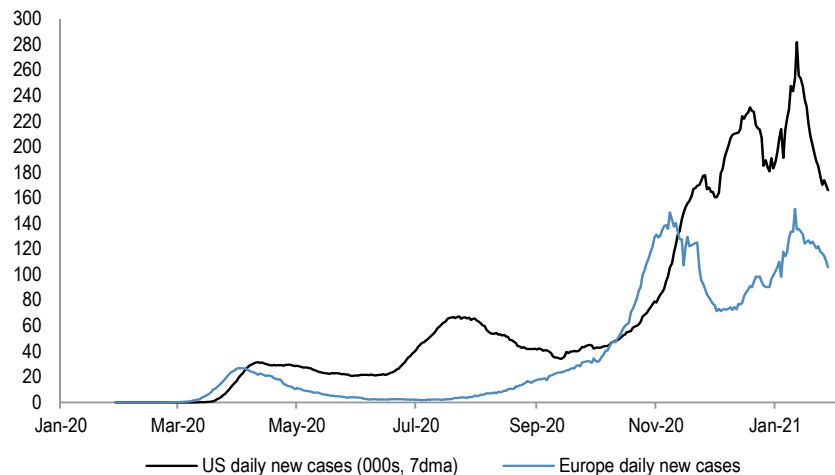
- Post the summer acceleration, Eurozone PMIs hit another soft patch, as the new virus waves and the resulting lockdowns came in force.
- Virus cases remain elevated in both the US and Europe, but appear to have peaked. See our [Covid tracker](#) for details.

J.P.Morgan global manufacturing PMI

	Jul'20	Aug'20	Sep '20	Oct '20	Nov '20	Dec '20
JPM Global manufacturing PMI summary						
Global PMI	50.6	51.8	52.4	53.0	53.8	53.8
Output	52.0	53.6	53.7	54.3	55.3	54.9
Future output	59.5	60.8	61.8	63.3	65.3	64.7
New orders	51.2	52.9	53.7	54.9	55.1	54.5
Export orders	47.2	49.9	51.7	51.3	51.7	51.1
Employment	47.3	48.6	49.5	49.5	50.1	50.0
Output prices	51.0	51.5	51.5	52.0	53.2	54.5
Fin goods inventory	47.7	48.0	47.7	47.8	48.1	47.8
Orders/Fin goods	1.07	1.10	1.13	1.15	1.15	1.14

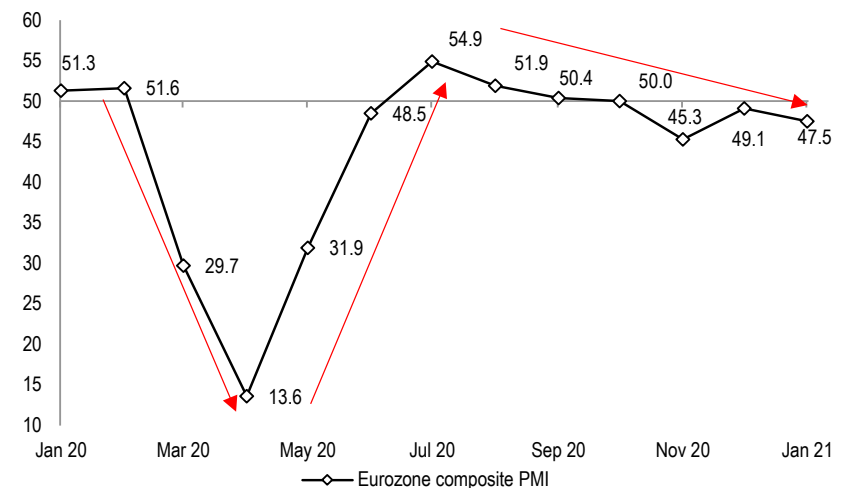
Source: Markit

US & Europe daily new infections



Source: Bloomberg Finance L.P. Note: Europe indicates sum of UK, Germany, France, Italy and Spain

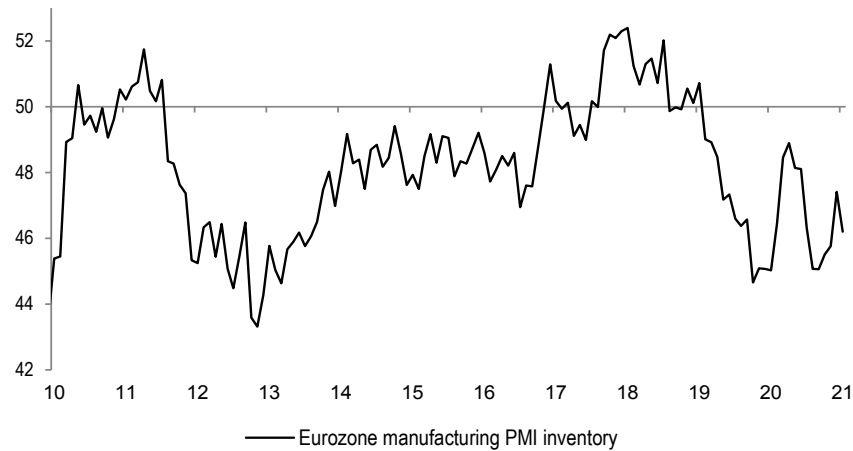
Eurozone composite PMI



Source: Markit

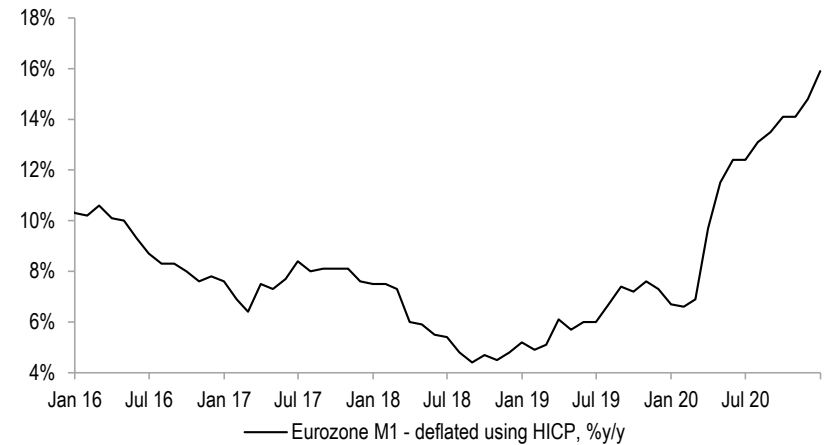
...inventories are subdued... money supply has accelerated in all key regions, but China might be softening...

Eurozone manufacturing PMI - Inventories



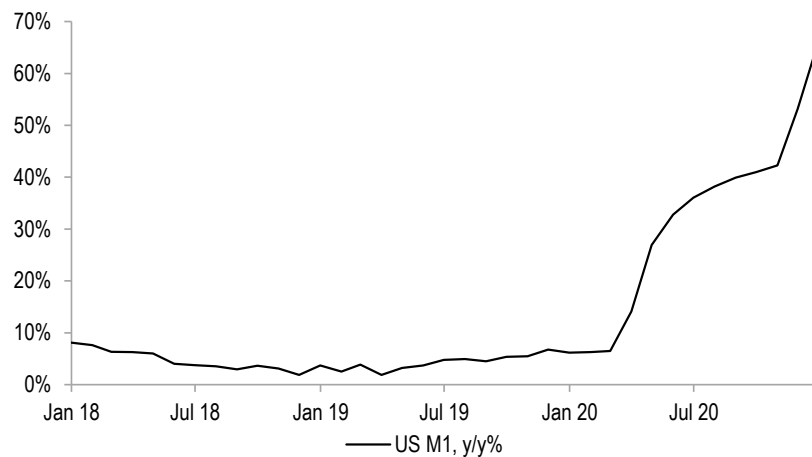
Source: Markit

Eurozone M1



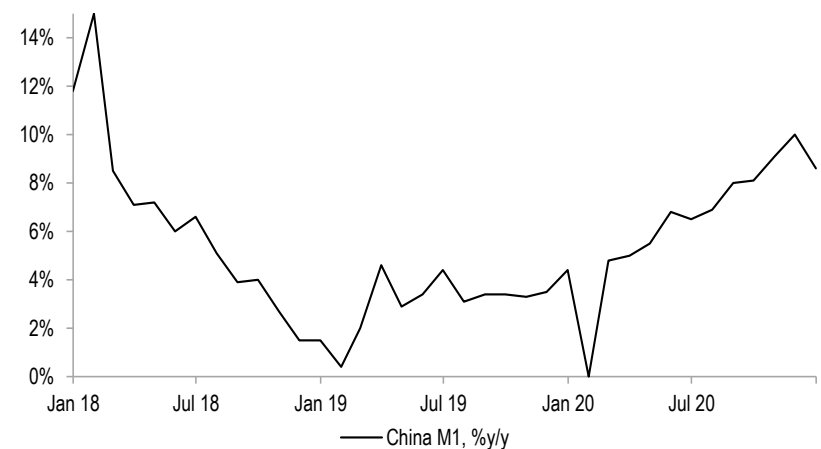
Source: Bloomberg Finance L.P.

US M1



Source: Bloomberg Finance L.P.

Chinese M1

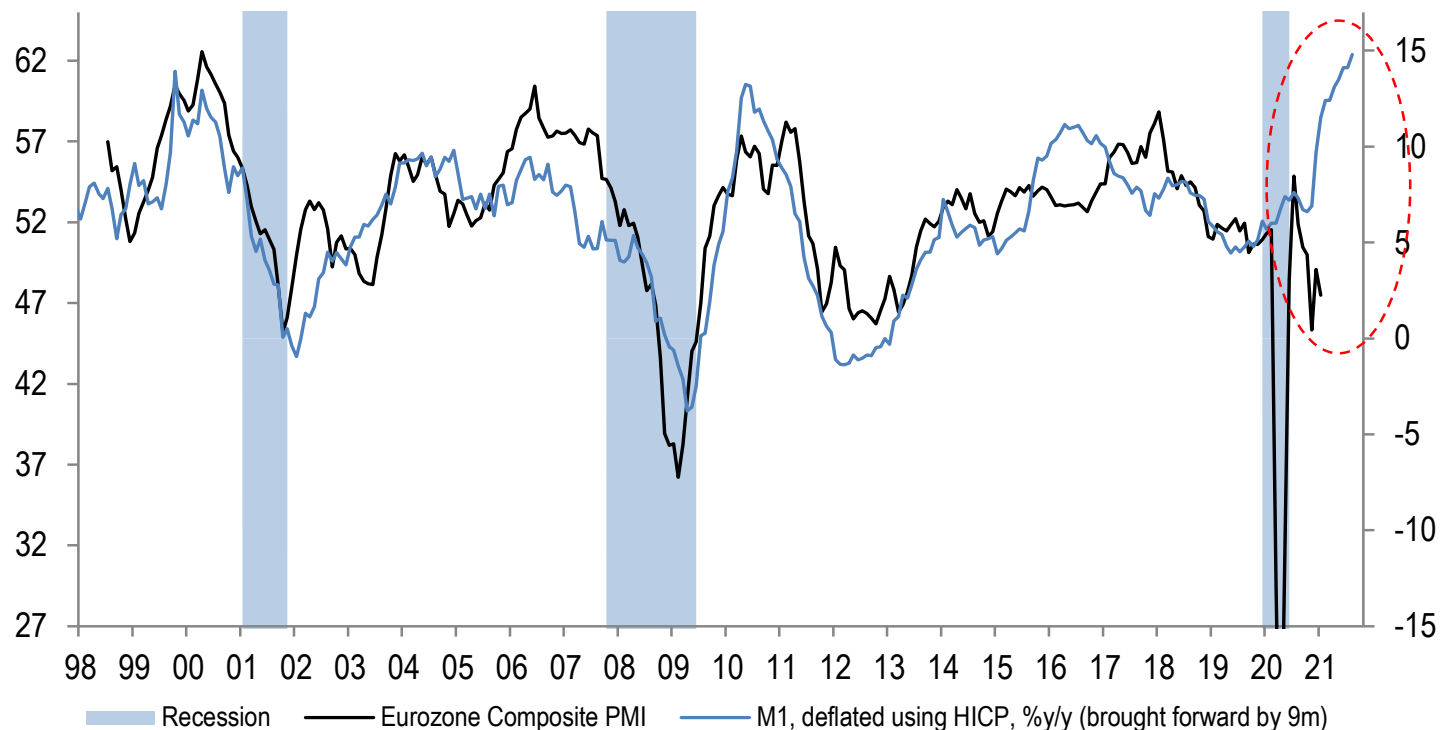


Source: Bloomberg Finance L.P.

...this will likely drive PMI reacceleration from Q2...

- While we believed PMIs will be consolidating in the near term, we don't expect this to lead to prolonged weakness.
- M1 typically leads PMIs by around 9 months, and is pointing to next leg higher in the coming months.

Eurozone M1 growth (deflated by HICP) vs PMI

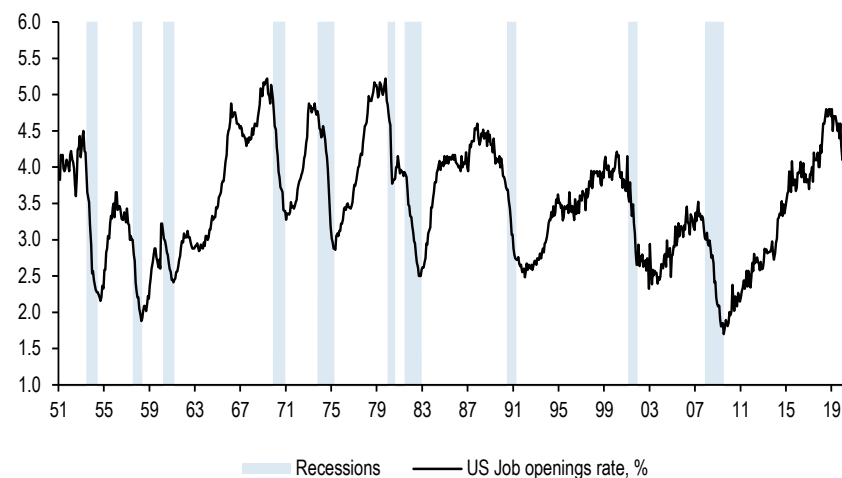


Source: Bloomberg Finance L.P., Markit

...labour markets are healing... job vacancies rate has improved, as did claims...

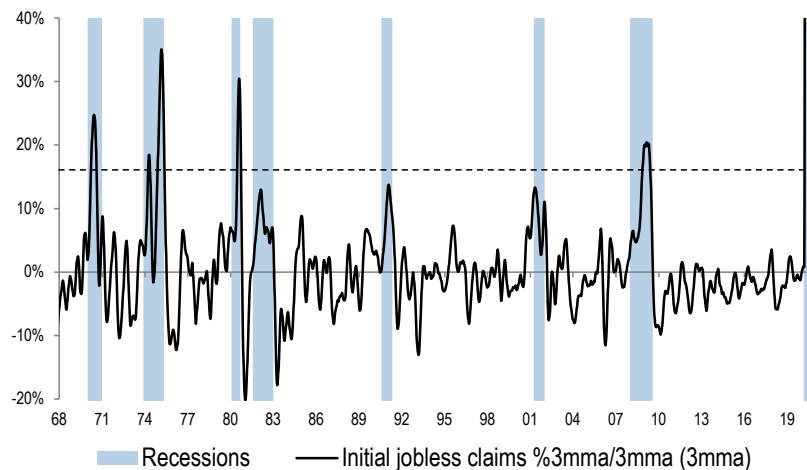
- The labour market continues to recover. J.P. Morgan projections are for US unemployment rate to move further lower, to 4.9% by the end of this year.

US job vacancies rate



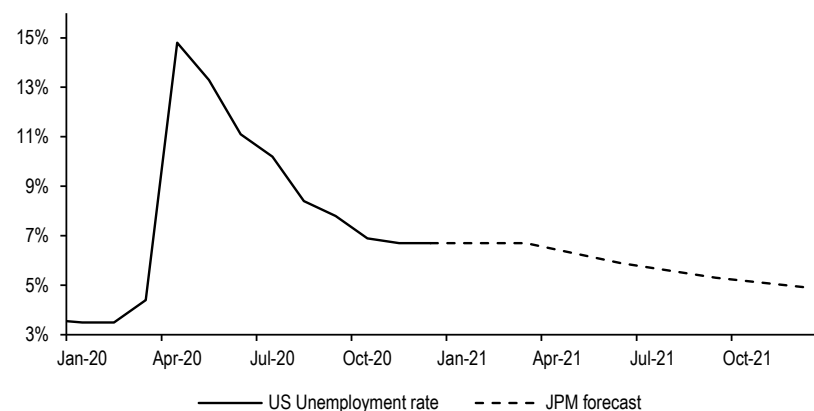
Source: Barnichon, SF Fed, J.P. Morgan

US jobless claims and recessions



Source: Bloomberg Finance L.P.

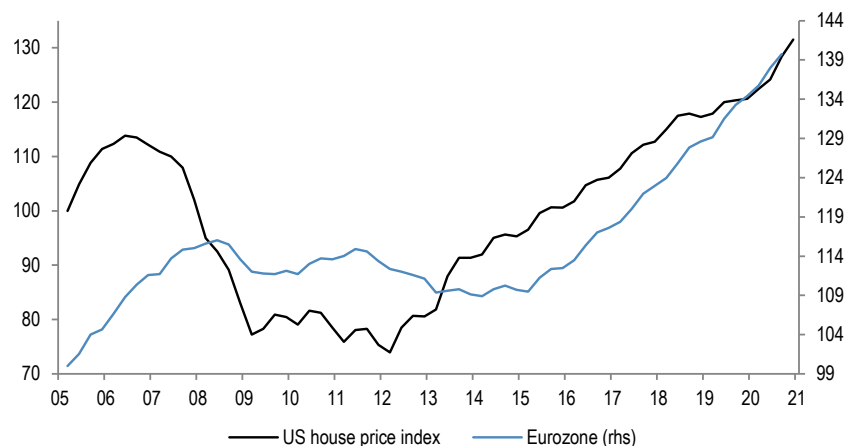
US unemployment rate



...consumer leverage appears benign this time around, house prices are rising strongly and mortgage rates are low...

- US consumer didn't appear stretched entering this downturn.
- House prices are enjoying solid gains, as real assets are bought. This will help support the consumer "wealth effect".
- Mortgage rates are staying near record lows.

US and Eurozone house prices



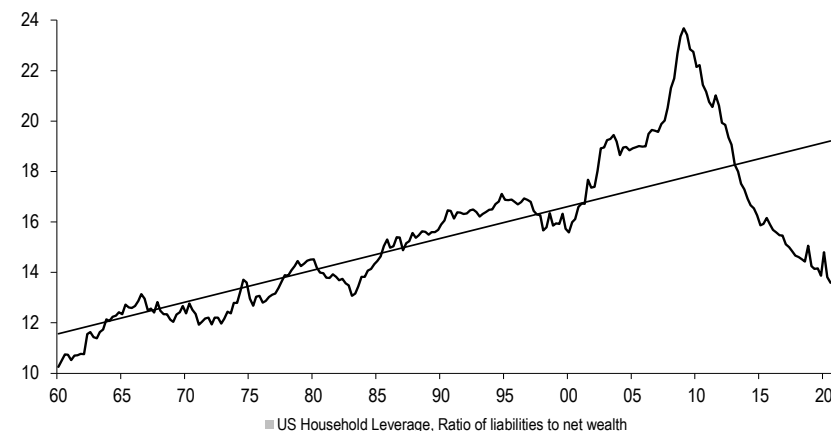
Source: Bloomberg Finance L.P.

US 30Y mortgage rate



Source: Bloomberg Finance L.P.

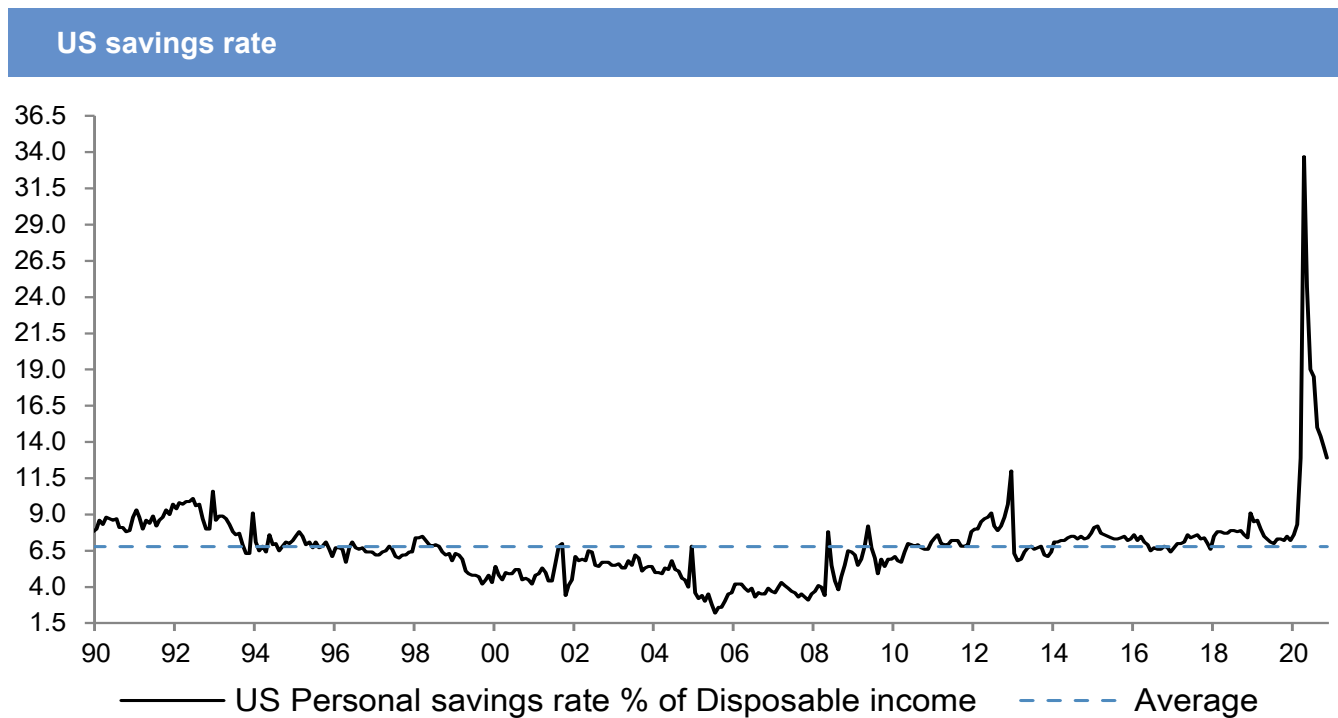
US household leverage (%)



Source: FRB

...personal savings rates are double the historical averages

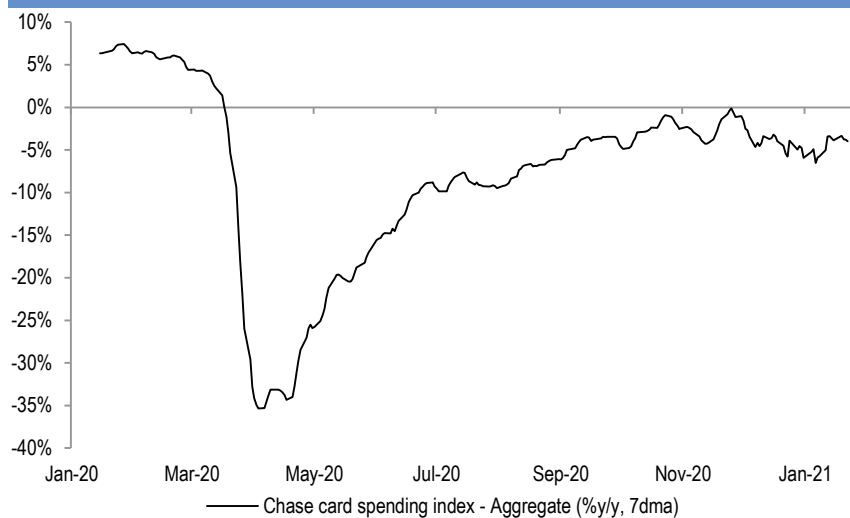
- Personal savings rates still have a way to go before normalizing. US savings rate is still double the historical norm.



Source: Bloomberg Finance L.P.

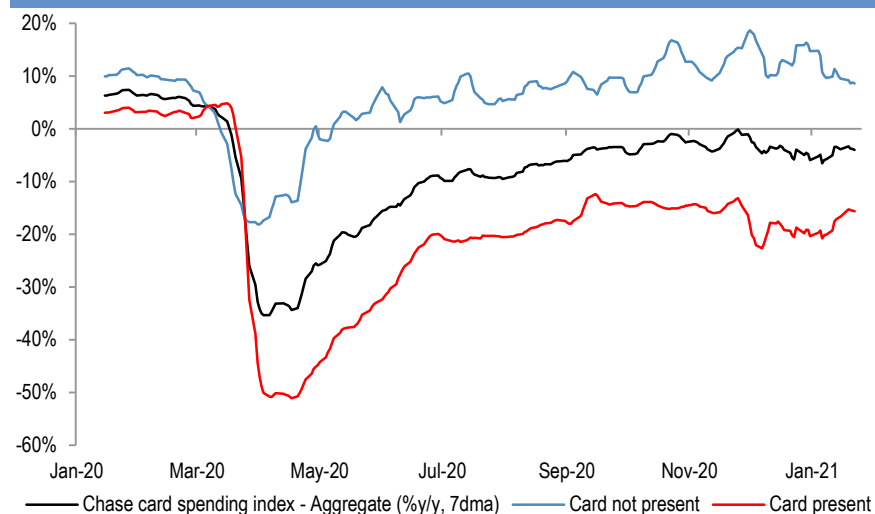
JPM's Chase credit card data suggests spending has stalled recently

Chase card data - Aggregate



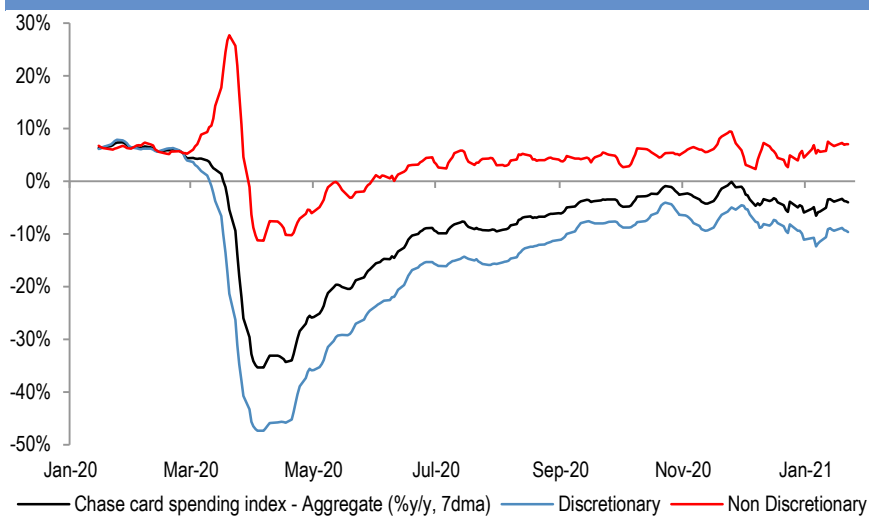
Source: [JPM Economics Research](#)

Chase card data - In Person/POS vs Online sales



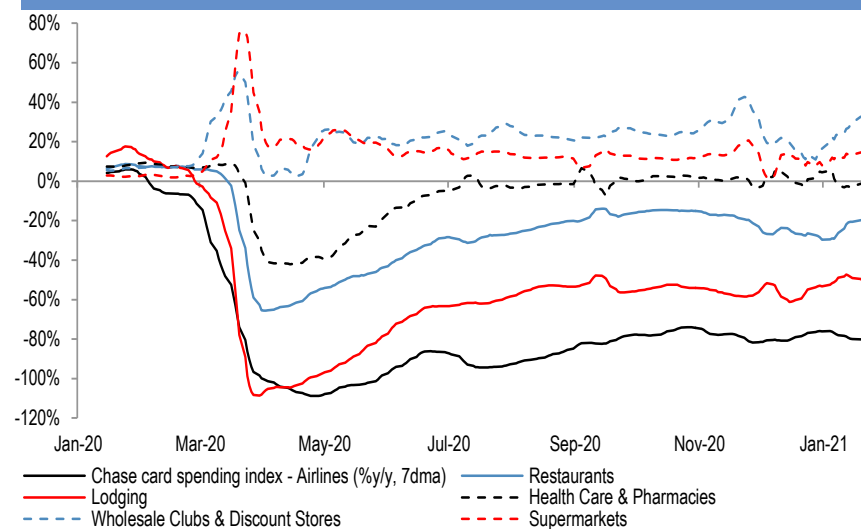
Source: [JPM Economics Research](#)

Chase card data - Discretionary/Non-discretionary



Source: [JPM Economics Research](#)

Chase card data - by spending categories

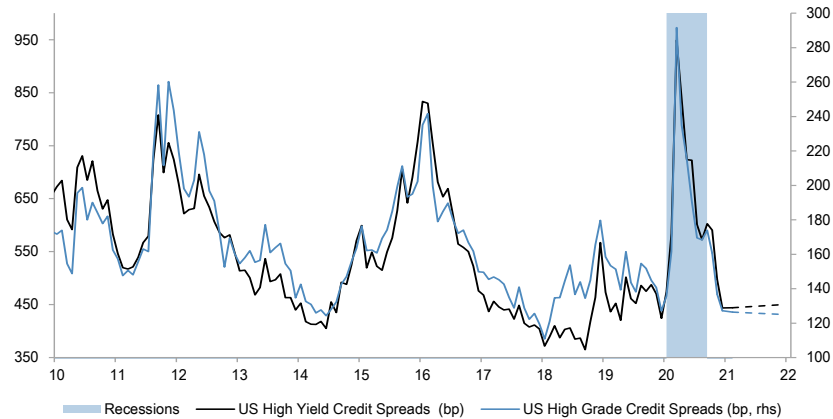


Source: [JPM Economics Research](#)

J.P.Morgan CAZENOVE

Credit market has stabilized quickly, post the recessionary spike in spreads... JPM expectation is that credit spreads narrow further...

US HY and HG credit spreads



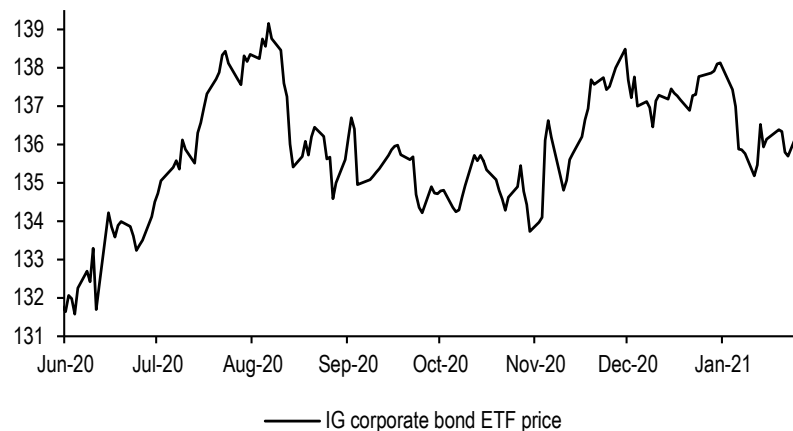
Source: J.P. Morgan, NBER

HY credit spreads and recessions

Past recessions	Trough in HY spreads	# months to recession	Move in spreads: trough to recession (bp)
1990	Jul-88	25	327
2001	Mar-98	37	513
2008	Jun-07	7	325
Median		25	327
Average		23	389
Current	Oct-18		89*

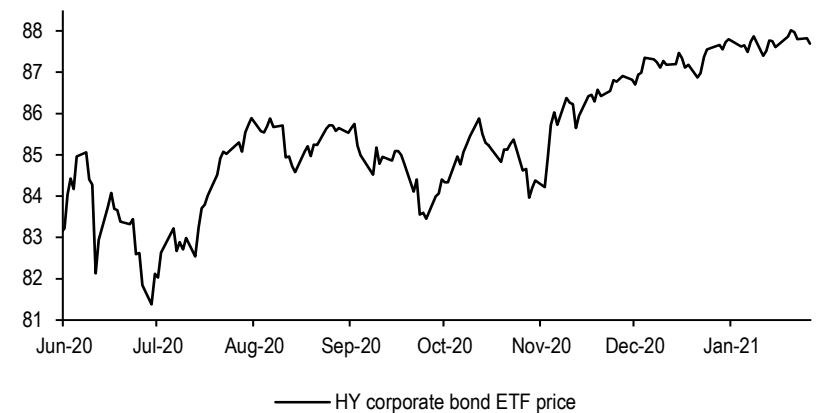
Source: J.P. Morgan, *move from trough to present

IG Corporate bond ETF performance



Source: Bloomberg Finance L.P.

HY Corporate bond ETF performance

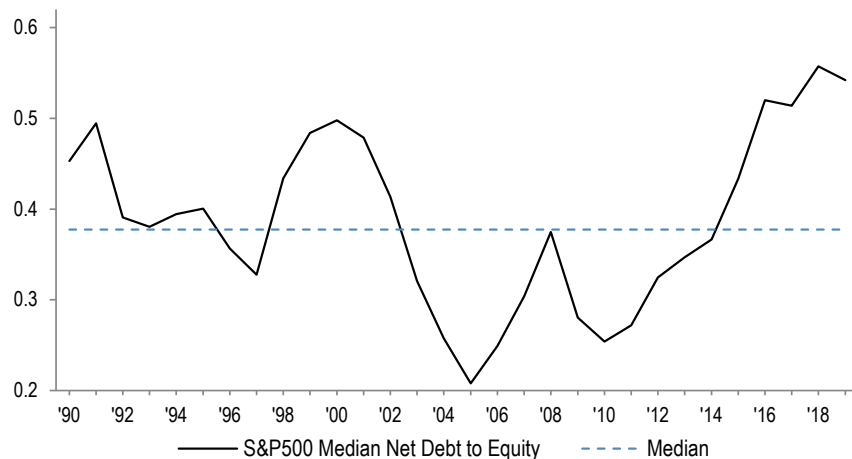


Source: Bloomberg Finance L.P.

...corporate leverage is elevated in the US, but bank lending standards appear to have turned for the better...

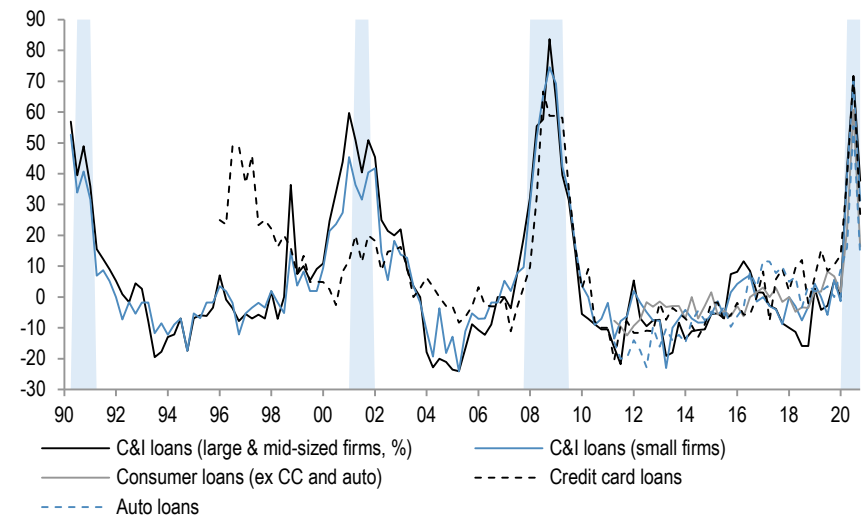
- Credit standards were showing Banks significant tightening lending conditions early last year. However, it has started to inflect, with the worst of tightening likely behind us.
- US corporates have been leveraging up over the past years, with median US company net debt-to-equity ratio near record highs.

Median Net debt-to-equity for US



Source: Datastream

% of US domestic banks tightening lending standards

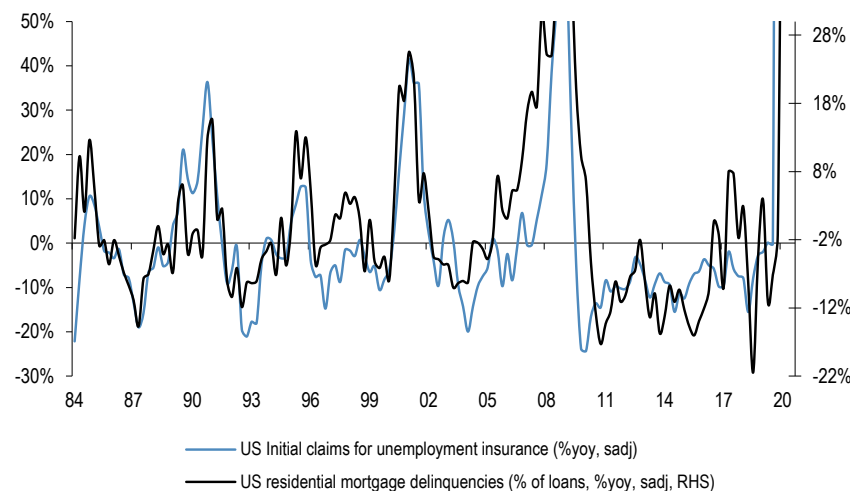


Source: J.P. Morgan

...default rates moved higher, but nothing on the scale of GFC

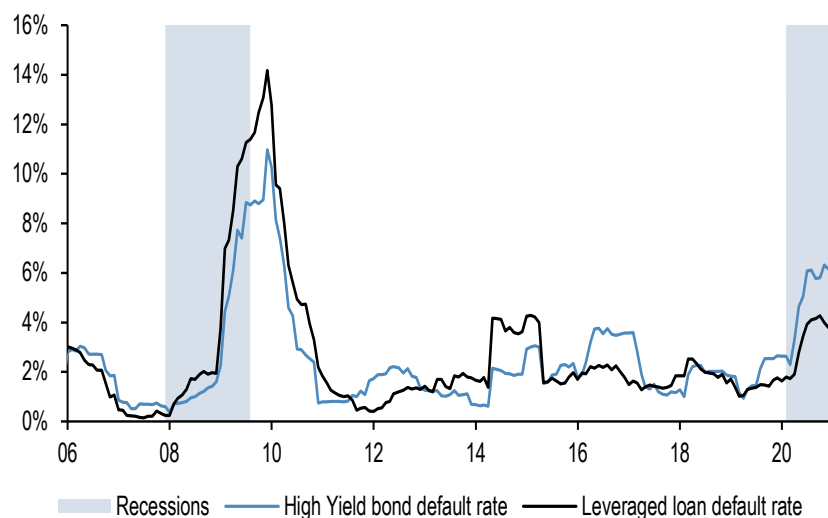
- There are not many maturities coming up in the credit space, as companies have used the favorable market conditions over the last few years to refinance and increase duration of debt.
- Default rates have spiked recently, but much less than during the GFC.

US mortgage delinquencies vs jobless claims



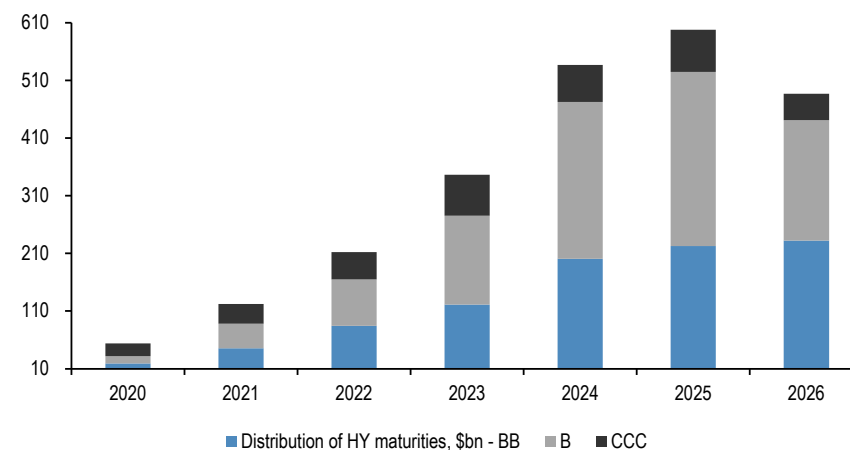
Source: Datastream

US HY default rate



Source: JP Morgan

Distribution of US HY bond maturities by rating



Source: J.P. Morgan

We believe the “fiscal cliff” is likely to keep being pushed out

Fiscal thrust for major countries

%pt impact on real GDP growth						
	2008	2009	2010-18	2019	2020	2021
Global	1.1	2.3	-0.2	0.4	3.9	-1.9
Developed	1.2	1.7	-0.3	0.3	4.5	-1.9
US	1.8	1.9	-0.3	0.5	4.8	-2.3
Euro area	0.9	1.4	-0.4	0.2	4.0	-0.5
Japan	0.5	2.7	0.0	0.4	2.9	-0.2
UK	2.0	1.2	-0.4	0.1	10.7	-8.8
Emerging	0.9	3.9	-0.2	0.4	3.0	-1.9
EM Asia	0.6	6.0	-0.3	0.7	2.8	-1.5
China	-0.5	9.2	-0.4	0.8	3.2	-2.2
...ex China	2.0	1.7	0.0	0.4	1.9	-0.2
Latam	0.4	0.3	0.2	-0.5	4.2	-3.4
Brazil	-0.5	0.9	0.4	-0.1	8.5	-8.3
Mexico	1.6	-1.4	0.1	-0.3	0.5	0.0
EMEA EM	1.7	2.2	-0.4	0.3	3.1	-2.0
Poland	1.7	3.1	-0.6	1.6	5.6	-3.5
Russia	2.8	4.8	-0.7	-0.3	3.7	-2.5
Turkey	-0.2	-0.9	0.0	0.3	0.8	-0.1
South Africa	0.9	1.5	0.1	0.3	1.8	-1.5

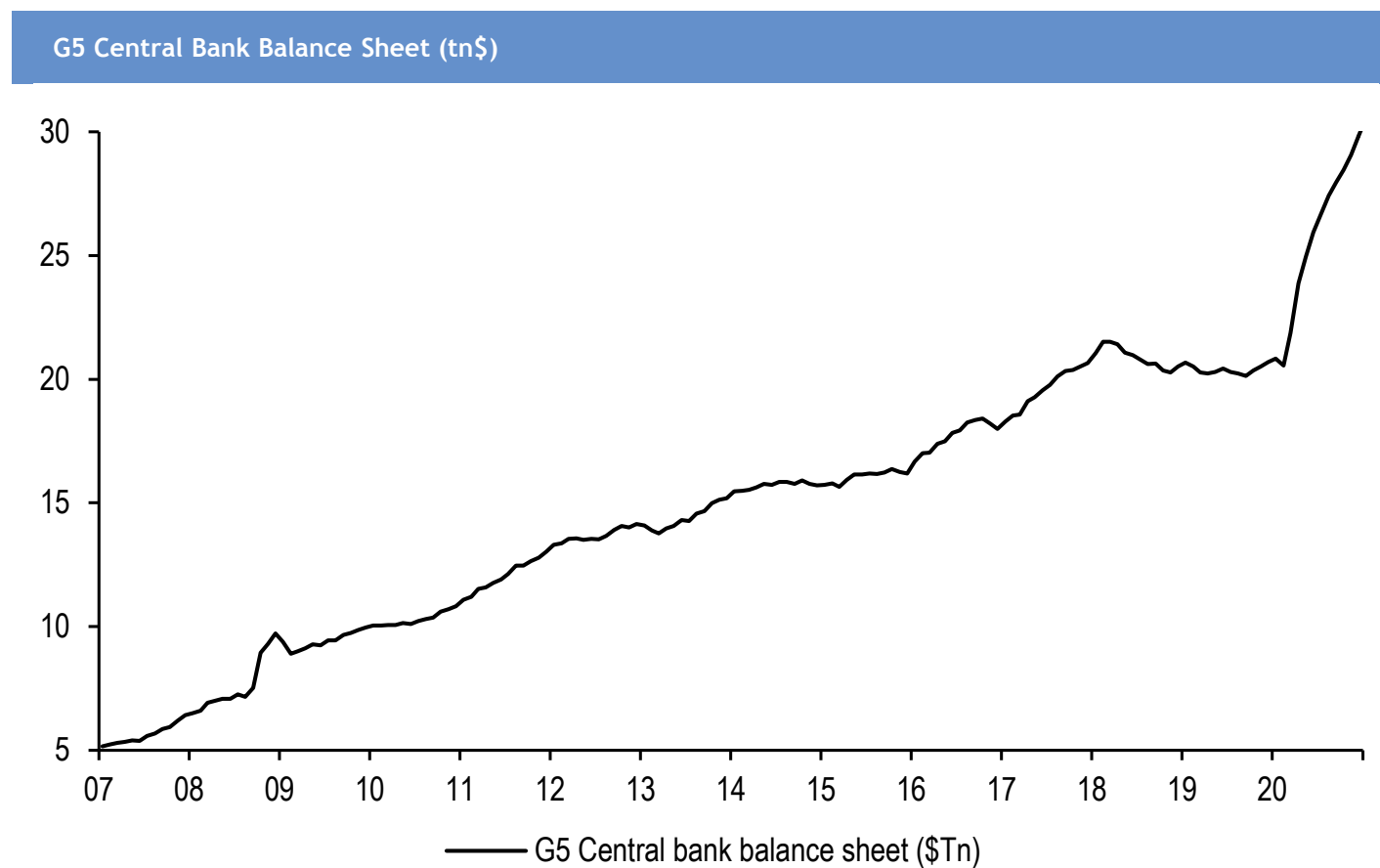
Source: J.P. Morgan Economics Research

Primary features of the \$900bn bill signed in Dec'20

Broader tool	Detailed measures
Direct benefits	\$600 payments to adults with adjusted gross income upto \$75,000 based on 2019 earnings. Heads of households who earn up to \$112,500 and a couple (or someone whose spouse died in 2020) who make up to \$150,000 a year would get twice that amount. Eligible families with dependent children would receive an additional \$600 per child. President Trump is advocating for weekly payments to increase to \$2000. However, the proposal is yet to pass through the Senate.
Unemployment benefits	Extension of Federal jobless benefits until March 14. Expected weekly payment of \$300, half the amount announced earlier in spring. Extension of Pandemic Unemployment Assistance - aimed at freelancers and independent contractors - providing an additional \$100 per week.
Education	Total budgeted amount: \$82bn; split between K-12 schools (\$54bn) and colleges/universities (\$23bn).
Broadband infrastructure	\$7bn for expanding access to high speed internet connection. \$300mn for infrastructure investment in underserved rural areas. \$1bn in grants for tribal broadband programs.
Targeted aid for small businesses	\$285bn for additional loans to small businesses under Paycheck Protection Program (PPP). \$12bn specifically for minority owned businesses. Following the criticism in spring, the PPP is modified as follows: 1) Loans capped at \$2mn, for businesses with fewer than 300 employees and 25% y/y drop in sales in at least 1 quarter this year. 2) Publicly traded companies are ineligible.
Health care	\$70bn for a range of public health measures: \$20bn for vaccine purchases, \$8bn for distribution, \$20bn for states to continue their test and trace program. Mortgage provisions for nursing homes and elder care centers. Ban on surprise medical bills.
Child care	\$10bn for child care industry.
Climate	New legislations to regulate HFC emissions. \$35bn to fund solar, wind and other clean energy projects.
Rental protections	Extension of moratorium on evictions through Jan 31. \$25bn in rental assistance.
Food security	Extension of monthly food stamp benefits (Supplemental Nutrition Assistance Program) by 15% for 6 months, beginning Jan 1. \$13bn for increased nutrition assistance, \$400mn of which would assist food banks and food pantries. Additional \$175mn earmarked for nutrition programs under Older Americans Act.

J.P.Morgan CAZENOVE

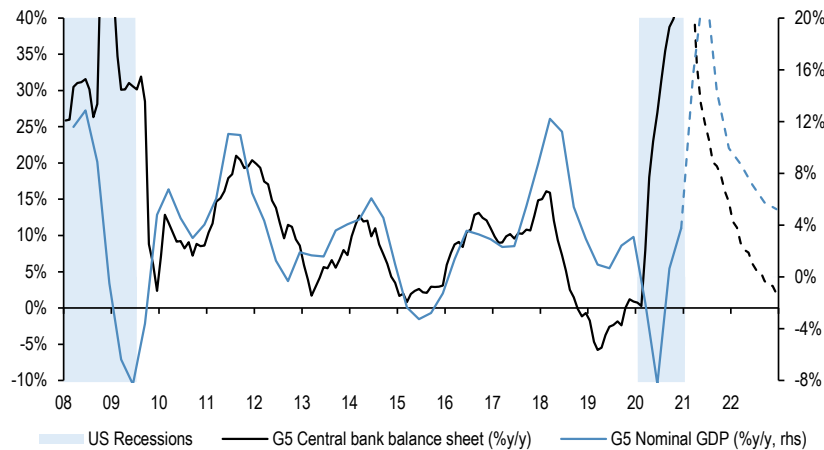
2) Central banks to continue extreme accommodation...



Source: J.P. Morgan Economics Research

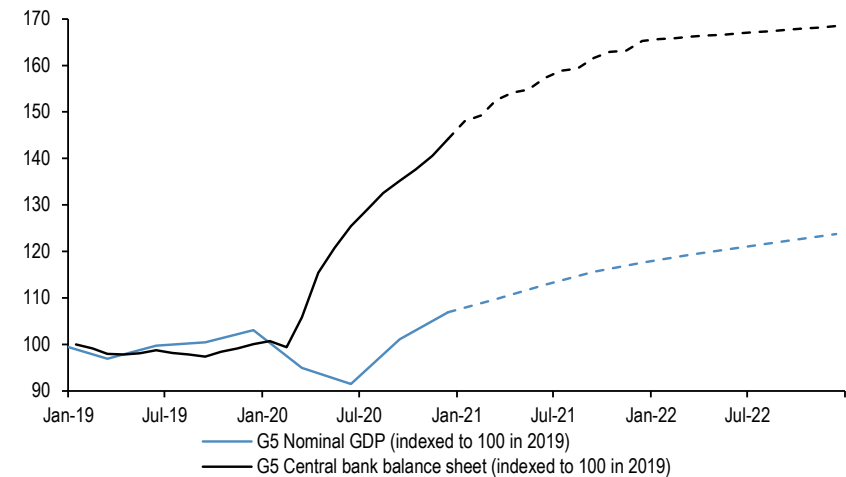
...excess liquidity is peaking, but it is not going away...

G5 Central Bank Balance sheet and Nominal GDP



Source: J.P. Morgan Economics Research

G5 Central Bank Balance sheet and Nominal GDP - trend



Source: J.P. Morgan Economics Research

G5 Central Bank Balance sheet and Nominal GDP

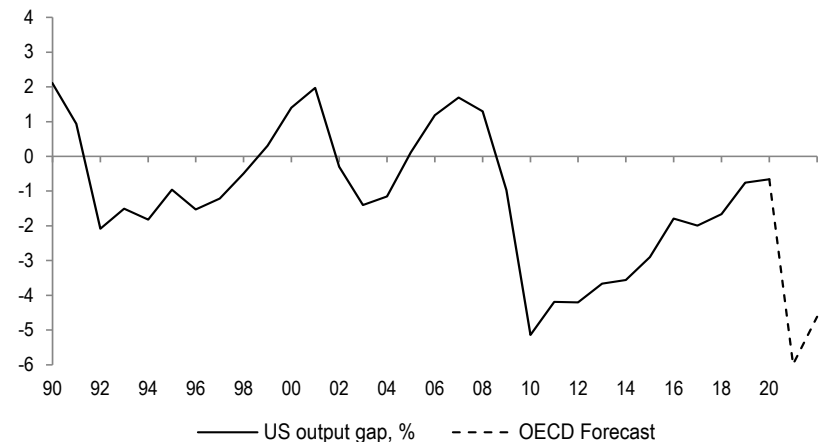
	CB Balance Sheet (\$Tn)				Expansion		
	2019	2020	2021e	2022e	2020 vs 2019	2021e vs 2020	2022e vs 2021e
FED	4.1	7.3	8.8	8.9	78%	20%	2%
ECB	5.2	8.5	10.0	10.2	63%	18%	2%
BoE	0.8	1.3	1.5	1.5	60%	16%	0%
BoJ	5.3	6.8	7.6	7.8	29%	13%	2%
PBOC	5.3	5.9	6.3	6.5	12%	6%	3%
G3 Aggregate CB Balance Sheet	14.6	22.6	26.4	26.9	55%	17%	2%
G5 Aggregate CB Balance Sheet	20.7	29.8	34.2	34.8	44%	15%	2%
G3 Nominal GDP Growth					0%	8%	4%
G5 Nominal GDP Growth					4%	10%	5%
G3 Aggregate CB Balance Sheet vs Nominal GDP Growth					54%	9%	-3%
G5 Aggregate CB Balance Sheet vs Nominal GDP Growth					40%	5%	-3%

Source: J.P. Morgan Economics Research

...policymakers are likely to err on the side of caution... tapering is unlikely before year-end...

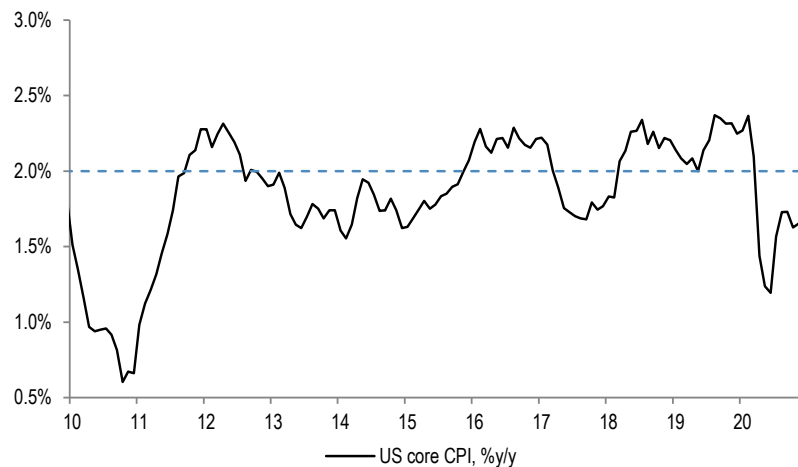
- We would not expect the tapering fears to be a serious headwind for the equity market, at least not before the 2H of this year. Our economists believe that the Fed will not begin tapering before the end of this year.
- In addition, headline and core inflation remains materially below targets, and output gaps remain extreme.

US output gap



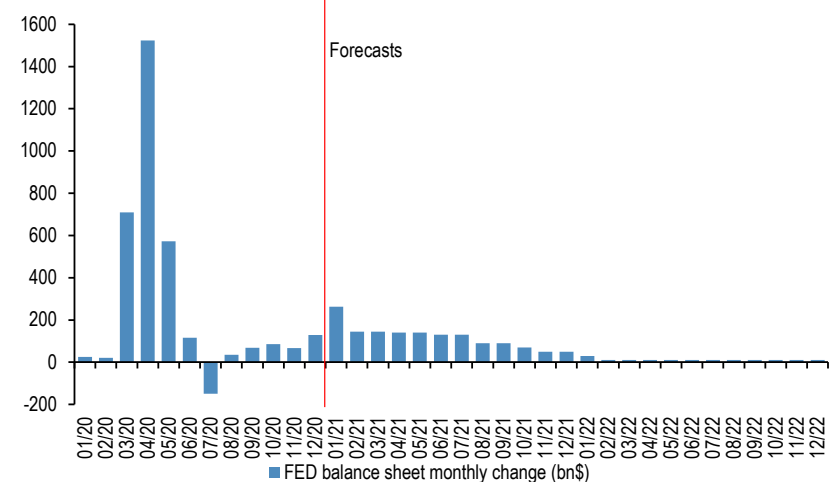
Source: Bloomberg Finance L.P.

US Core CPI, %y/y



Source: Bloomberg Finance L.P.

Fed balance sheet size, monthly change, with JPM forecasts

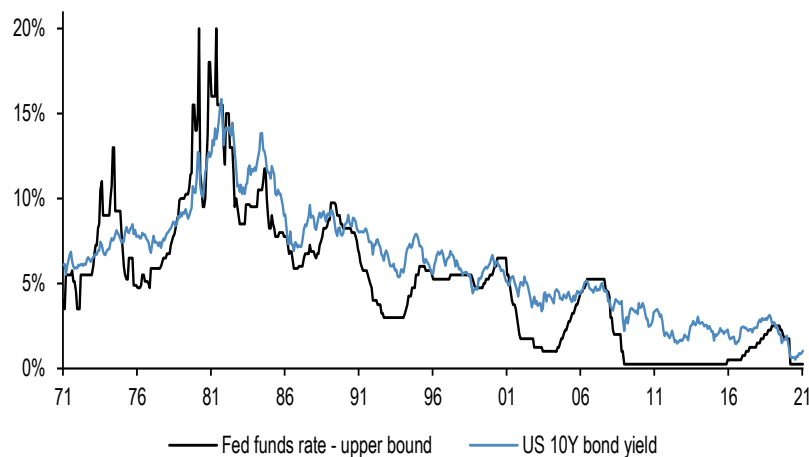


Source: J.P. Morgan

...bond yields could still grind higher...

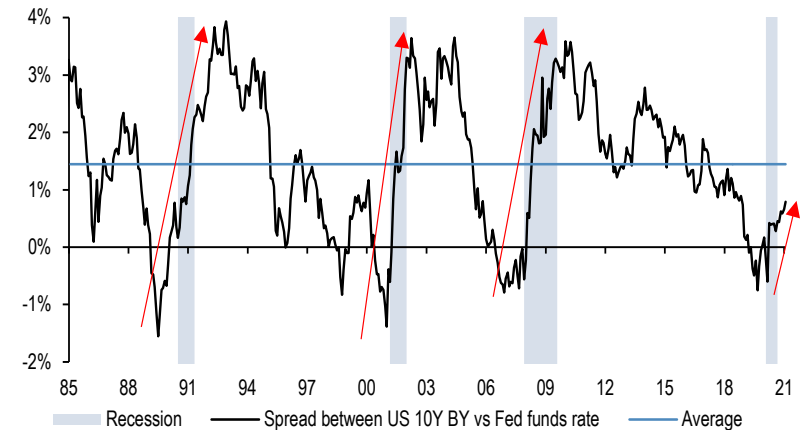
- To date, Fed purchases were largely offsetting net bond issuance. We think that the Fed might start allowing bond yields to move higher in the coming months. US net purchases will be falling significantly vs the amount of debt issuance.
- Having said that, short rates will likely stay anchored at low levels for longer, given the change in Fed's reaction function.
- We expect the US yield curve to keep steepening.

US 10Y bond yield and Fed funds rate



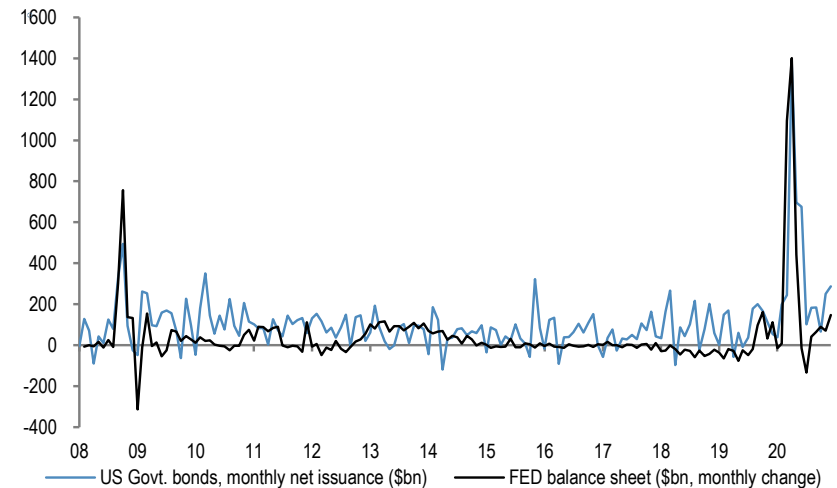
Source: Bloomberg Finance L.P.

US 10Y Bond yield minus Fed Funds rate



Source: Bloomberg Finance L.P.

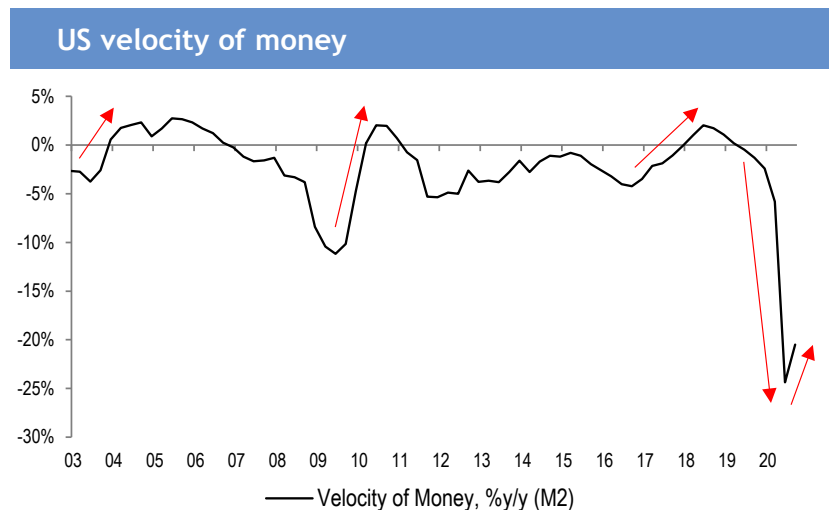
FED balance sheet and US govt. bond issuance



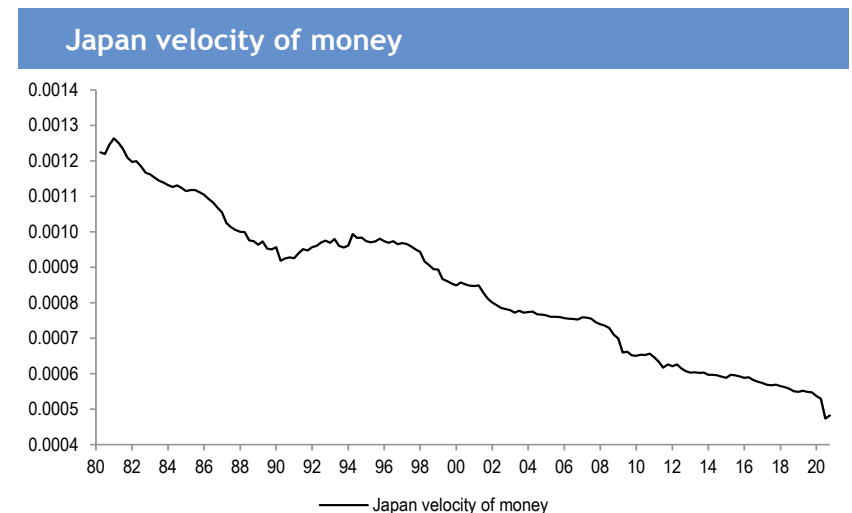
Source: J.P. Morgan

...velocity of money is likely bottoming out, even though Japanification remains a longer-term risk

- Beyond the pickup in money supply, the key is whether the velocity of money will improve, as it did in '03, '09 and '16. Velocity of money has had a much bigger fall this time around, but has started to stabilize in the most recent reading. We believe that it will continue to improve over the coming months.
- In Japan, velocity of money has been structurally decelerating.



Source: Bloomberg Finance L.P.

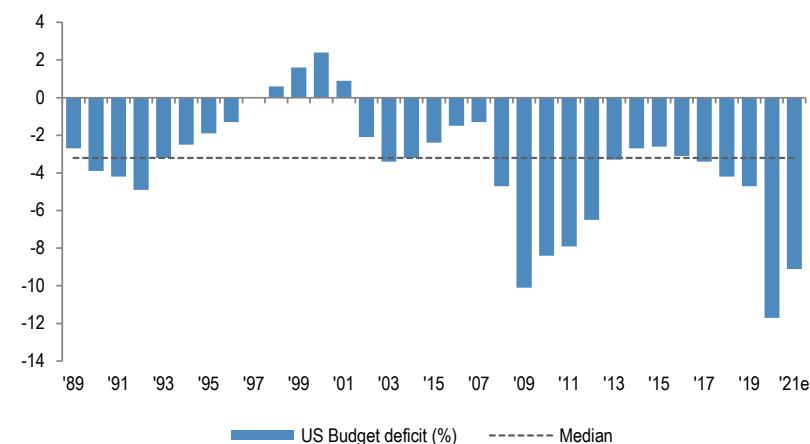


Source: Bloomberg Finance L.P.

USD has firmed of late, but USD funding imbalances are significant and USD interest rate differential has narrowed...

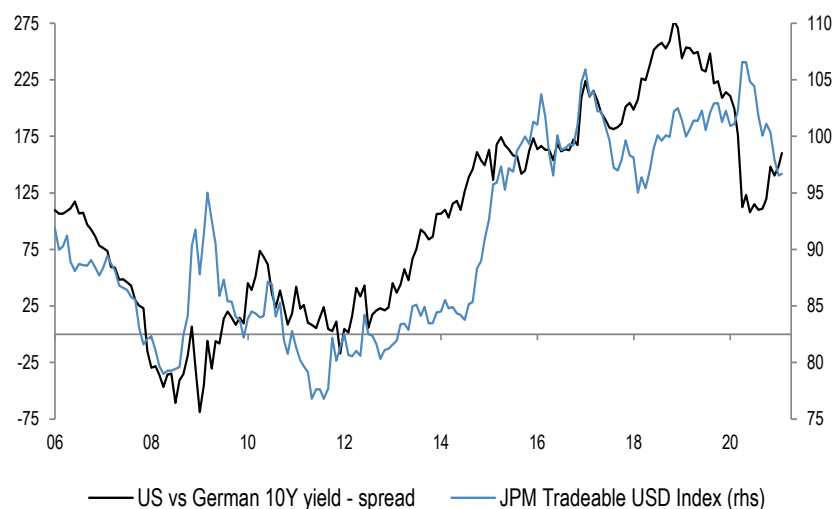
- Interest rate differential between US and the RoW has peaked some time ago.
- US funding imbalances are significant.
- USD net positioning is light though.

US budget balance



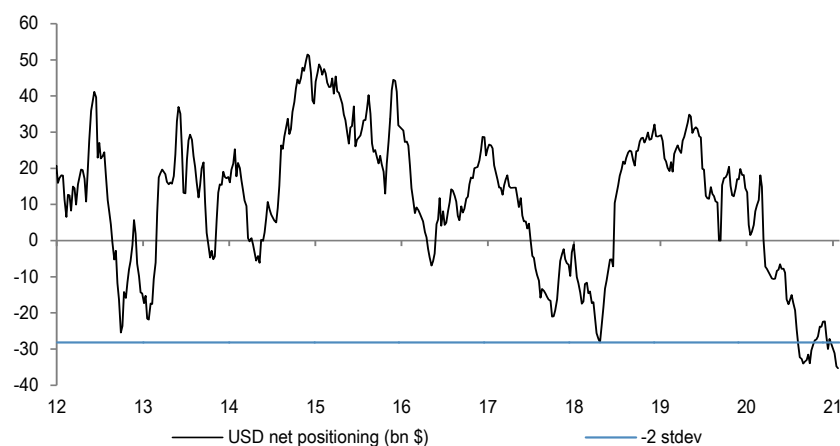
Source: Bloomberg Finance L.P., J.P.Morgan forecasts

US-German 10Y bond yield differential and USD



Source: Bloomberg Finance L.P.

USD net positioning

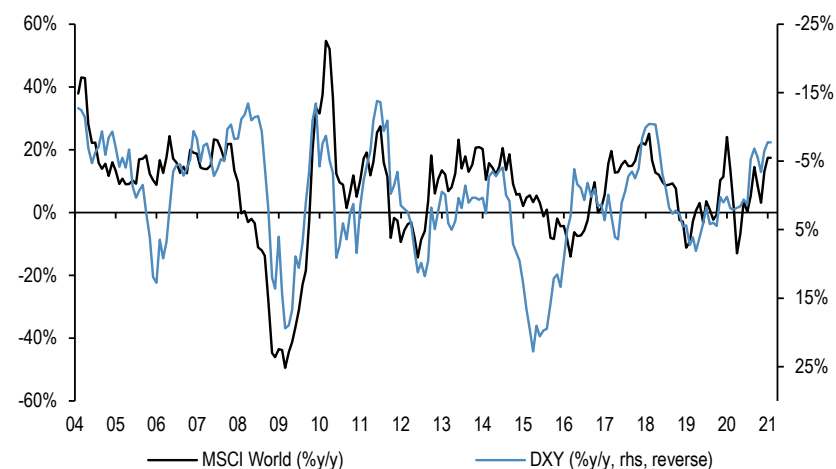


Source: JP Morgan

...equities typically preferred falling USD

- Historically, equities did better in weaker USD regimes, especially the EMs.

MSCI World performance and DXY



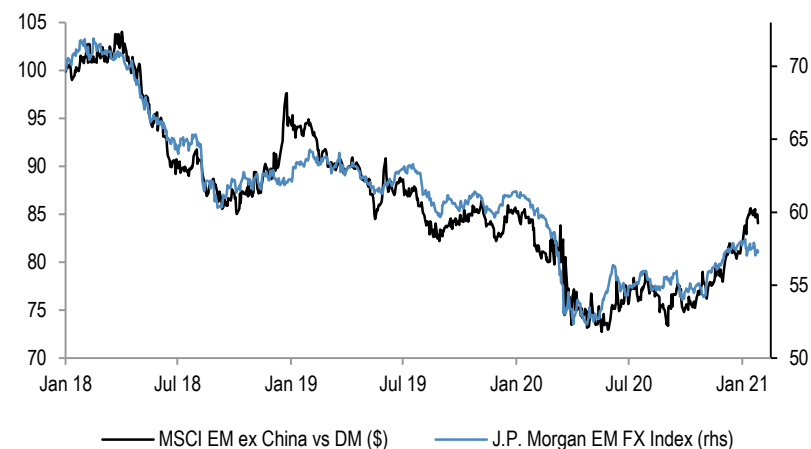
Source: Bloomberg Finance L.P.

MSCI World performance in different DXY regimes

MSCI World (\$) monthly performance since '10		
	DXY up	DXY down
Average	-0.9%	2.4%
Median	-0.1%	2.3%
% positive	48%	77%

Source: Bloomberg Finance L.P.

MSCI EM ex China vs DM and EM FX



Source: Bloomberg Finance L.P.

J.P.Morgan CAZENOVE

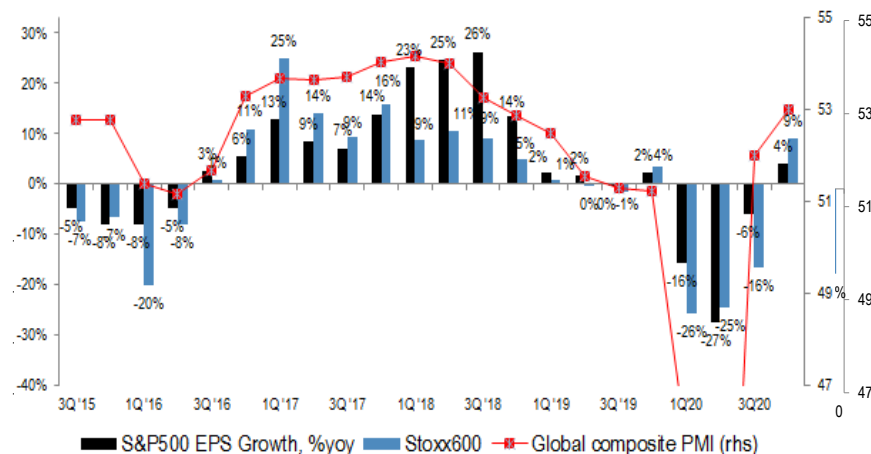
3) Earnings to be a tailwind in 2021... Q4 expectations are low, with positive surprises likely...

- We believed that Q4 results will see clear beats, given subdued projections, and sequentially stronger PMIs. However, the guidances are likely to be underwhelming, and the stock reaction to beats might be mixed.
- Earnings are delivering strongly for Q4, with SPX EPS up by 2\$ ytd.

Q4 Earnings Summary

	SPX	SXXP	SXXE	TPX
% cos reported	30%	10%	6%	17%
% cos beating EPS	78%	79%	91%	70%
EPS %y/y	4%	9%	13%	13%
% cos beating Sales	75%	54%	60%	63%
Sales %y/y	1%	-4%	-7%	-2%

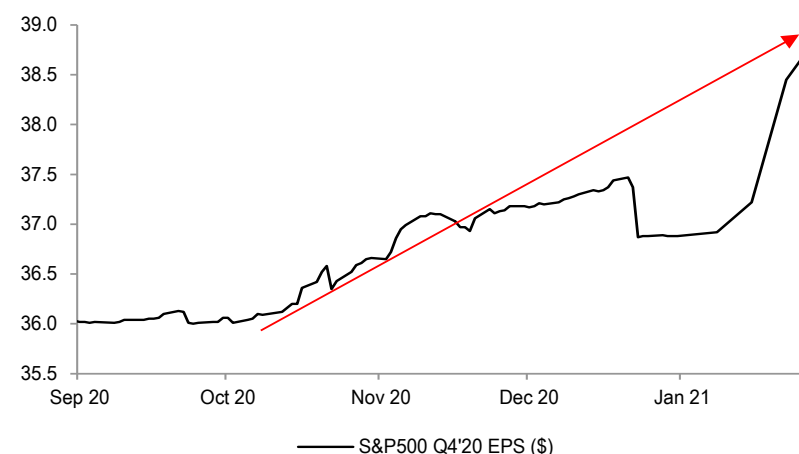
US and Europe quarterly EPS growth and global PMI



Source: JP Morgan, Bloomberg Finance L.P., Markit

Source: Bloomberg Finance L.P.

S&P500 Blended Q4 EPS (\$)

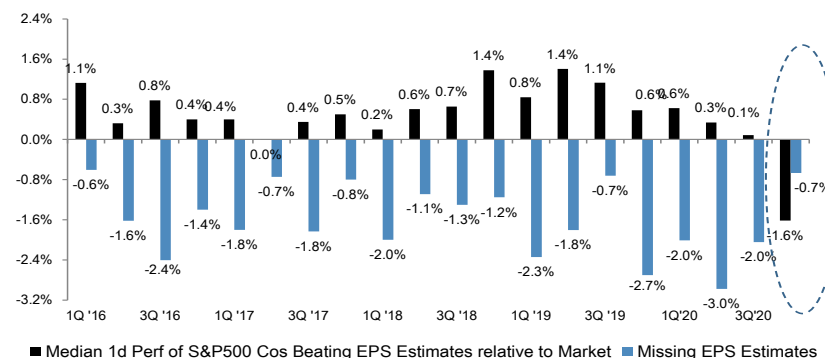


Source: Thomson Reuters

...near term, Eurozone EPS revisions have gone back negative, and the reaction to results is poor... this is likely to change from Q2...

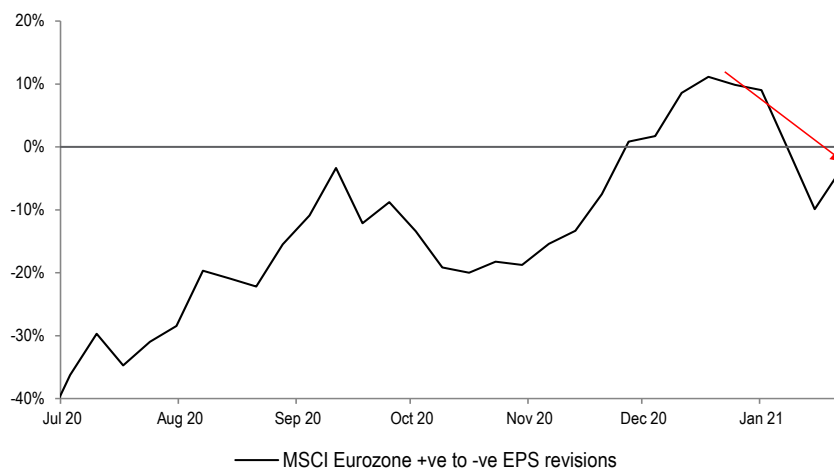
- Notably, Eurozone EPS revisions have gone below zero for a few weeks now.
- Also, the reaction to earnings beats in the US is the worst on record.
- We think that from Q2 the EPS revisions will turn positive again.

US stock price reaction* to quarterly EPS beats/misses



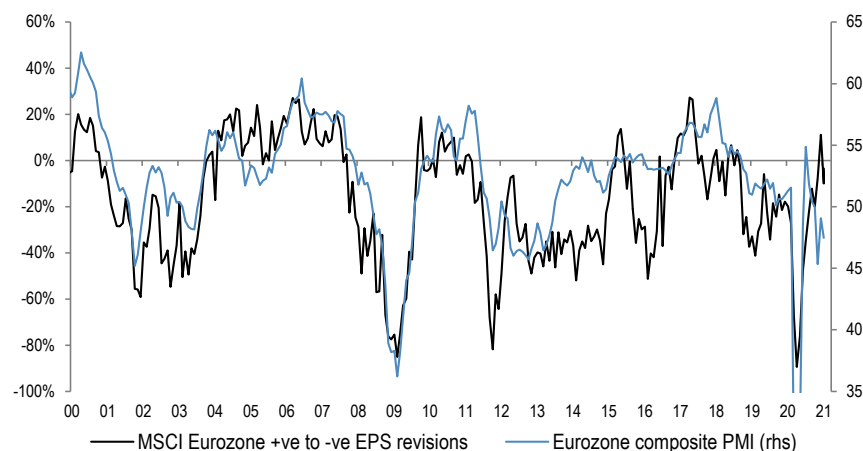
Source: J.P. Morgan, Bloomberg, *relative 1-day performance

Eurozone EPS revisions



Source: IBES

Eurozone +ve to -ve EPS revisions and composite PMI



Source: IBES, Markit

...2021 consensus earnings growth rate appears elevated at face value, but that was typically not a problem for the market...

- The EPS growth projections for this year by IBES appear quite demanding at face value.
- Historically, consensus EPS growth projections were typically downgraded through the year, but the equity markets generally managed to shrug this off.

2021e EPS Growth in US and Europe, by consensus

	Consensus EPS Growth forecast FY21	
	MSCI US	MSCI Europe
Market	21.3%	39.1%
Energy	-	364.9%
Materials	32.0%	44.7%
Industrials	30.3%	73.8%
Discretionary	51.5%	202.8%
Staples	6.2%	8.6%
Healthcare	13.6%	9.0%
Financials	22.4%	35.3%
IT	15.5%	12.1%
Com. Services	14.0%	17.1%
Utilities	2.6%	10.1%
Real Estate	3.0%	6.9%

Source: IBES

Change in consensus EPS projections and market returns

	Change in annual EPS estimates over that year	S&P500 annual performance
'85	-16%	26%
'86	-18%	15%
'87	-10%	2%
'88	8%	12%
'89	-9%	27%
'90	-16%	-7%
'91	-25%	26%
'92	-15%	4%
'93	-8%	7%
'94	-1%	-2%
'95	0%	34%
'96	-6%	20%
'97	-3%	31%
'98	-14%	27%
'99	-4%	20%
'00	-5%	-10%
'01	-25%	-13%
'02	-9%	-23%
'03	-1%	26%
'04	9%	9%
'05	3%	3%
'06	2%	14%
'07	-7%	4%
'08	-29%	-38%
'09	-22%	23%
'10	9%	13%
'11	2%	0%
'12	-4%	13%
'13	-2%	30%
'14	-3%	11%
'15	-6%	-1%
'16	-6%	10%
'17	-1%	19%
'18	9%	-6%
'19	-6%	29%
Average	-7%	10%
Median	-6%	12%

Source: IBES

...recovery years tended to see very strong EPS growth... in fact, the consensus projections tended to be upgraded in those years...

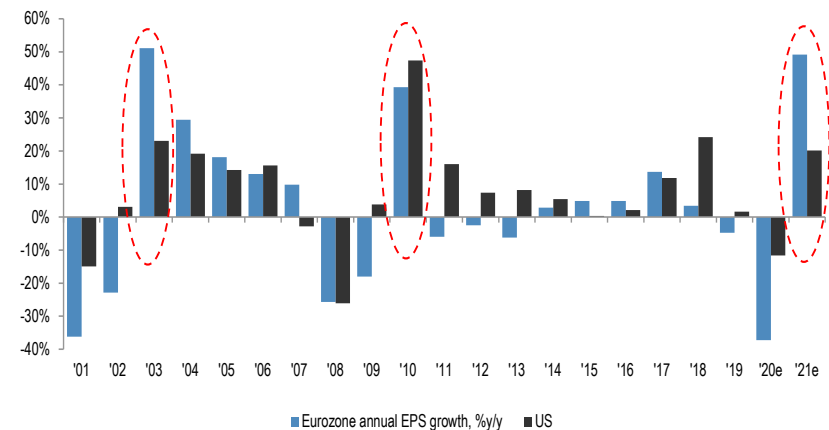
- The past recovery years, which followed sharp EPS drawdowns, '03 and '09-'10, saw a very strong EPS growth, of 40-50% for Eurozone.
- Importantly, consensus projections ended up being revised higher during those recovery years.

EPS growth expectations vs actual delivered

	Eurozone		US	
	EPS growth projections as of mid November of the previous year	Actual EPS growth delivered	EPS growth projections as of mid November of the previous year	Actual EPS growth delivered
'01	13.7%	-36.2%	12.1%	-14.9%
'02	15.8%	-22.8%	14.7%	3.1%
'03	34.3%	51.1%	15.0%	23.1%
'04	22.4%	29.5%	12.4%	19.2%
'05	13.8%	18.1%	11.2%	14.2%
'06	10.0%	13.0%	13.1%	15.6%
'07	9.0%	9.8%	10.0%	-2.8%
'08	9.1%	-25.7%	14.7%	-26.1%
'09	5.8%	-18.0%	10.8%	3.8%
'10	25.8%	39.3%	22.2%	47.4%
'11	15.1%	-6.0%	13.1%	16.0%
'12	9.5%	-2.5%	10.5%	7.4%
'13	10.7%	-6.2%	9.5%	8.2%
'14	16.6%	2.8%	10.1%	5.4%
'15	16.4%	4.8%	9.9%	0.3%
'16	8.1%	4.9%	8.2%	2.2%
'17	12.8%	13.7%	11.7%	11.8%
'18	9.5%	3.4%	11.8%	24.2%
'19	10.1%	-4.8%	9.1%	1.7%

Source: IBES

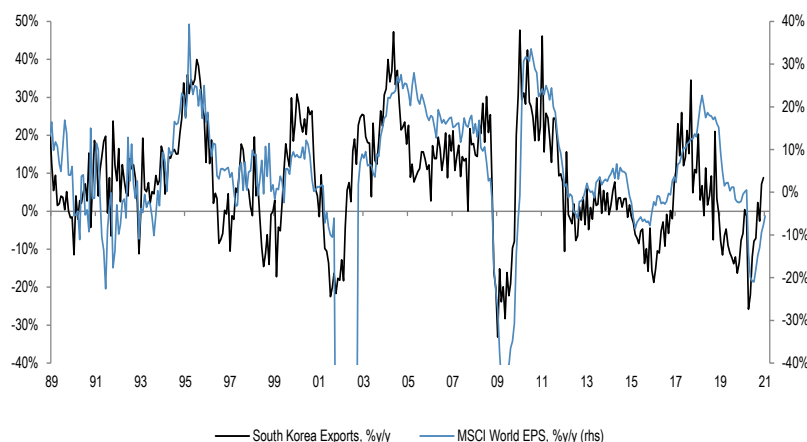
Historical EPS growth in US and Eurozone



Source: IBES

...operating leverage is positive... leverage of earnings to GDP tended to be around 7 to 1

Korean exports vs global earnings



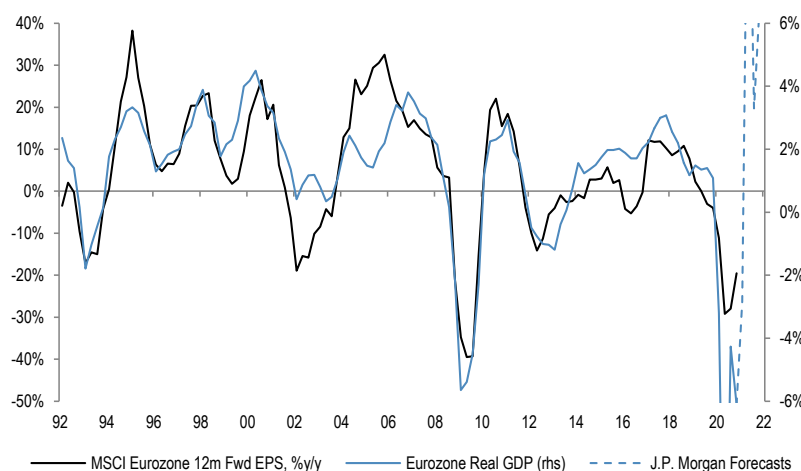
Source: IBES, KOSTAT

Profit margins and EPS growth vs GDP growth regimes

US Real GDP, % y/y	Profit Margins, yoy, bps	S&P 500 EPS %yoy
<-3%	-51	-79%
-3% to -2%	-106	-8%
-2% to -1%	-139	1%
-1% to 0%	-96	-2%
0% to 1%	-78	-4%
1% to 2%	-46	-1%
2% to 3%	-18	5%
3% to 4%	40	11%
4% to 5%	23	14%
>5%	56	13%

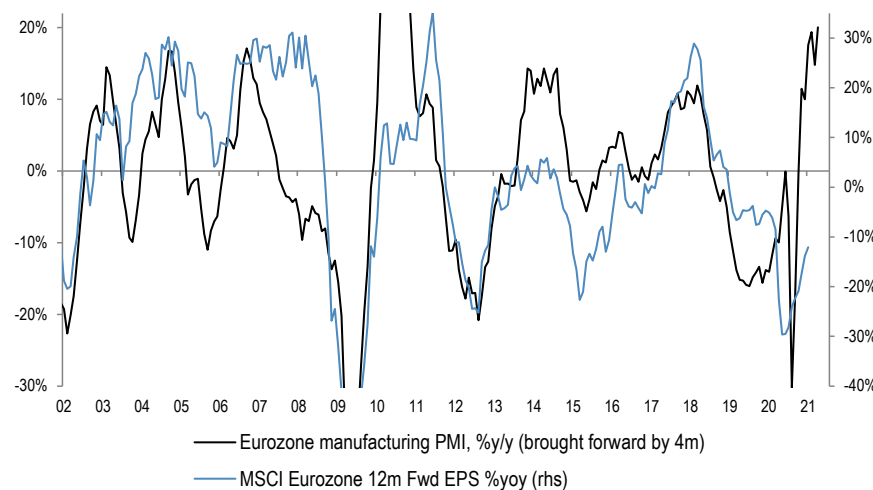
Source: Bloomberg Finance L.P.

Eurozone EPS growth vs GDP growth



Source: IBES, J.P. Morgan

Eurozone 12m Fwd EPS growth and Eurozone manufacturing PMI

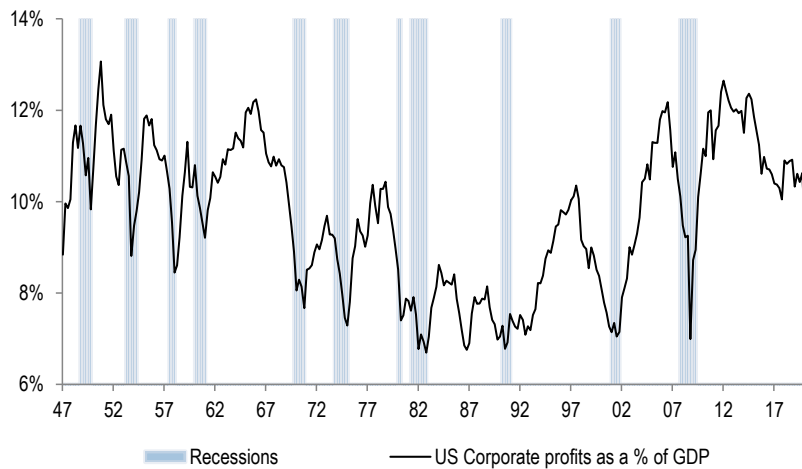


Source: IBES, Markit

Profit margin proxies have started to stabilize...

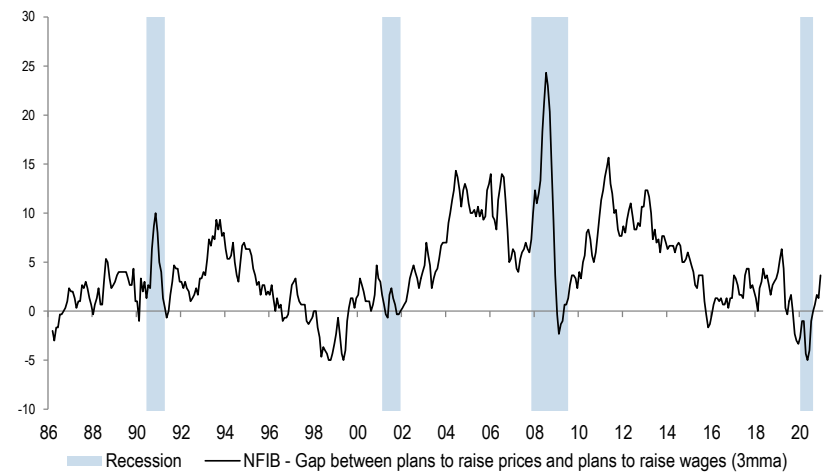
- US NIPA profit margins have been weakening for years, but have inflected higher recently.
- The profit margin proxy – output prices minus input costs, has moved into positive territory.

US corporate profit margins



Source: BEA

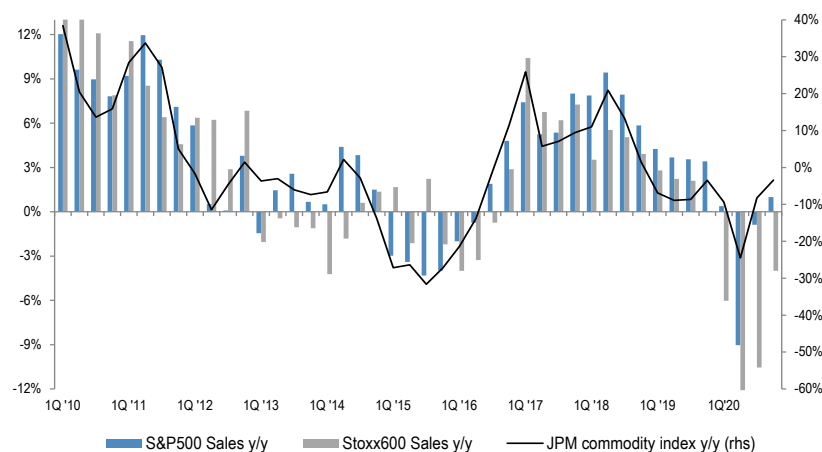
NFIB survey - Plans to increase prices minus plans to increase wages



Source: Bloomberg Finance L.P.

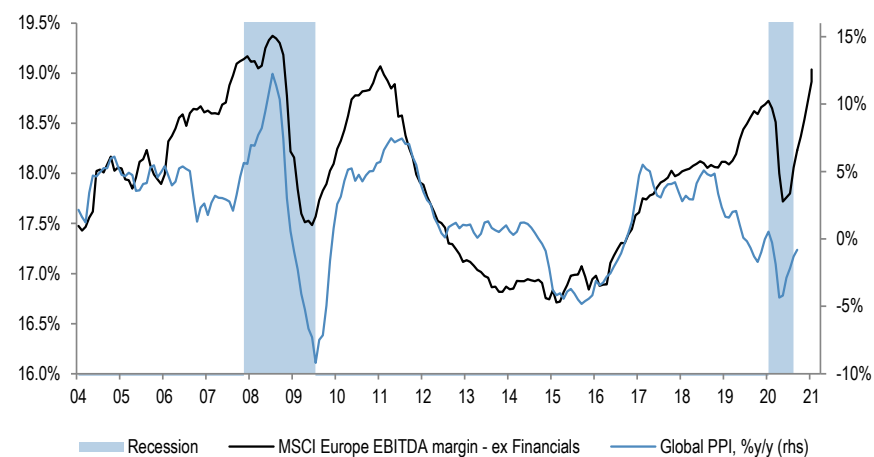
...PPIs are accelerating...

US and Europe sales growth vs commodity index



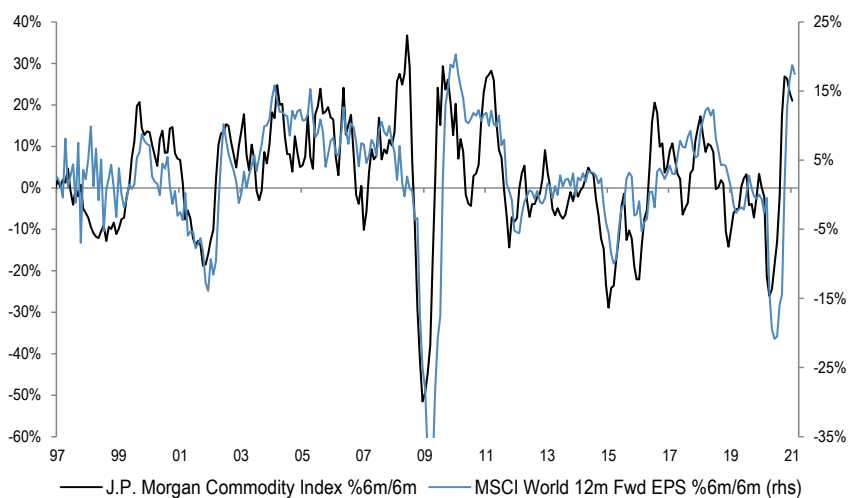
Source: Bloomberg Finance L.P., J.P. Morgan

Europe profit margins vs PPI



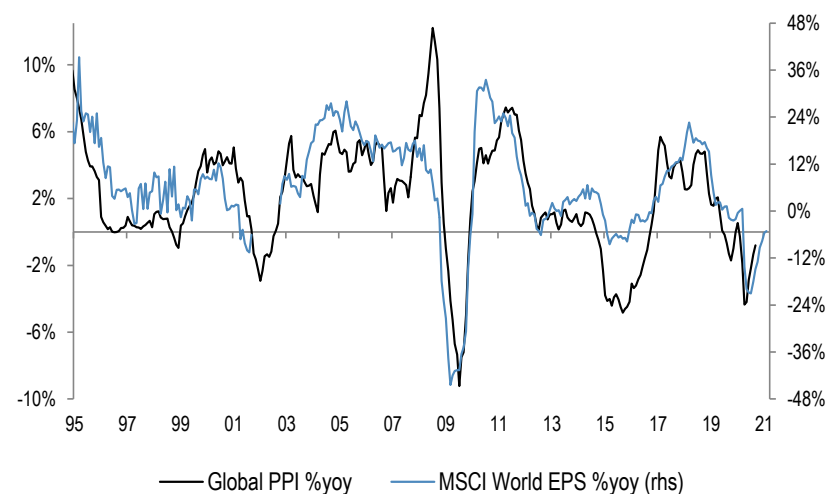
Source: IBES, J.P. Morgan

MSCI World EPS growth and commodity prices



Source: IBES, J.P. Morgan

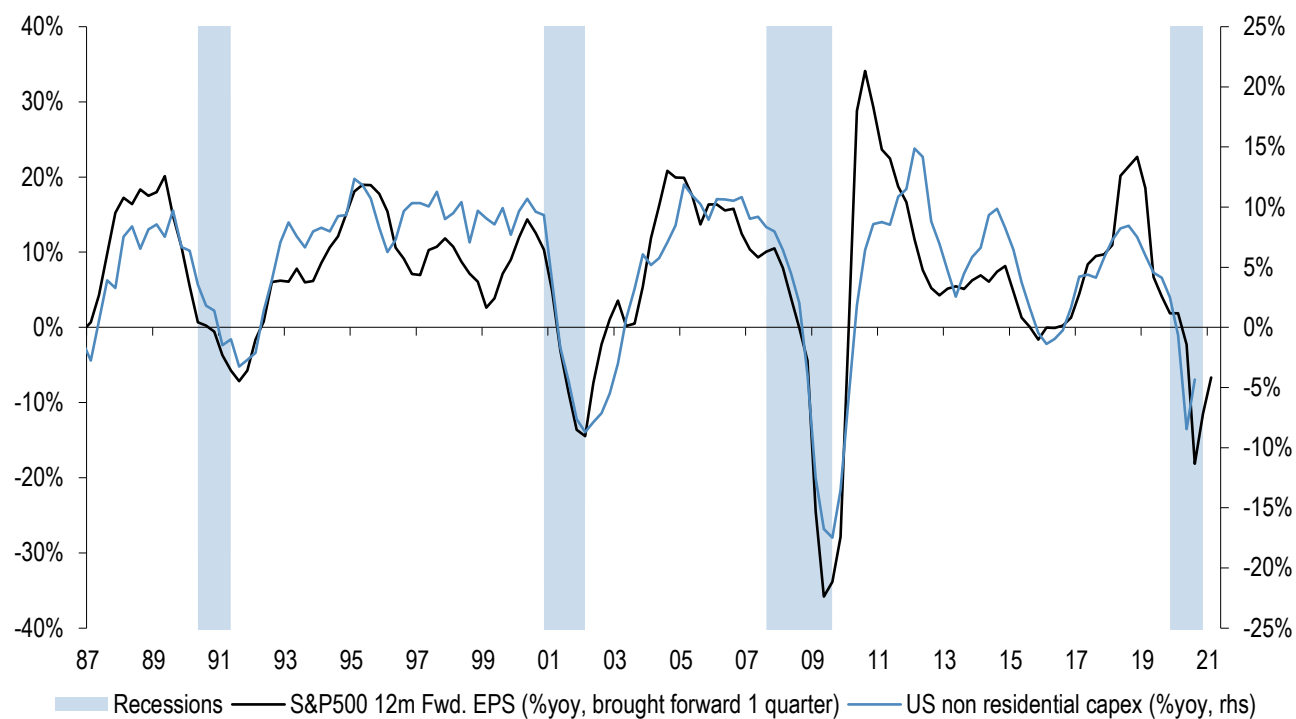
MSCI World EPS vs global PPI



Source: IBES, Bloomberg Finance L.P.

...the bottoming out in capex is at hand

US earnings vs capex



Source: Datastream

US earnings have fallen below trend...

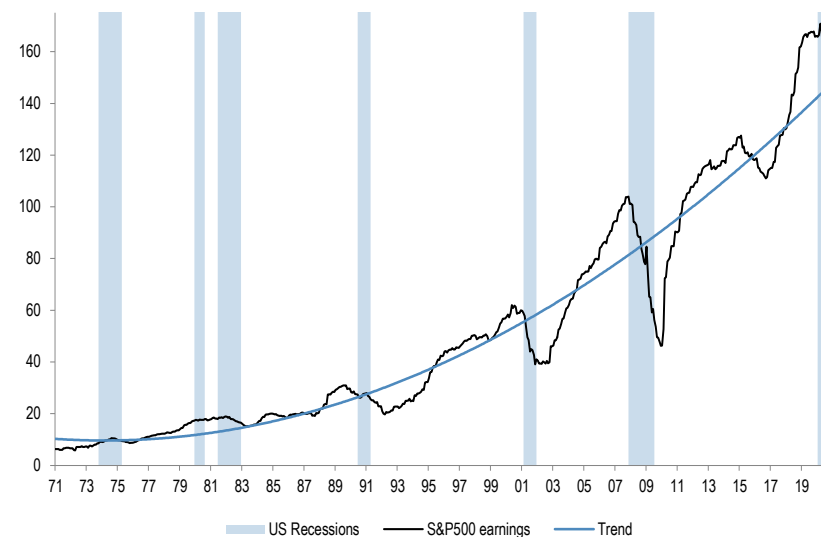
- US earnings at the end of December were 6% below the historical trend.

S&P500 EPS vs Trend at peaks

	Peak S&P500 EPS	Trend	vs trend
Aug-74	10.6	9.7	10%
Nov-79	17.3	11.7	48%
Aug-80	17.9	12.3	46%
Apr-89	30.4	24.1	26%
May-00	62.0	53.0	17%
Sep-07	103.7	80.6	29%
Median			27%
Average			29%
Current	138.7	147.3	-6%

Source: Datastream

S&P500 EPS vs trend

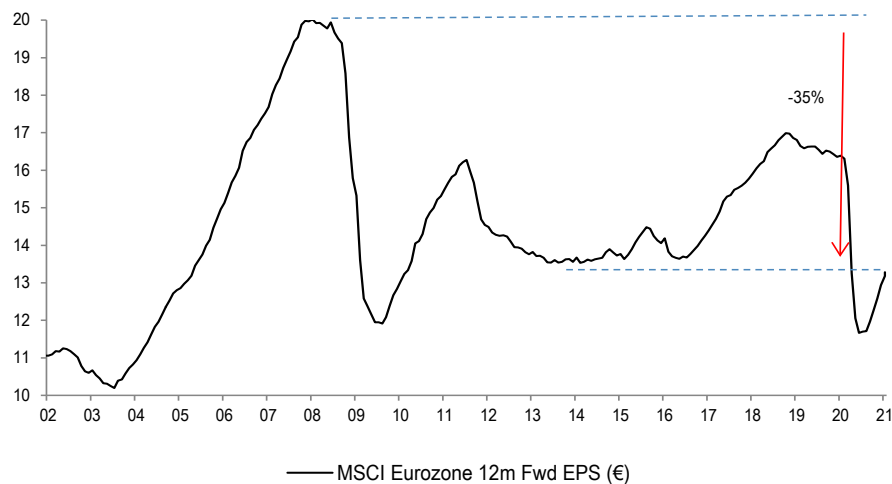


Source: IBES, NBER, Thomson Reuters. *Trailing EPS

...Eurozone earnings base is depressed, which is mainly accounted for by domestic sectors, and could see a turn

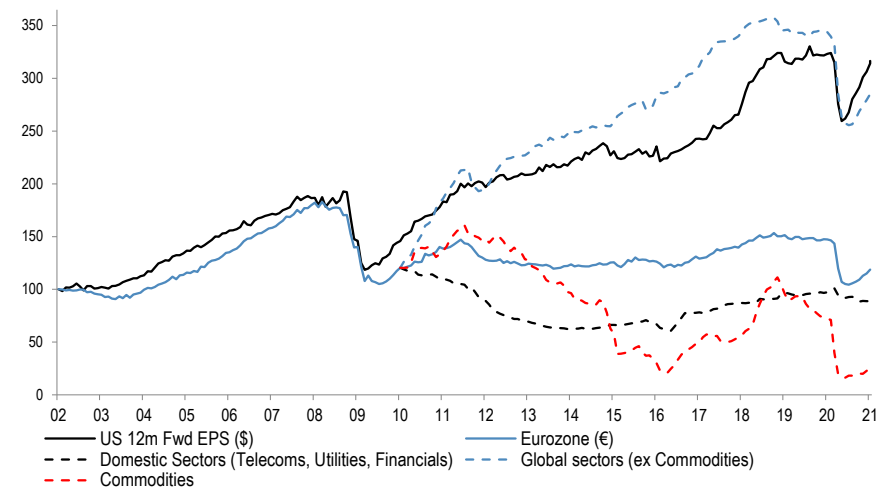
- Within Eurozone, it is the earnings base of domestic and commodity plays which is particularly low.

MSCI Eurozone 12m Fwd EPS



Source: IBES

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

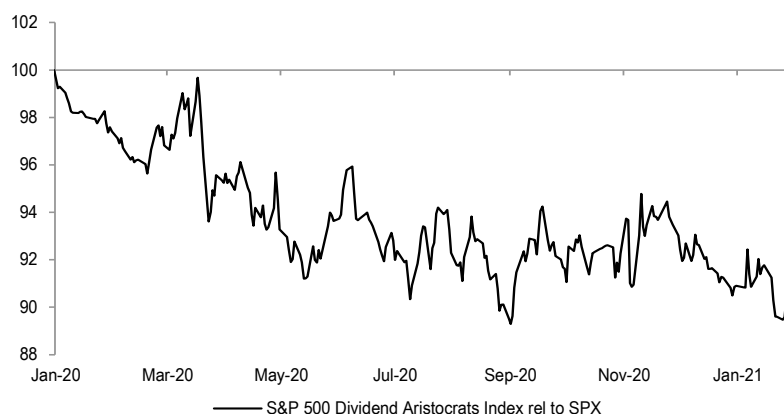


Source: IBES. *Global includes all sectors except Utilities, Telecoms, Financials and commodity sectors

Dividend strategies have had a poor run in 2020... dividend factor typically works when yields move lower, but a large gap has opened up...

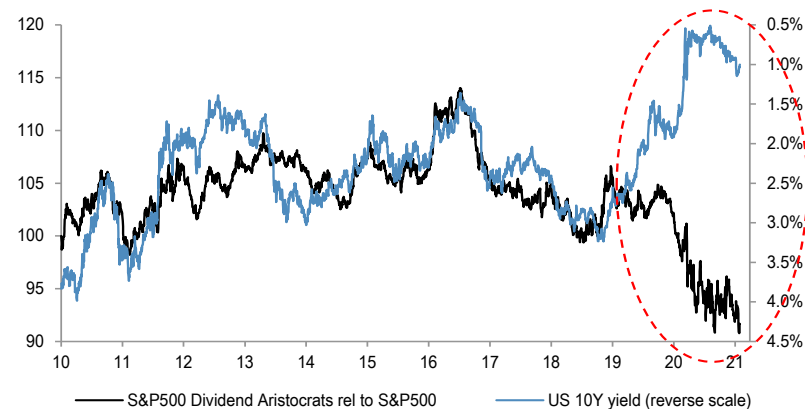
- Dividend strategies typically have a strong inverse correlation with bond yields. However, the relationship appears to have broken down, with dividend aristocrats underperforming despite yields staying low.

US dividend aristocrats - SPDAUDP - relative



Source: Bloomberg Finance L.P.

US dividend aristocrats and bond yields

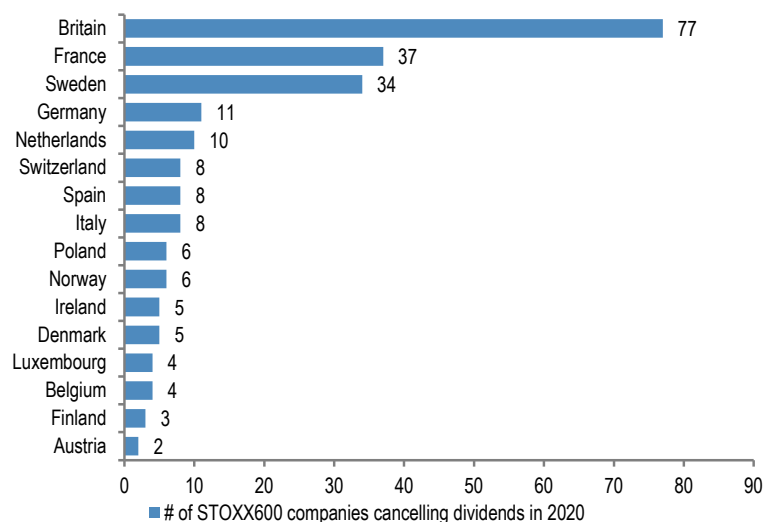


Source: Bloomberg Finance L.P.

...aggressive dividend cuts are largely to blame for this divergence...

- Over 200 Stoxx600 companies cut dividends in 2020. The majority of these are in the Banks and Capital Goods space.
- Unfavorable sector tilts have also played a part, as high dividend-yielding sectors such as Financials and Energy were particularly under pressure this year.
- Under-representation of Technology stocks in the US aristocrats index is also worth noting.

Dividend cancellations by European countries



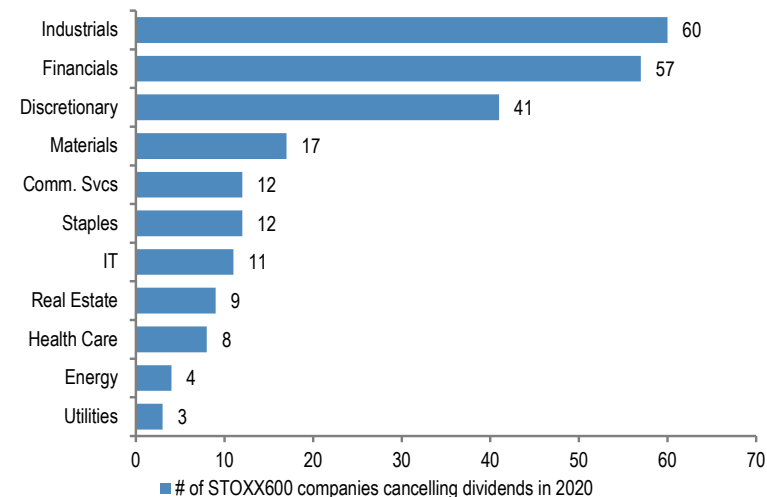
Source: Bloomberg Finance L.P.

Sector composition of dividend aristocrats

	MSCI US	US Dividend aristocrat	MSCI Europe	Europe Dividend aristocrat
Energy	3%	3%	5%	0%
Materials	2%	12%	8%	7%
Industrials	8%	25%	13%	20%
Discretionary	11%	9%	10%	9%
Staples	7%	20%	15%	20%
Healthcare	15%	9%	17%	18%
Financials	10%	11%	15%	11%
IT	28%	2%	7%	9%
Comm. Services	11%	2%	4%	0%
Utilities	3%	3%	5%	5%
Real Estate	3%	5%	1%	0%
Cyclicals	50%	48%	38%	45%
Defensives	35%	34%	40%	43%
Cyclicals vs Defensives	15%	14%	-2%	2%

Source: Bloomberg Finance L.P.

Dividend cancellations by European sectors

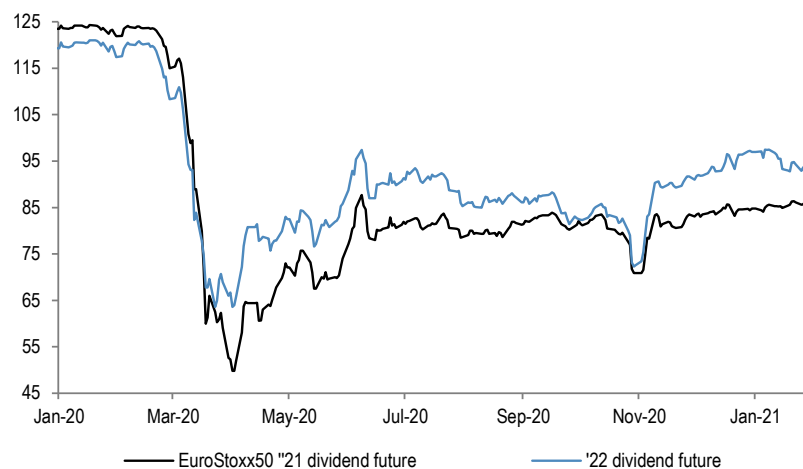


Source: Bloomberg Finance L.P.

...risk-reward for dividend strategies is improving... the worst of dividend cuts is behind us, but a potential bond yields upmove could hurt this

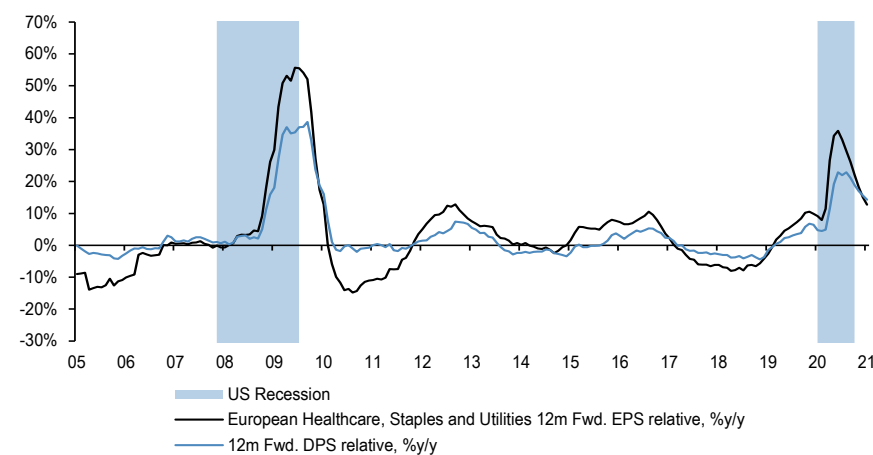
- Notably, dividend futures have picked up from the lows seen in March last year.
- Dividend selection should start to be skewed towards sectors which could fare better in the event of a robust economic recovery.

EuroStoxx50 '21-'22 dividend futures



Source: Bloomberg Finance L.P.

Defensive sectors' relative earnings and dividends growth

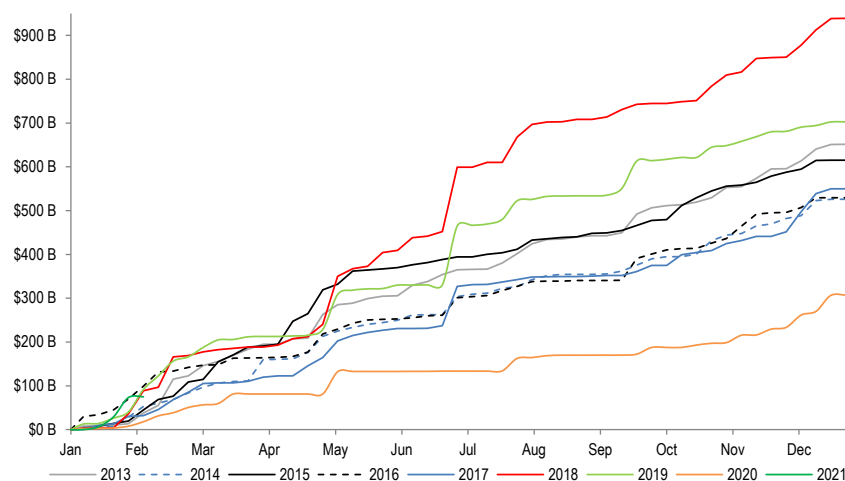


Source: Bloomberg Finance L.P.

Buybacks are much weaker than in prior years

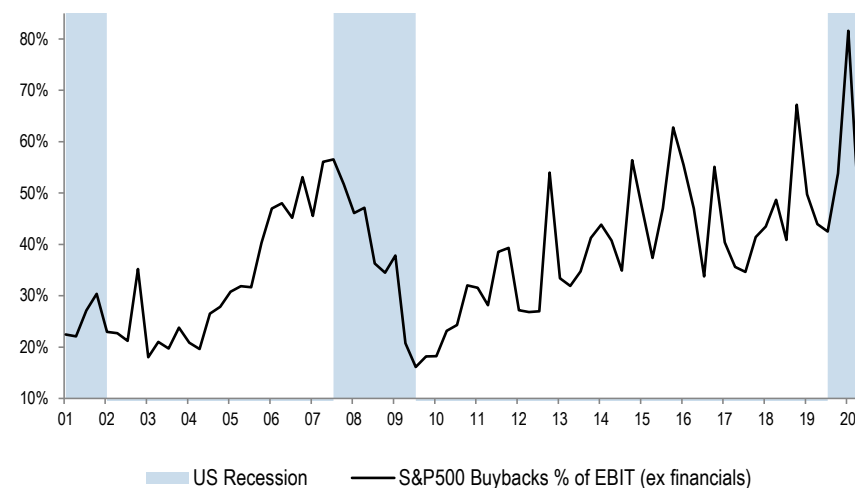
- US buybacks were subdued last year, and could keep lagging what was seen in previous years. Buybacks as a share of profits have fallen significantly.

S&P500 announced buybacks



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

S&P500 buybacks as a % of EBIT



Source: Bloomberg Finance L.P.

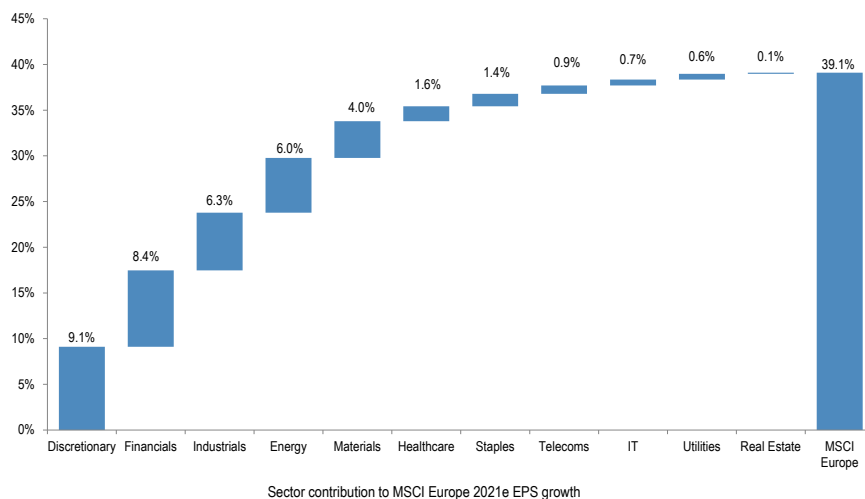
Sectoral earnings contribution breakdown

Regional and sectoral EPS growth projections for 2021 and 2022

	MSCI World		US		Europe		Eurozone		UK		Japan*		EM	
	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e
Market	27.2%	15.1%	21.3%	15.3%	39.1%	15.8%	48.1%	19.0%	46.8%	14.0%	-3.4%	36.5%	35.4%	16.0%
Energy	842.8%	50.3%	-	67.7%	364.9%	43.8%	168.9%	41.6%	1249.2%	47.5%	-	-	208.8%	26.0%
Materials	45.5%	2.9%	32.0%	10.3%	44.5%	-0.5%	43.0%	15.3%	54.5%	-14.6%	69.1%	117.2%	94.3%	-4.0%
Industrials	55.9%	20.6%	30.3%	19.7%	73.8%	20.3%	79.2%	25.3%	342.2%	17.4%	-58.9%	156.3%	43.4%	17.6%
Discretionary	77.3%	26.5%	51.5%	29.7%	202.8%	26.3%	263.5%	26.2%	63.4%	29.7%	-17.5%	52.8%	51.1%	27.7%
Staples	8.5%	8.7%	6.2%	8.1%	8.6%	9.1%	12.5%	10.2%	6.5%	8.1%	-16.2%	33.9%	20.5%	11.3%
Healthcare	13.3%	9.1%	13.6%	8.0%	9.0%	11.2%	6.6%	11.0%	12.7%	16.0%	-1.2%	34.2%	51.1%	5.5%
Financials	24.5%	14.3%	22.4%	13.6%	35.3%	18.3%	44.1%	20.0%	32.6%	20.8%	-2.7%	12.2%	14.0%	13.6%
IT	15.6%	13.8%	15.5%	13.5%	12.1%	16.8%	14.5%	17.4%	-1.3%	12.3%	12.0%	23.3%	26.5%	23.0%
Telecoms	8.4%	18.0%	14.0%	20.3%	17.1%	13.6%	13.8%	14.4%	26.1%	14.8%	360.5%	-22.1%	25.5%	18.9%
Utilities	4.5%	5.6%	2.6%	5.7%	10.1%	6.3%	12.9%	6.8%	9.5%	6.7%	10.4%	-4.0%	24.2%	10.1%
Real Estate	12.1%	11.0%	3.0%	16.5%	6.9%	7.9%	8.2%	8.4%	17.9%	6.9%	-21.7%	23.0%	18.4%	15.1%
Median	12.0%	12.5%	11.6%	11.3%	14.2%	12.7%	16.8%	14.3%	10.0%	11.2%	-1.6%	17.4%	19.4%	16.5%
Median ex-commo	11.3%	12.5%	10.9%	11.2%	12.9%	12.9%	15.3%	14.3%	7.5%	11.7%	-0.9%	16.9%	18.2%	16.7%
Median - Cyclicals	14.5%	14.1%	14.1%	12.4%	19.9%	14.2%	27.0%	17.7%	11.1%	10.4%	-6.0%	22.2%	25.7%	19.3%
Median - Defensives	8.8%	9.1%	8.4%	7.3%	8.8%	10.3%	10.1%	9.4%	1.4%	12.3%	5.2%	13.0%	17.6%	15.4%

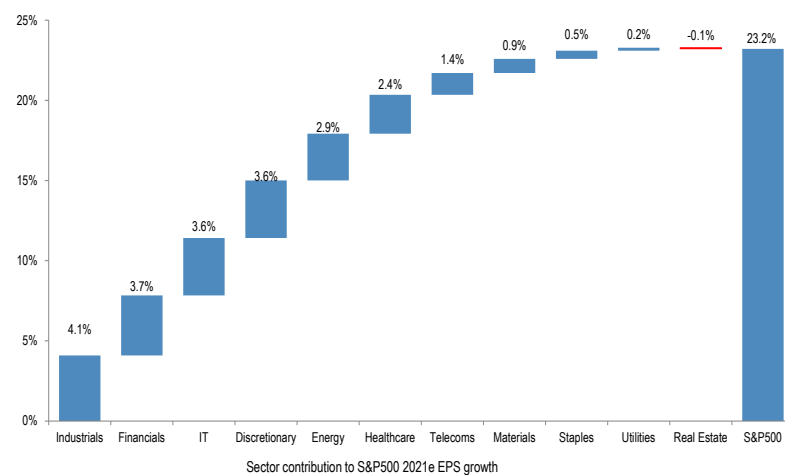
Source: IBES, *Japan refers to fiscal year ending March 2021, 2022

Sector contribution to MSCI Europe 2021e EPS growth



Source: IBES.

Sector contribution to S&P500 2021e EPS growth



Source: IBES.

4) Equity P/E multiples are 1-8 points higher than norm...

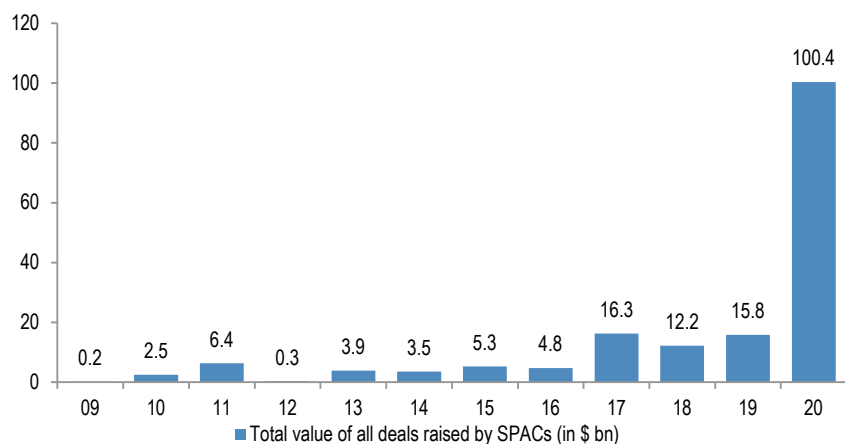
12m Fwd. P/E across key geographies

	Current	20Y Median	Current vs Median	Current vs Median
US	22.9	15.5	7.4	47%
World	20.8	14.8	5.9	40%
France	17.7	12.5	5.1	41%
EM	15.8	10.8	5.0	46%
Switzerland	19.3	14.4	4.9	34%
Eurozone	17.3	12.6	4.6	37%
Germany	15.9	12.4	3.6	29%
Spain	15.4	12.2	3.2	27%
Japan	18.0	15.2	2.9	19%
UK	13.7	12.6	1.1	9%

Source: IBES

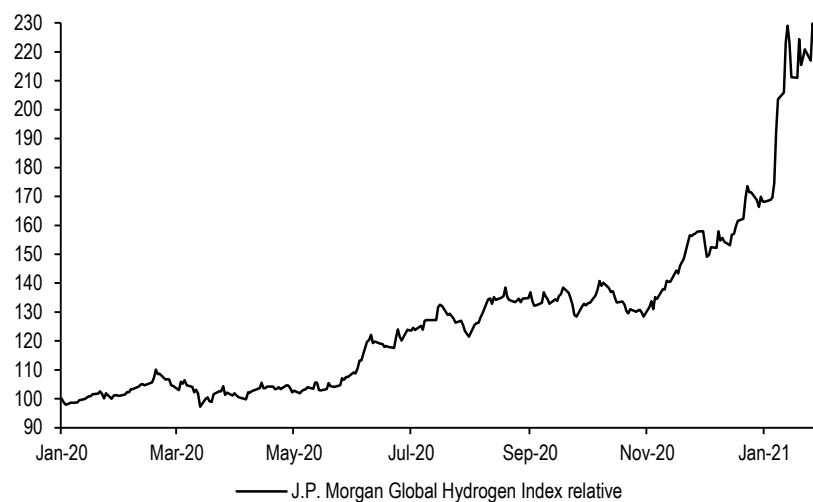
...a number of bubble signs are popping up...

SPAC- total amount raised



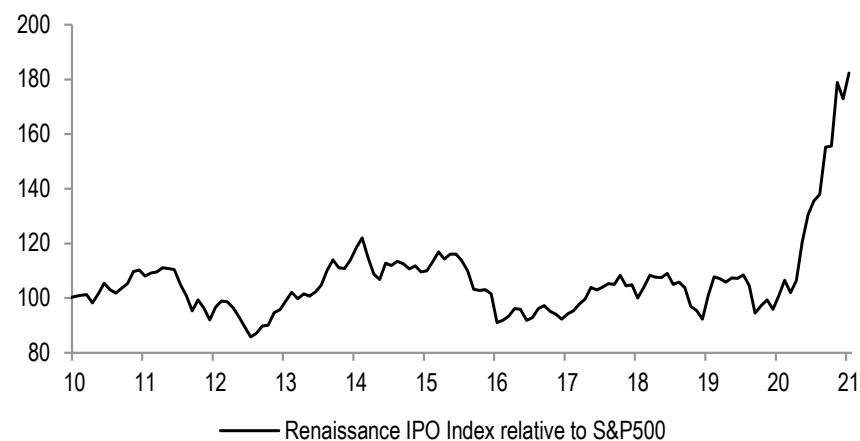
Source: SPACInsider: <https://spacinsider.com/stats/>

JPM Global Hydrogen index relative



Source: Bloomberg Finance L.P.

Renaissance IPO Index relative to S&P500



Source: Bloomberg Finance L.P.

MSCI World ESG Leaders index trailing P/E

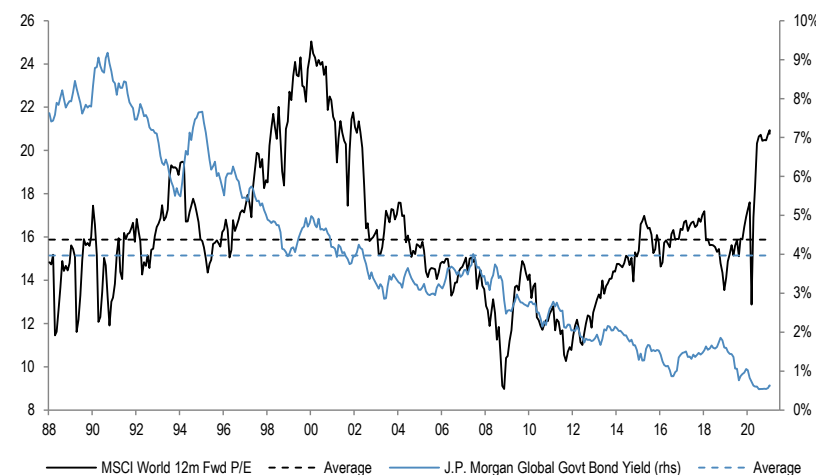


Source: Datastream.

...this could lead to grater volatility, but the broader equity market should be supported... EY-BY gap still appears attractive...

- While multiples are high in absolute terms, the DY-BY gap is remaining 100-250bp better than averages.

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



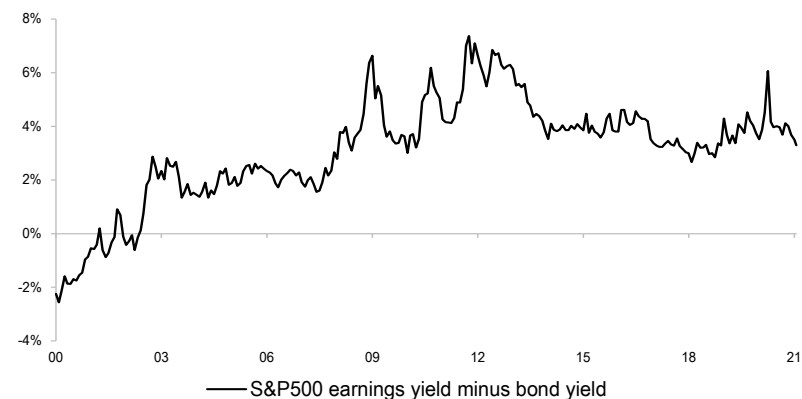
Source: Datastream, IBES

DM yield gap in the historical context

	Dividend yield	10Y Bond yield	Dividend yield minus bond yield	Average since '00	Current vs Average (bp)
US	1.4%	1.1%	0.3%	-1.4%	168
Japan	1.9%	0.0%	1.9%	0.8%	113
Eurozone	2.1%	-0.2%	2.4%	0.3%	201
UK	3.2%	0.3%	2.8%	0.5%	232

Source: Datastream

EY-BY spread for S&P500 ytd



Source: Datastream

...equities score well relative to credit, too

- Relative to credit, too, equities show favourable valuation metrics.
- The gap between the dividend yield on a stock vs the high-grade yield at which these companies borrow is as much as 230bp, on average, in Eurozone.

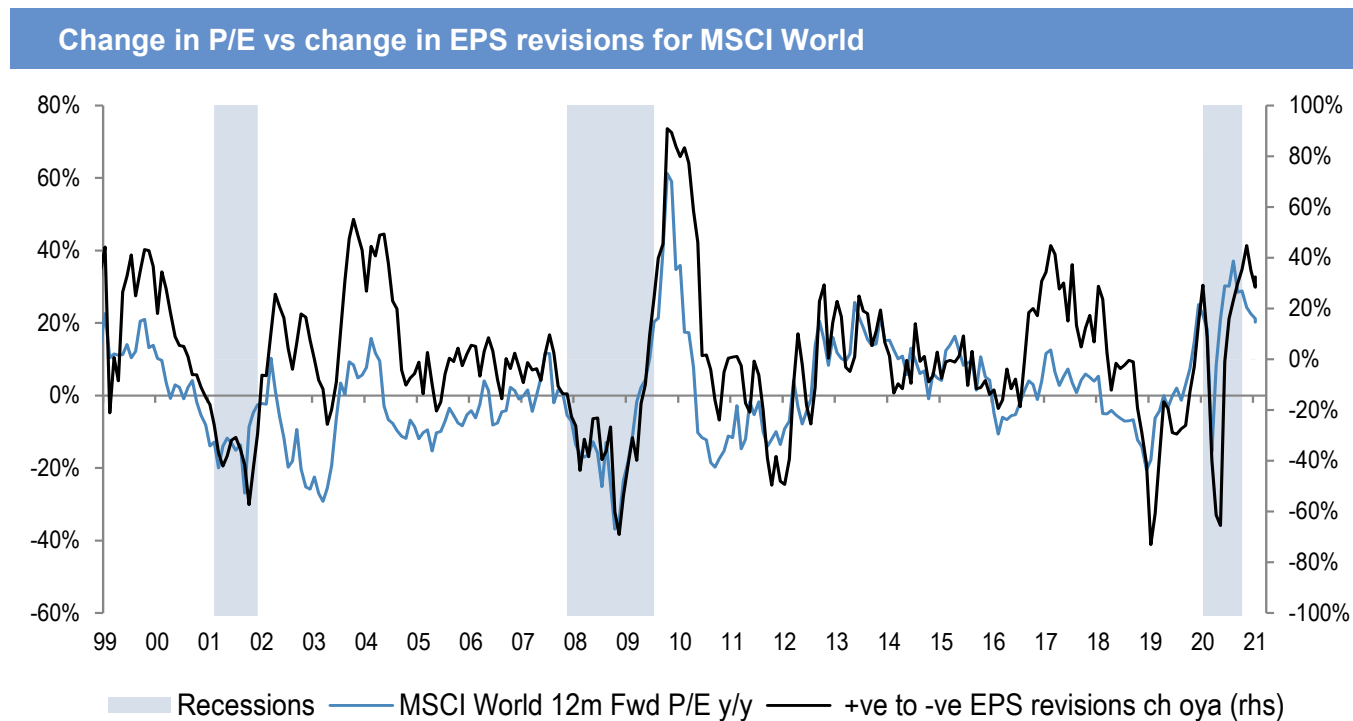
Spread between dividend yield and credit yield

	Dividend Yield	High Grade Yield	Dividend Yield vs HG yield	LT Average	Current yield gap vs LT Average
Energy	6.2%	0.1%	6.1%	0.7%	5.4%
Real Estate	4.1%	0.0%	4.1%	0.2%	3.9%
Telecoms	4.0%	0.0%	4.0%	0.8%	3.2%
Utilities	3.6%	0.0%	3.6%	1.0%	2.6%
Chemicals	2.8%	-0.2%	2.9%	0.1%	2.9%
Financials	2.6%	0.0%	2.6%	0.4%	2.2%
Materials	2.6%	0.0%	2.5%	-0.4%	3.0%
Eurozone	2.1%	0.0%	2.1%	-0.2%	2.3%
Media	2.0%	0.0%	2.0%	-0.1%	2.1%
Staples	2.0%	0.2%	1.9%	-1.1%	3.0%
Const Materials	1.9%	0.1%	1.8%	-0.9%	2.7%
Transport	1.7%	0.0%	1.7%	-0.6%	2.2%
Autos	1.8%	0.3%	1.5%	-0.5%	2.0%
Capital Goods	1.6%	0.1%	1.4%	-0.8%	2.2%
Discretionary	1.0%	0.2%	0.8%	-0.9%	1.6%
Technology	0.7%	0.0%	0.7%	-2.5%	3.3%

Source: J.P. Morgan, Datastream, LT average computed since 1998

Furthermore, stage of the cycle is a support... P/E multiples show a positive correlation with EPS momentum

- Crucially, the moves in P/Es are strongly positively correlated with EPS revisions.

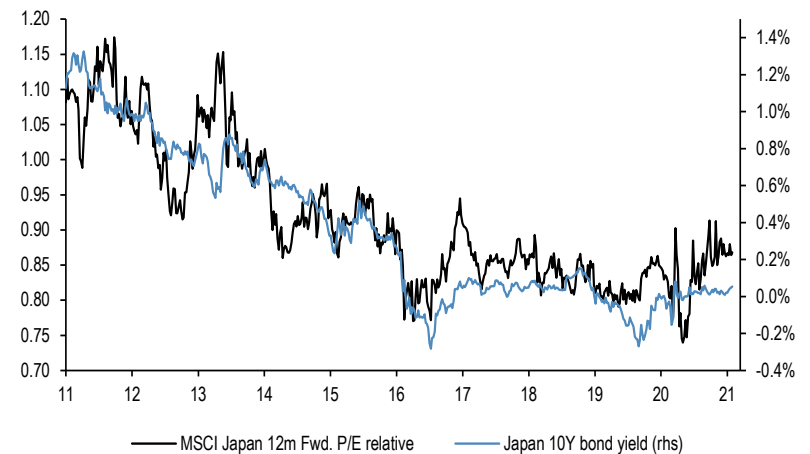


Source: IBES

A potential rise in bond yields may not hurt P/E multiples... historical correlation between P/E multiples and bond yields has, in fact, been positive

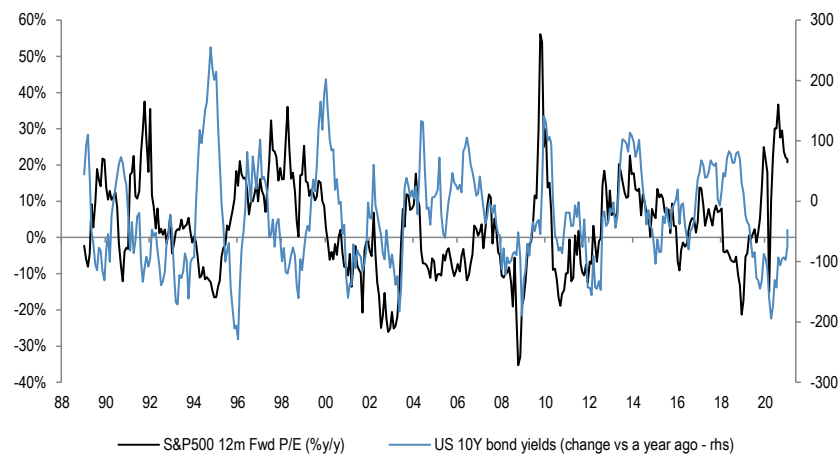
- In the past 15 years, the correlation between P/E multiples and bond yields has been, in fact, positive.
- Japan also shows a positive correlation between P/E multiples and bond yields.

Japan 12m Fwd. P/E relative and bond yields



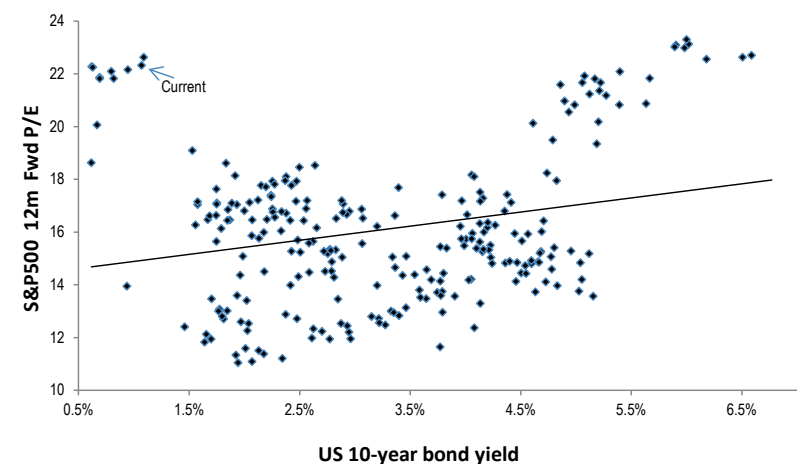
Source: IBES, Bloomberg Finance L.P.

S&P500 12m Fwd P/E and US 10Y bond yields



Source: IBES

US P/E and US 10Y bond yields

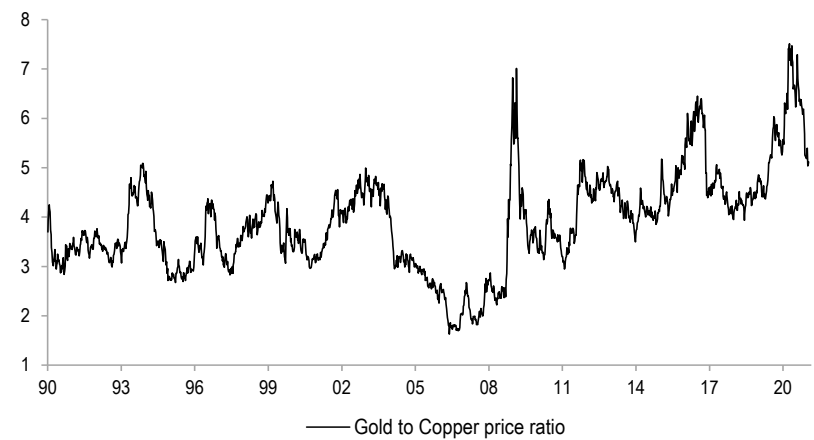


Source: Datastream, IBES

5) Technical picture was stretched in early December... it is still mixed, but stabilising...

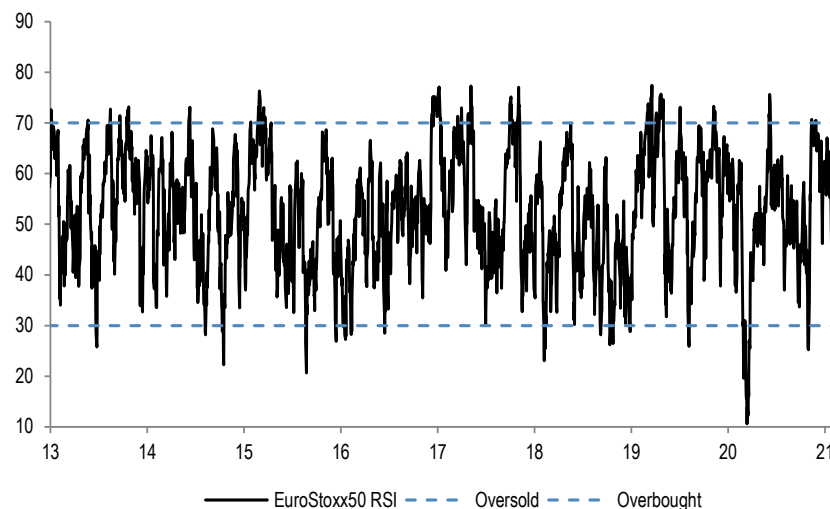
- EuroStoxx50 RSI is no longer in overbought territory.
- Speculative positions on copper are very elevated, and are showing signs of peaking.
- The gold-to-copper price ratio has rolled over.

Gold-to-Copper price ratio



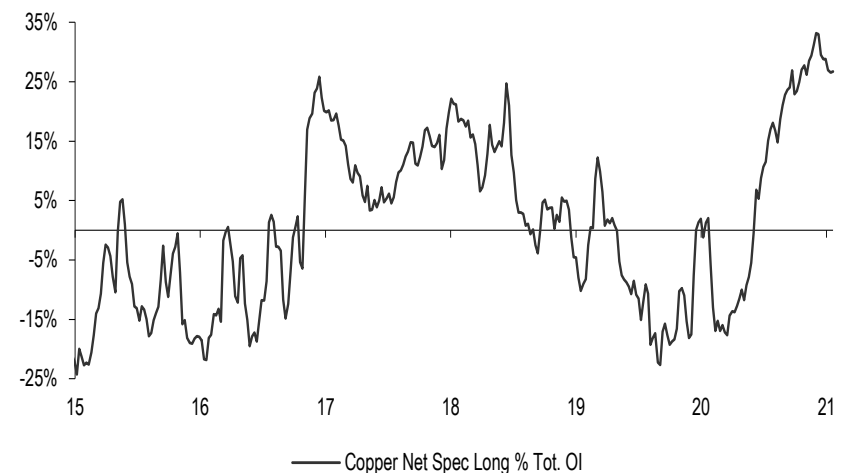
Source: Bloomberg Finance L.P.

SX5E RSI



Source: Bloomberg Finance L.P.

Net speculative Copper positions

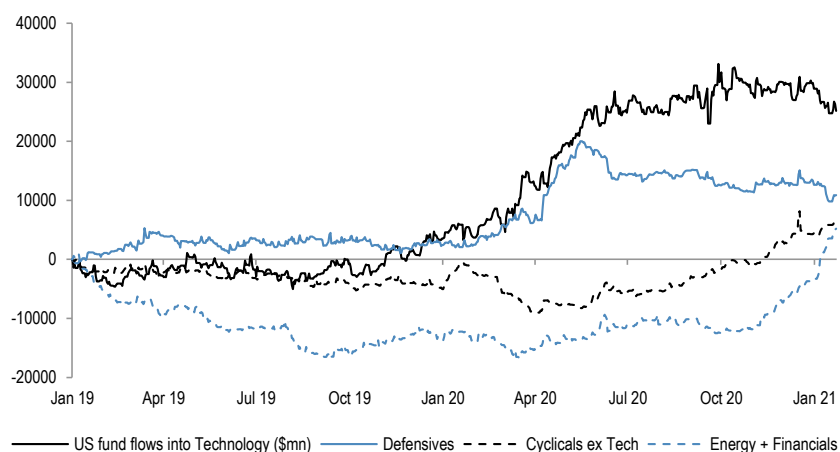


Source: Bloomberg Finance L.P.

...retail inflows remain strong

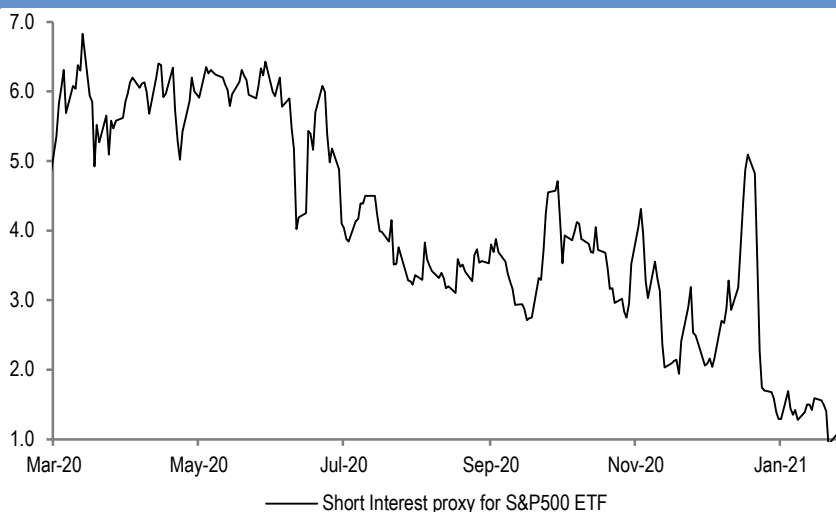
- Full list of technical indicators is in the last section of the chartbook.

Flows into US sectors



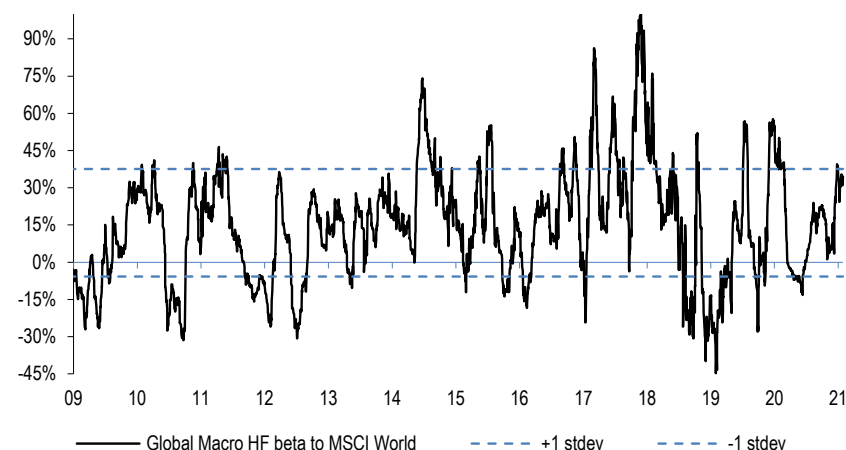
Source: Bloomberg Finance L.P.

Short interest proxy for S&P500 ETF



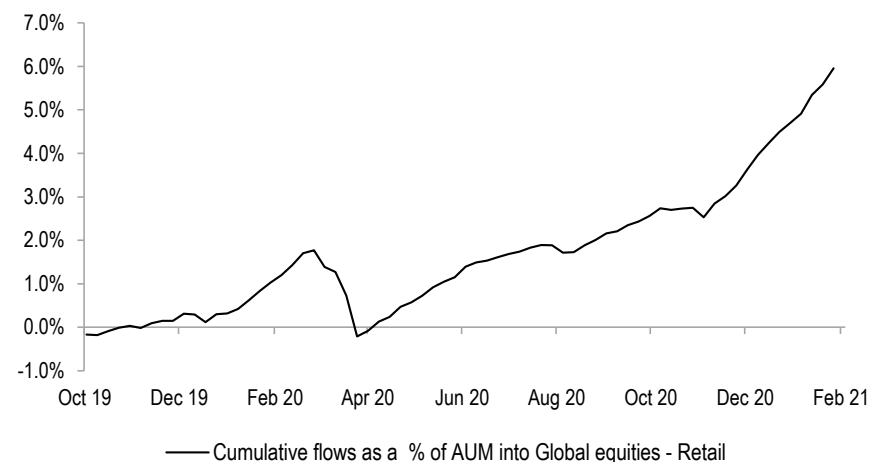
Source: J.P. Morgan Flows & Liquidity

Macro hedge funds beta



Source: Bloomberg Finance L.P.

Cumulative retail fund flows into global equity funds



Source: EPFR

S&P500 forward returns and ISM ranges

- Typically, the forward returns post the depressed ISM were strong.
- Current ISM stands at 55.4. The forward returns from ISM in 55-60 range were softer than typical.

S&P500 performance from different ISM starting points

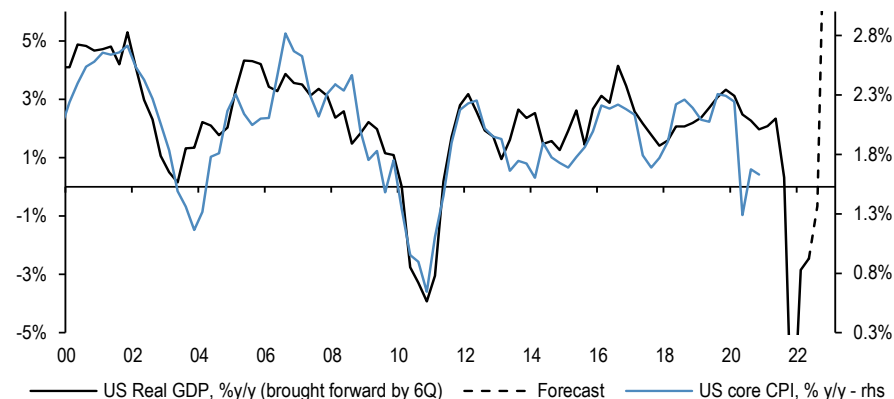
ISM	% ISM range	S&P 500 returns for each regime (vs long term avg)*		
		+3m	+6m	+12m
25-30	0.1%	6.9%	18.8%	7.7%
30-35	1.4%	2.6%	3.6%	12.0%
35-40	4.5%	2.7%	6.2%	16.3%
40-45	6.3%	-0.8%	-2.8%	-2.0%
45-50	17.0%	-1.7%	-4.1%	-1.7%
50-55	30.6%	-0.4%	-2.6%	-2.5%
55-60	26.7%	-1.2%	-3.7%	-4.0%
60-65	9.3%	-3.4%	-7.0%	-9.9%
65-70	3.5%	-1.7%	-7.1%	-9.9%
70-75	0.3%	-8.2%	-12.3%	-18.0%
75-80	0.3%	5.3%	10.9%	12.0%

Source: Datastream, Bloomberg Finance L.P., *excess return over a normalised 3, 6 and 12-month S&P500 performance

Key drivers of positioning: 1) Bond yields – they should move higher this year... the current deflationary impulse is likely to turn...

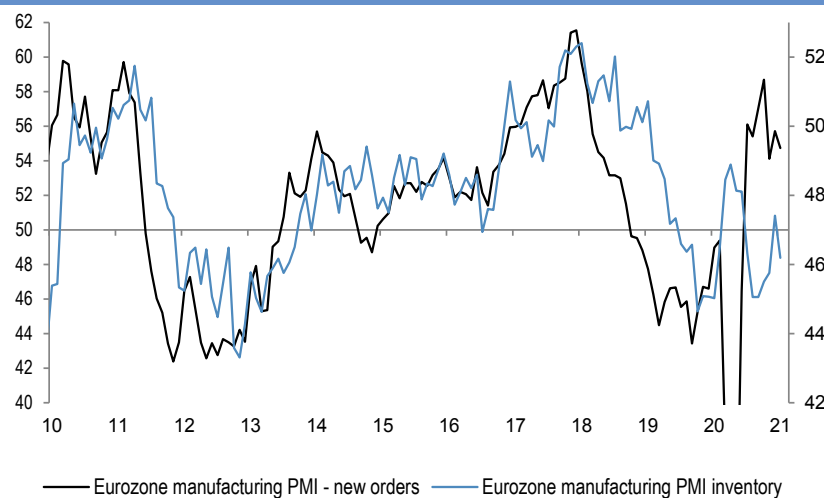
- Bond yields have been stuck during the initial recovery phase, given significant deflationary impulse and aggressive Fed purchases. That could start to change.

US Real GDP and inflation



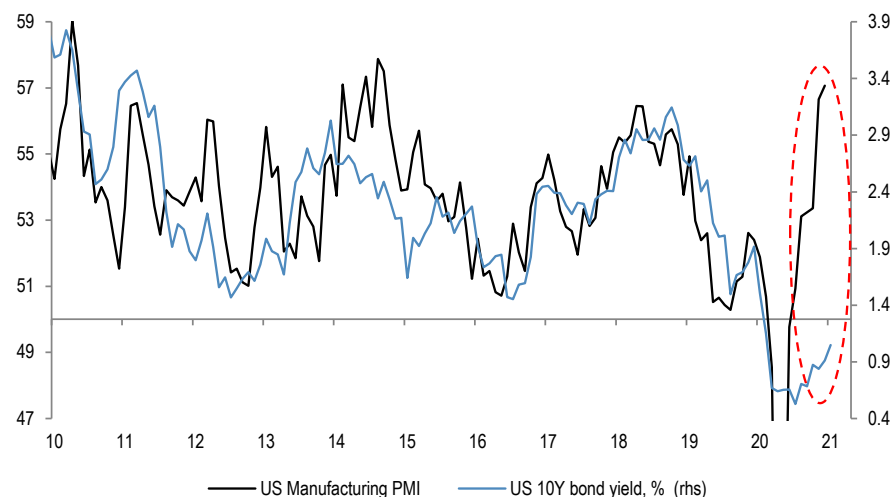
Source: J.P. Morgan

Eurozone new orders to inventories and US bond yield



Source: Bloomberg Finance L.P., Markit

US Manufacturing PMI and US 10Y bond yield



Source: Datastream, Markit

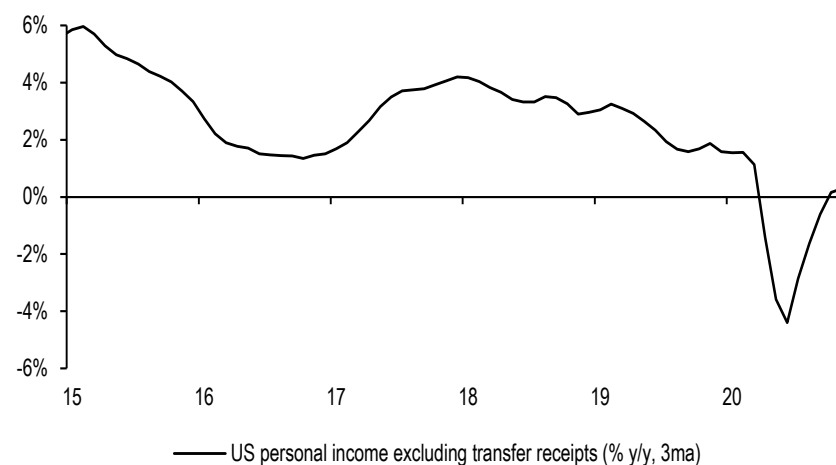
...fiscal deficits are substantial... wage growth has bottomed out...

Unemployment rate and wage growth after recessions

Recession	Unemployment rate		Wage growth		Gap (months)
	Peak month	Peak value	Trough month	Trough value	
1973	May-75	9.0%	Oct-75	5.7%	5
1980	Dec-82	10.8%	Aug-83	3.3%	8
1990	Jun-92	7.8%	Dec-92	2.3%	6
2001	Jun-03	6.3%	Feb-04	1.6%	8
2008	Oct-09	10.0%	Oct-12	1.2%	24
Average					10
Median					8
Current	Apr-20	6.9%			

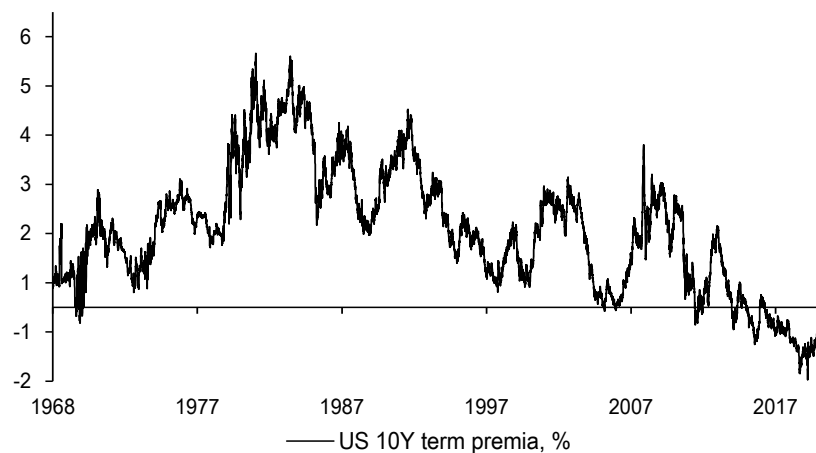
Source: J.P. Morgan

US wage growth



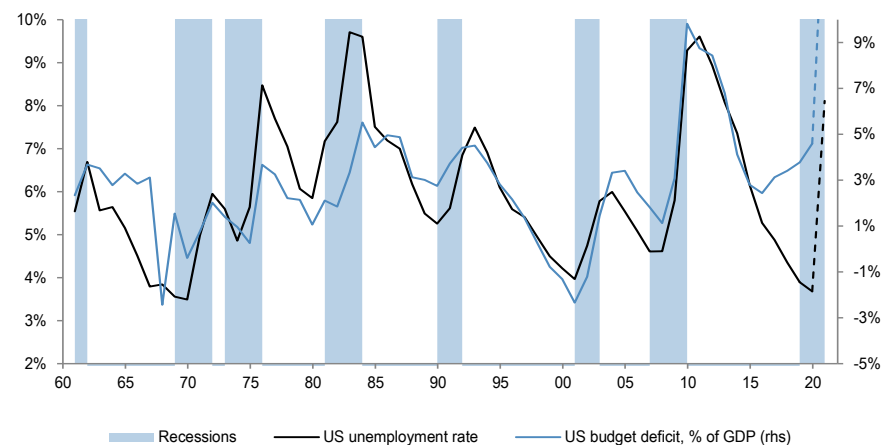
Source: Bloomberg Finance L.P.

US 10-year term-premia



Source: J.P. Morgan

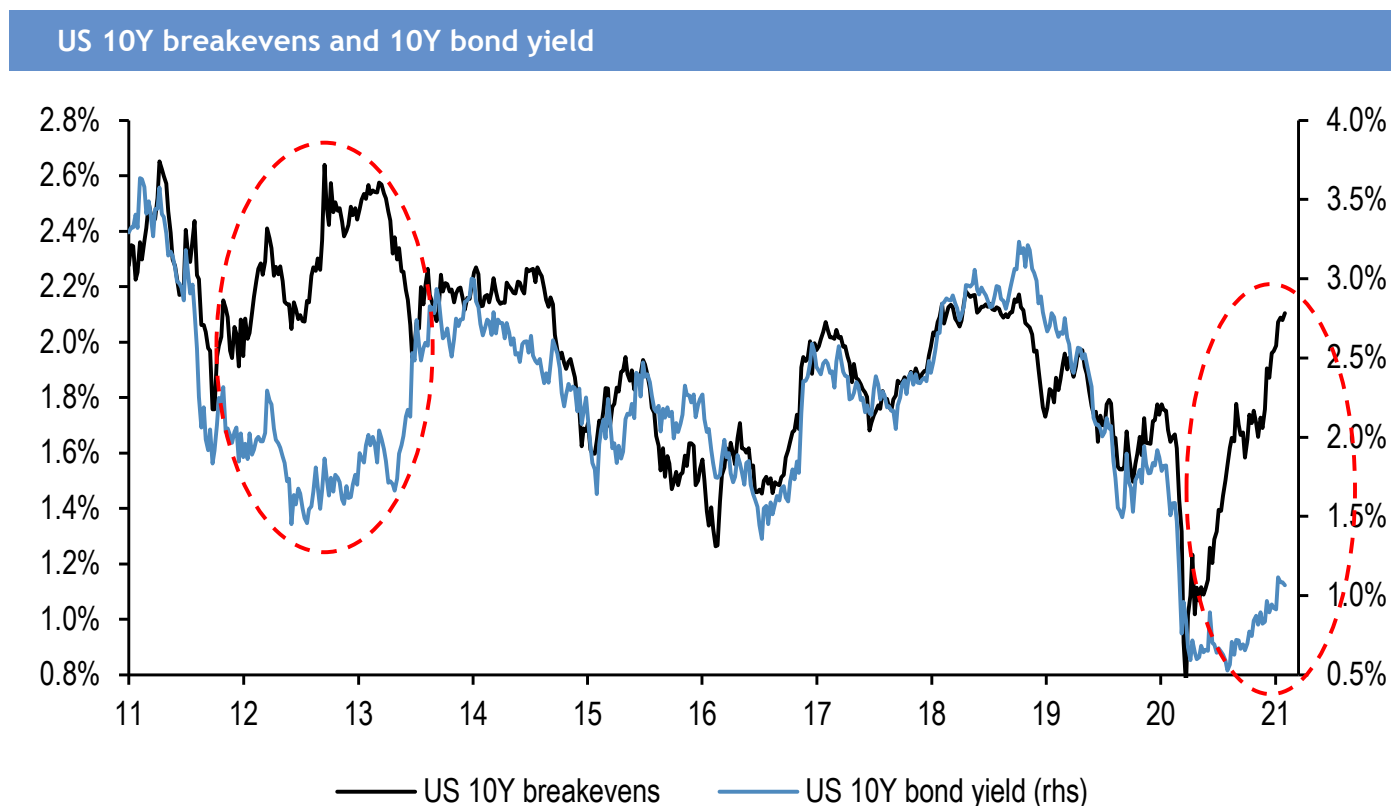
US unemployment rate and budget deficit



Source: J.P. Morgan

...inflation forwards have broken out... the gap with bond yields could start closing through yields moving higher, similar to the 2012-13 episode...

- In 2012, the divergence between inflation forwards and bond yields lasted the whole year, with Value following bond yields, and ignoring the upmove in breakevens.
- That gap has ultimately closed with bond yields moving higher. We think that something similar could happen again.

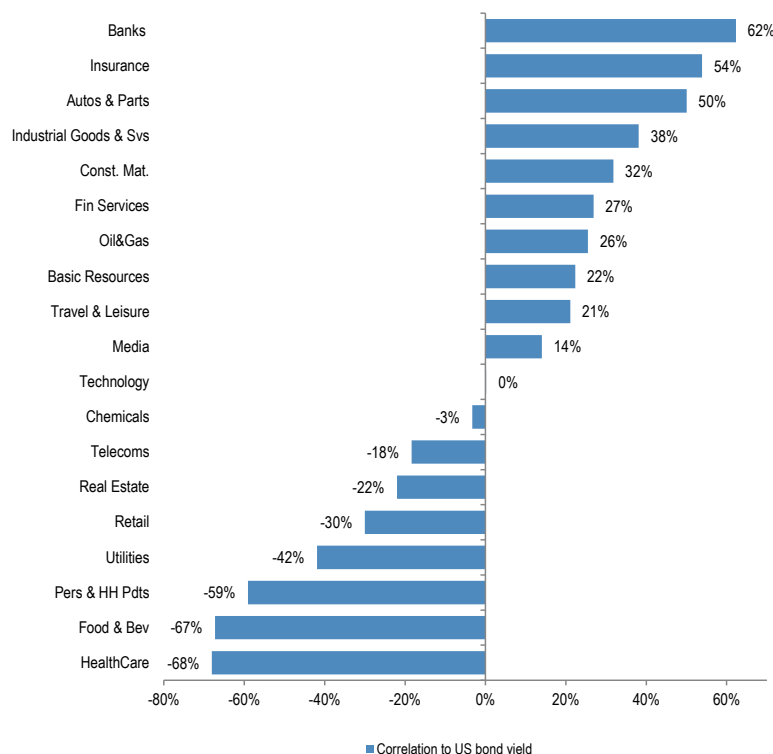


Source: Bloomberg Finance L.P.

...Cyclicals, Value and Financials all show strong positive correlation to bond yields...

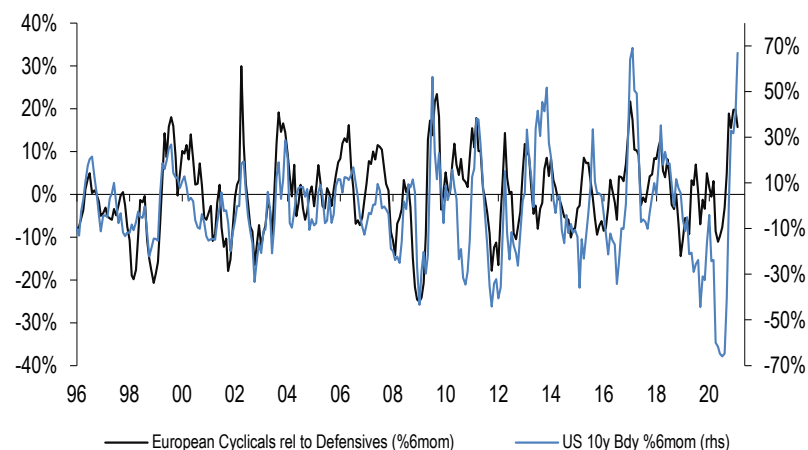
- Cyclicals and Banks show the highest correlation to bond yields, out of any sector.

European sectors correlation to bond yield



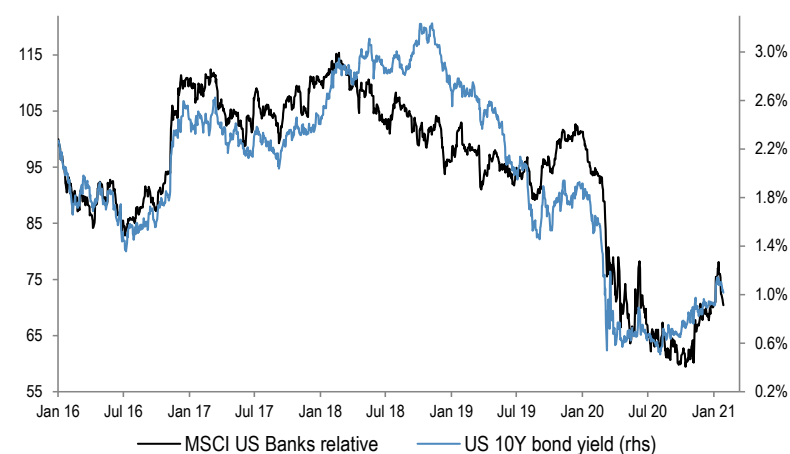
Source: Bloomberg Finance L.P.

European Cyclicals versus Defensives and bond yields



Source: Datastream

US Banks relative vs US 10-year yield



Source: Datastream

... Cyclical earnings are likely to rebound strongly... unlike Value though, Cyclical valuations look far from attractive

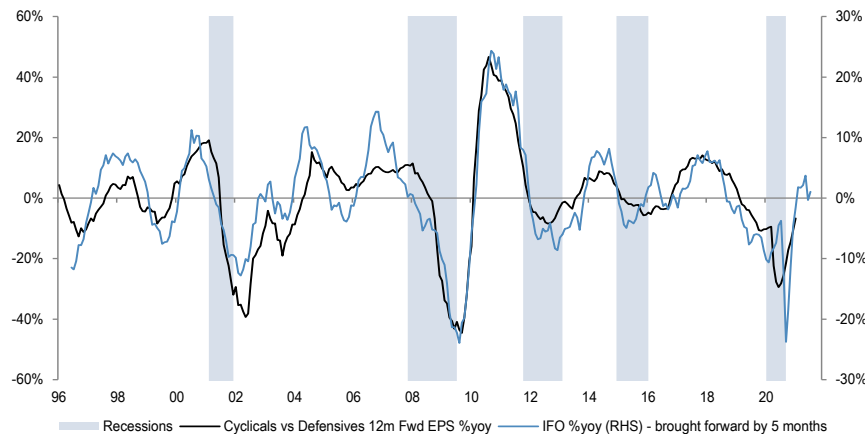
- IFO rebounded from the lows, however, for Cyclical earnings to benefit we need to see a sustained strength in activity data.
- Value valuations remain depressed vs Growth.
- Cyclical P/E relatives, on the other hand, are stretched vs Defensives, primarily due to weaker earnings.

MSCI World Value vs Growth P/Book



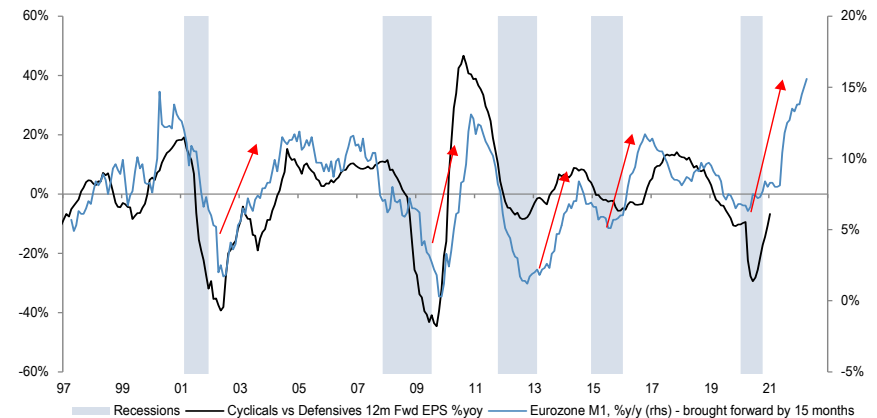
Source: Datastream

Cyclicals EPS relative to Defensives vs IFO



Source: Bloomberg Finance L.P. , IBES

Cyclicals vs Defensives and M1

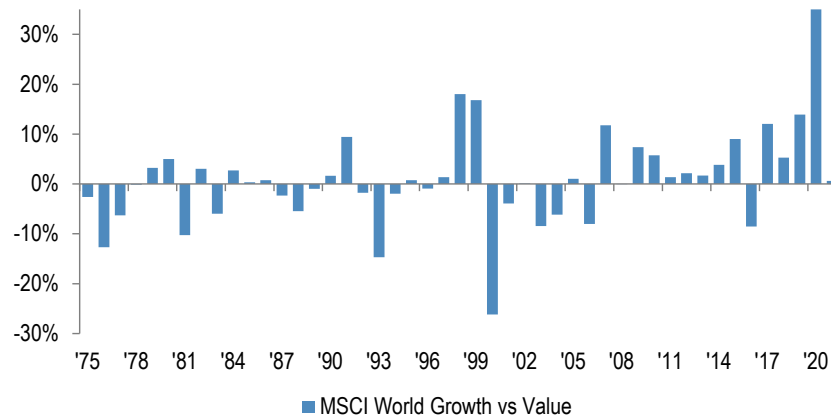


Source: IBES

...big picture, there could be a lot more in the Value rotation... the starting point remains extreme...

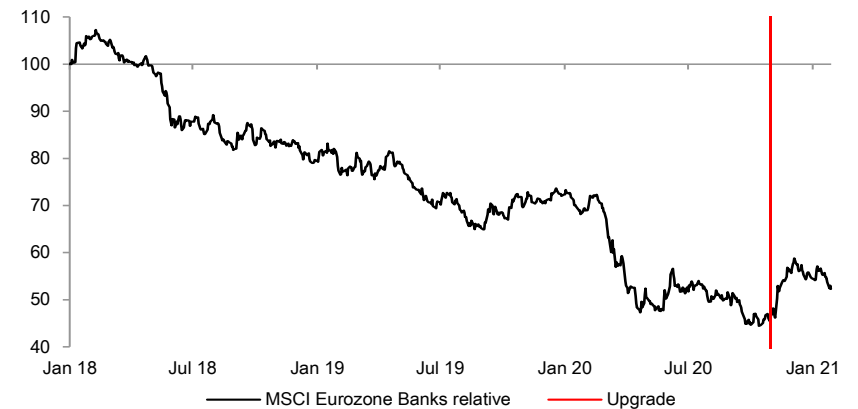
- In the longer-term context, Value Style remains very depressed. Banks are still trading near lows.
- Growth has beaten Value by the most on record in 2020, and that was building on already years of outperformance.

Growth vs Value annual performance



Source: Datastream

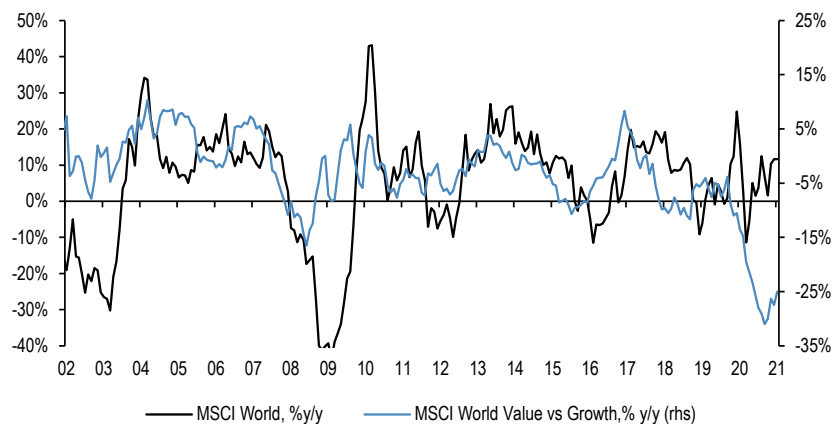
MSCI Eurozone Banks relative



Source: Datastream

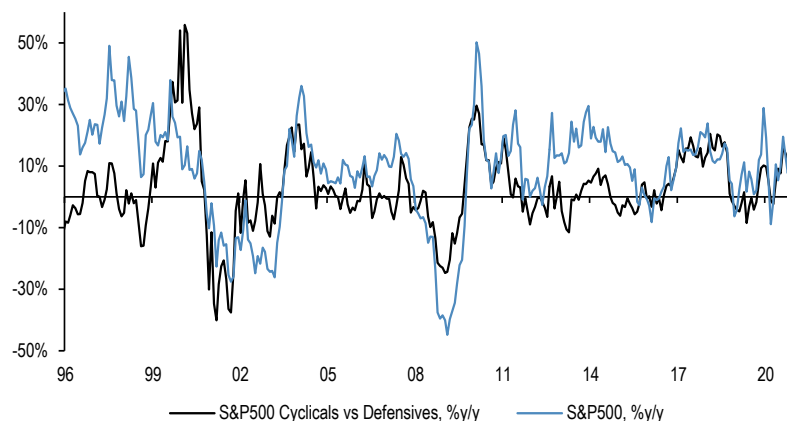
Don't expect the rotation if the market is down... market direction and Cyclicals/Value leadership are typically positively correlated

MSCI World and MSCI World Value vs Growth



Source: Datastream

S&P500 Cyclicals vs Defensives and market



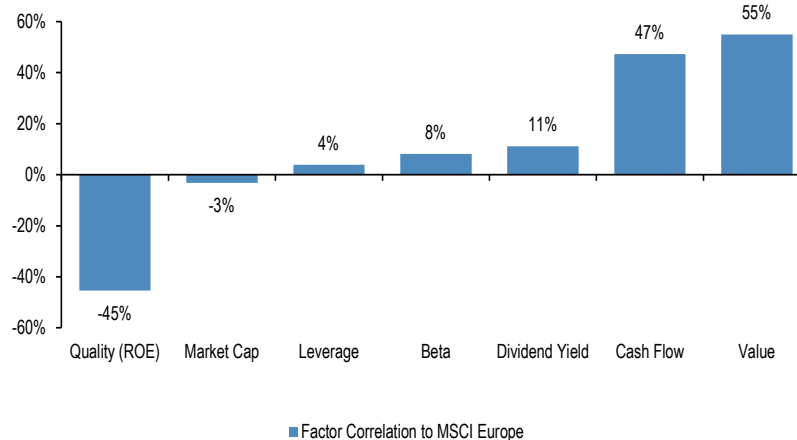
Source: Datastream

Periods of outperformance of US Cyclicals vs Defensives

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

Source: Datastream

Factor performance correlation to market



Source: Datastream, J.P. Morgan

2) USD direction matters for regional calls, in particular for EM equities, and for commodities

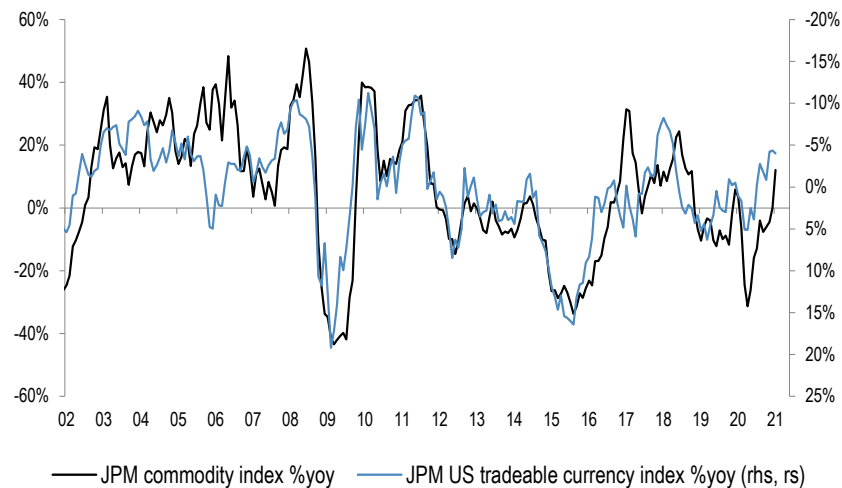
- FX displays strong correlation to relative performance of many regions, in particular the EM equities.
- Commodities are inversely correlated to the USD.

DXY



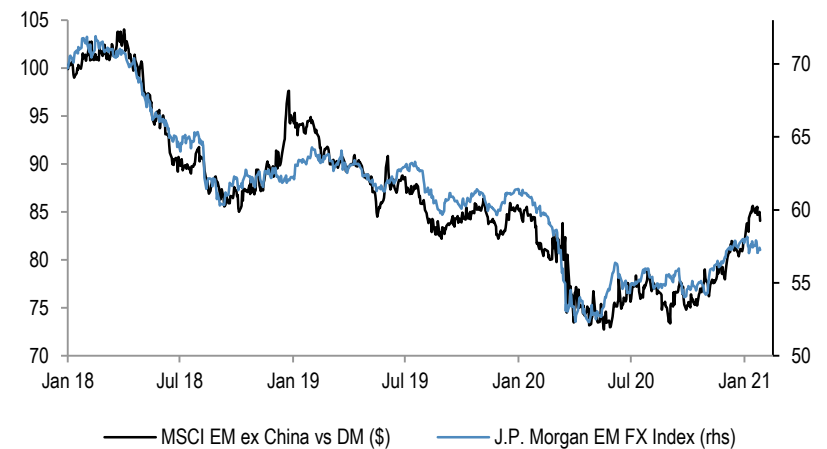
Source: Datastream

Commodity index and trade-weighted USD



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

EM ex China vs DM and EM FX

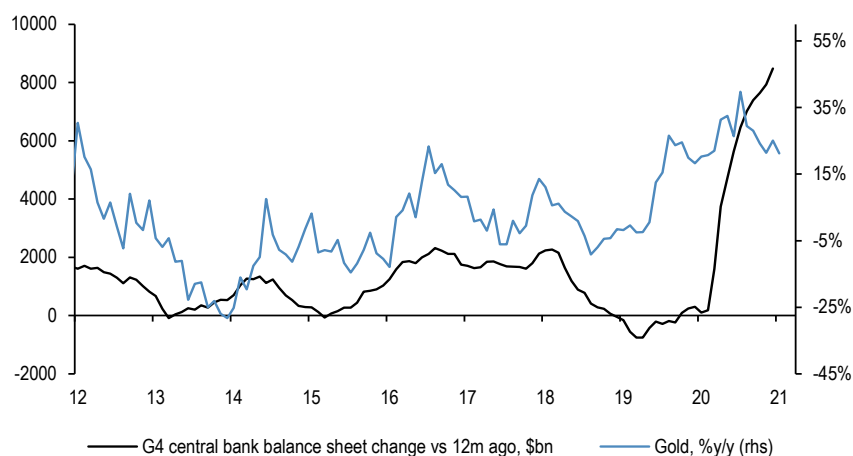


Source: Bloomberg Finance L.P.

J.P.Morgan CAZENOVE

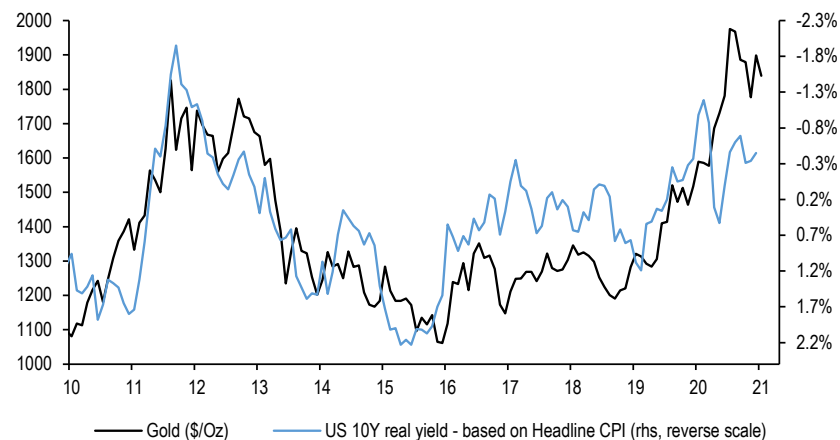
Gold continues to look very attractive longer term, but it is at risk of further stalling, if the better market sentiment persists

Gold and central bank balance sheet



Source: Bloomberg Finance L.P., JP Morgan

Gold and 10Y real yield

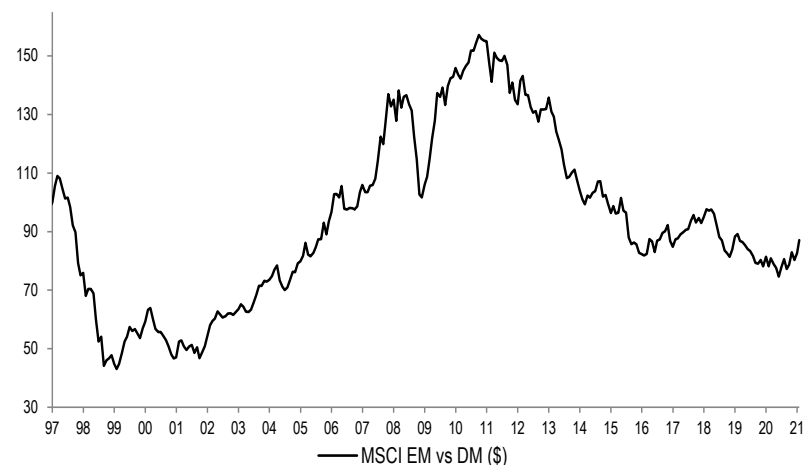


Source: Bloomberg Finance L.P.

Regional allocation: 1) Overweight EM for 2021... we added rest of EM to our China OW...

- We held an OW China stance for most of 2020 and were bearish on EM ex Asia. Emerging market equities have been underperforming DM for a while. We used this opportunity to upgrade EM ex Asia to OW, and look for a convergence between China and non China EM equities. We remain OW China in the global context, though.
- EM valuations relative to DM appear undemanding on most metrics.

EM vs DM



Source: Datastream

MSCI China vs EM ex China



Source: Datastream

MSCI EM vs DM 12m Fwd. P/E

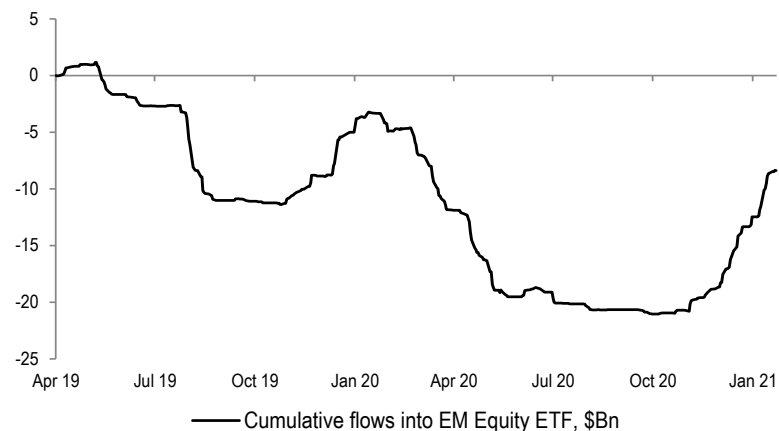


Source: Datastream

...weak EM FX was a problem for EM, but that is changing... flows are coming back

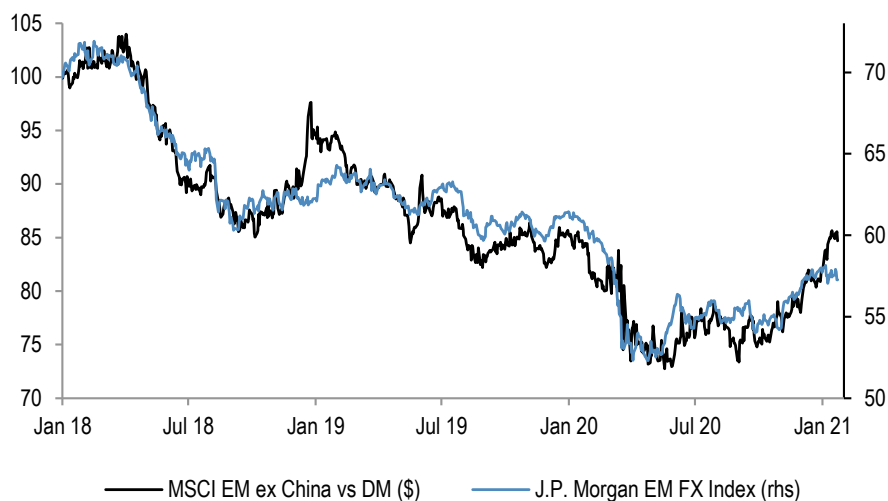
- USD direction remains one of the key drivers of EM performance, in our view. EM have struggled against the backdrop of weakening EM FX.
- Easing trade uncertainty and improving global growth prospects could help EM currencies perform better.

Flows into EM equity ETFs



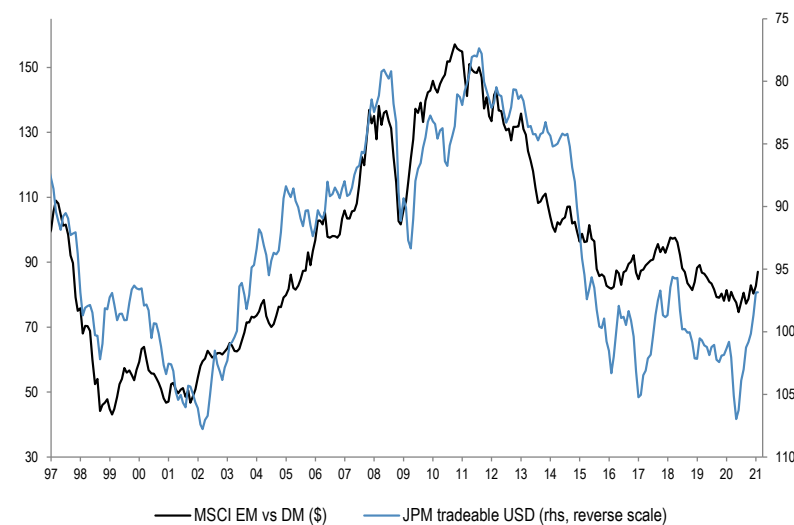
Source: J.P. Morgan

MSCI EM ex China vs DM and EM FX



Source: Datastream, J.P. Morgan

EM relative performance and USD in the long term

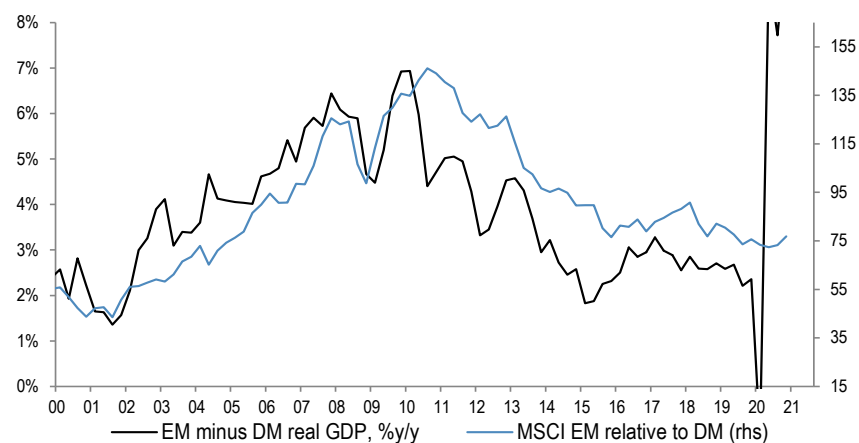


Source: Datastream

EM relative earnings were mixed in 2020, but could pick up from here

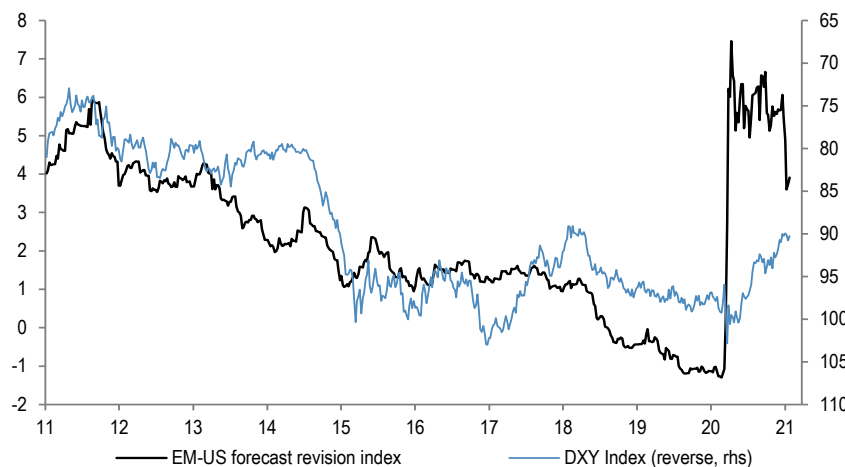
- EM earnings have been poor relative to DM over the past two years, where all the improvement seen in '16-'17 has been unwound. However, they have started to pick up recently.
- EM activity has spiked vs DM. This could be followed by improving relative earnings.

EM vs DM price performance and GDP growth differential



Source: J.P. Morgan

EM - US forecast revision index



Source: Bloomberg Finance L.P.

MSCI EM vs DM 12m Fwd EPS



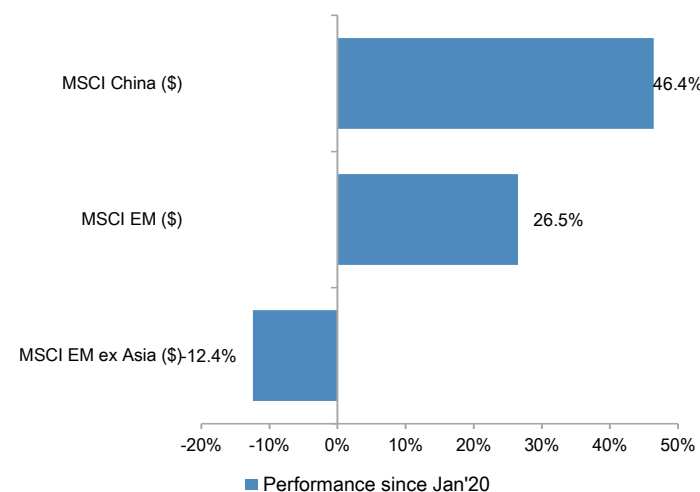
67 Source: IBES

J.P.Morgan CAZENOVE

Within EM, we have been OW China in 2020... China credit impulse is peaking, but fundamentals are still attractive...

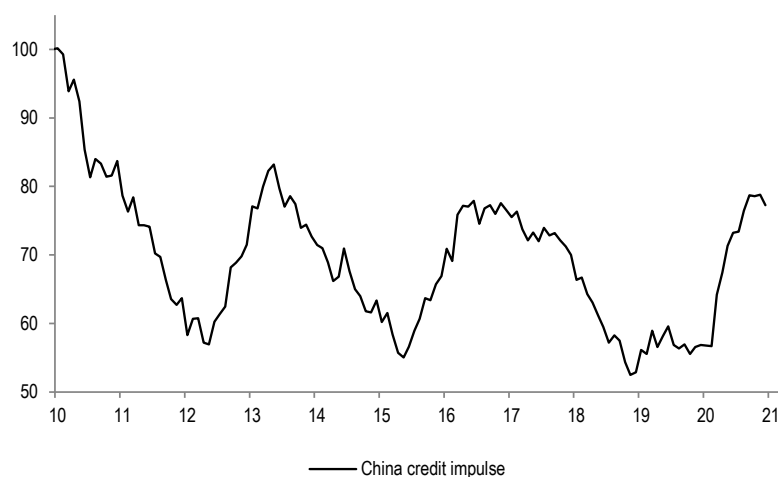
- Chinese equities have significantly outperformed other Emerging markets in 2020.
- We still find China fundamentals to be attractive, and believe the activity backdrop will remain robust in the region. Chinese house prices are rising, and FX is appreciating. Any reduction in trade uncertainty should benefit China, as well.

MSCI EM, China and EM ex Asia



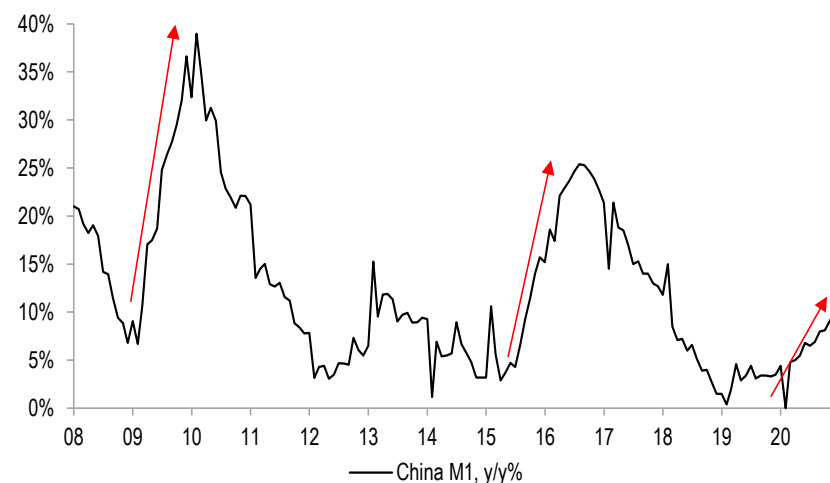
Source: Datastream

China credit impulse



Source: Bloomberg Finance L.P.

China M1

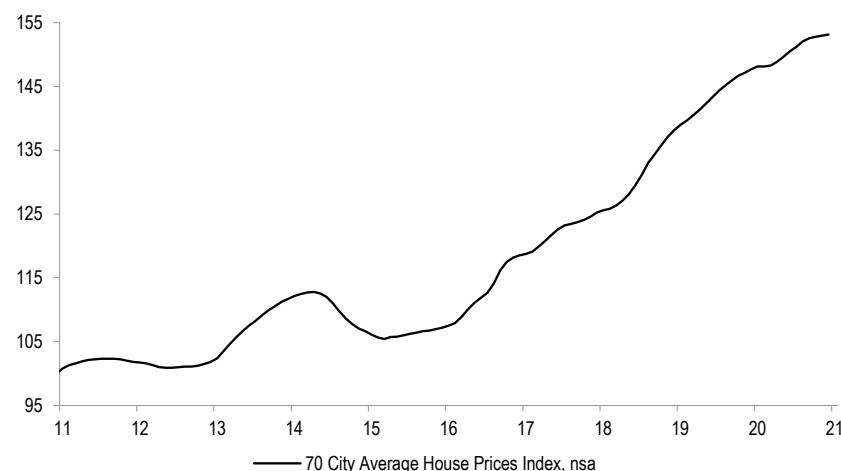


Source: Bloomberg Finance L.P.

...in contrast to 2015, Chinese house prices remain resilient...

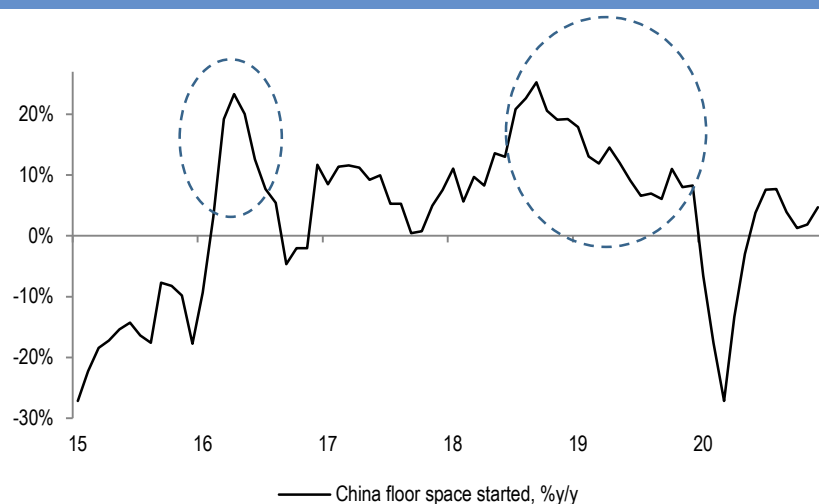
- Real Estate was a key focus of China's deleveraging process. Chinese house prices are holding up much better than in 2015. This helps create a positive wealth effect in the region.
- At the same time, the inventory situation appears more manageable, especially relative to 2015.
- We note that new floor space has rebounded after having fallen to levels last seen during the 2016 crisis.

Chinese house prices



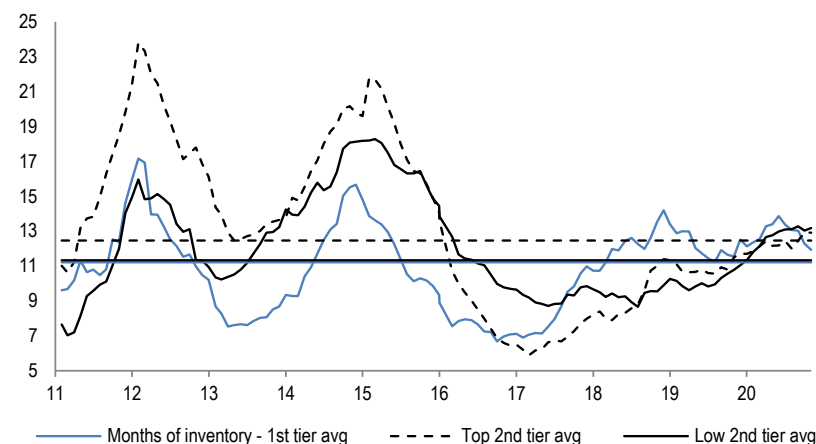
Source: NBS

China new floor space started



Source: J.P. Morgan

China property inventory

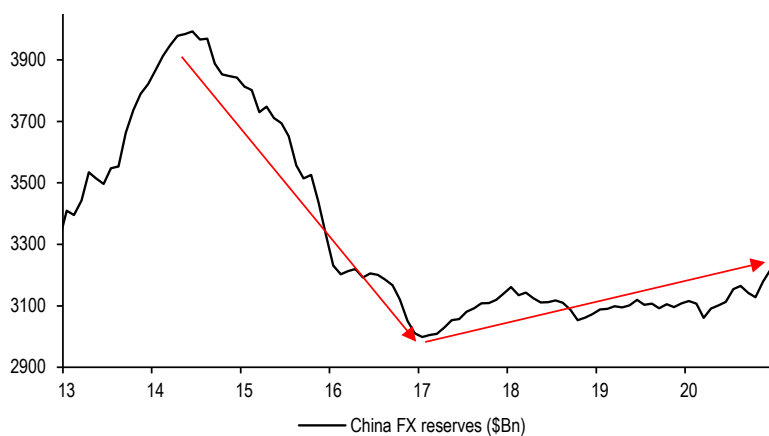


Source: Soufun, CREIS

...as is CNY, helped by favourable balance of payments and limited PBOC intervention

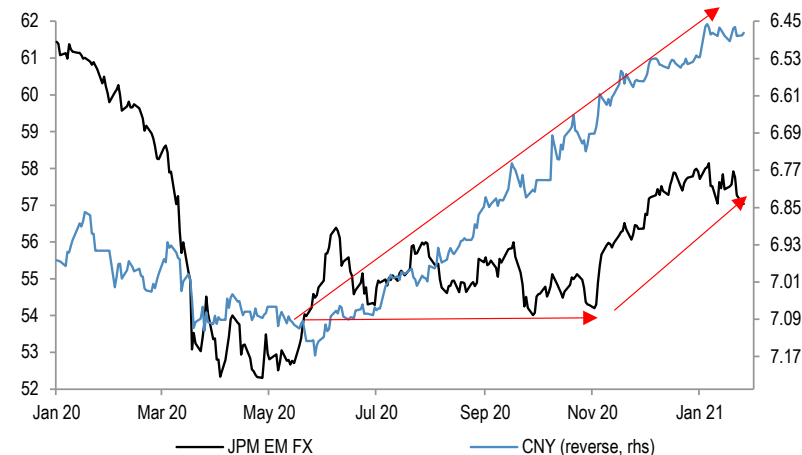
- Interestingly, CNY has been resilient, largely ignoring the weakness in other EM currencies.
- Chinese FX reserves have remained relatively stable these last few years, contributing to CNY strength. In fact, they saw an uptick in 2020.
- It appears that Chinese authorities have become more tolerant of a stronger CNY, as they believe the structural shift from exports to domestic demand is key for sustainable economic growth.

Chinese FX reserves



Source: Bloomberg Finance L.P.

CNY and JPM EM FX



Source: Bloomberg Finance L.P.

CNY and PBOC daily yuan fixing

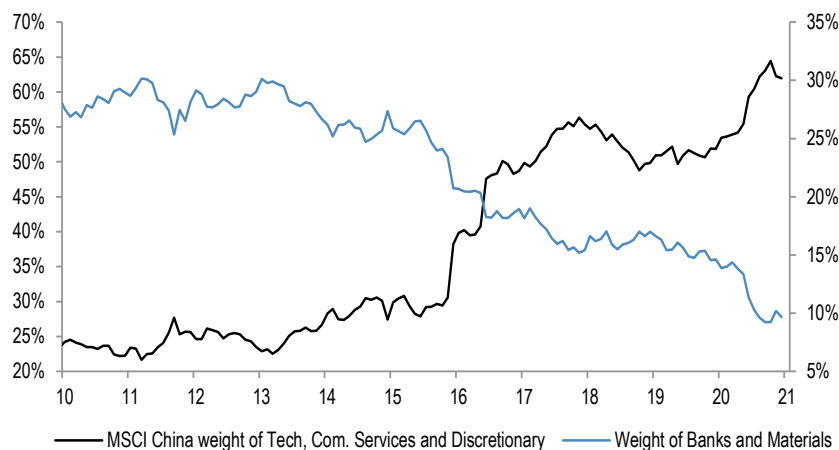


Source: Bloomberg Finance L.P.

China benefitted from Growth tilt... this might turn...

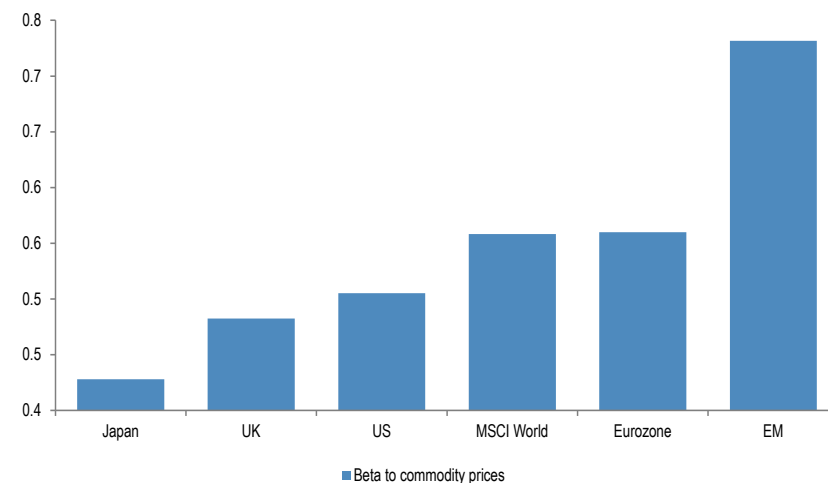
- EM performance remains highly levered to commodity prices. Chinese market composition has changed dramatically, though. Sectorwise, Tech is gaining in importance in China, while the weight of traditional Value sectors, such as Banks and Commodities is fading.
- Value style consideration is losing its relevance for China. However, it is still imperative for the EM ex-China subset. This suggests that a more reflationary backdrop could trigger some mean reversion in the performance between China and other EM countries.

MSCI China sector weight between Growth and Value



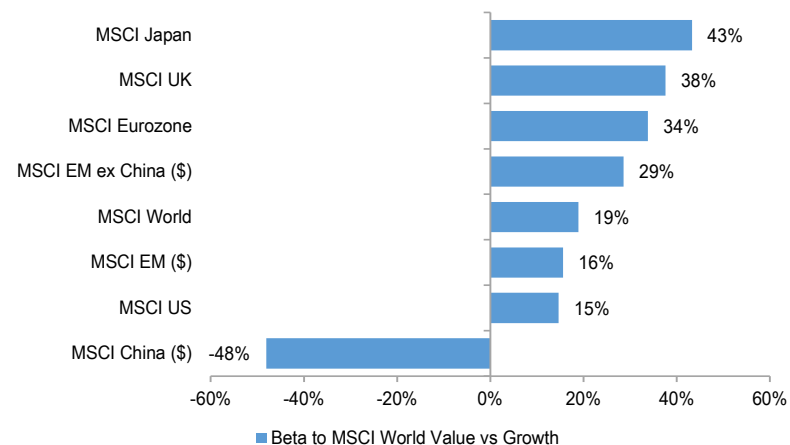
Source: Datastream

Regional beta to commodity prices



Source: Bloomberg Finance L.P.

Beta to MSCI World Value vs Growth



Source: Bloomberg Finance L.P.

...China heat map...

Chinese data watch												
	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Manufacturing PMI												
Caixan	51.1	40.3	50.1	49.4	50.7	51.2	52.8	53.1	53.0	53.6	54.9	53.0
NBS	50.0	35.7	52.0	50.8	50.6	50.9	51.1	51.0	51.5	51.4	52.1	51.9
Services PMI												
Caixan	51.8	26.5	43.0	44.4	55.0	58.4	54.1	54.0	54.8	56.8	57.8	56.3
NBS	54.1	29.6	52.3	53.2	53.6	54.4	54.2	55.2	55.9	56.2	56.4	55.7
Composite PMI - Caixan												
	51.9	27.5	46.7	47.6	54.5	55.7	54.5	55.1	54.5	55.7	57.5	55.8
Industry												
Electricity Production, %oya	-	-	-4.6%	0.3%	4.3%	6.5%	1.9%	6.8%	5.3%	4.6%	6.8%	9.1%
Excavator Sales, %oya	-15%	-50%	12%	60%	68%	63%	55%	51%	65%	61%	67%	56%
Industrial production, %oya	-	-	-1.1%	3.9%	4.4%	4.8%	4.8%	5.6%	6.9%	6.9%	7.0%	7.3%
FAI, %oya	-	-24.5%	-16.1%	-10.3%	-6.3%	-3.1%	-1.6%	-0.3%	0.8%	1.8%	2.6%	2.9%
Consumer Activity												
Retail Sales, %oya	-	-	-15.8%	-7.5%	-2.8%	-1.8%	-1.1%	0.5%	3.3%	4.3%	5.0%	4.6%
Passenger Car Sales, %oya	-20.1%	-81.7%	-48.4%	-2.5%	7.2%	2.1%	9.0%	6.1%	8.2%	9.4%	11.7%	7.3%
70-city house price index, %oya	6.5%	-	5.4%	5.2%	9.3%	4.9%	4.8%	4.7%	4.5%	4.2%	4.0%	3.7%
Liquidity & Monetary Conditions												
M2, %oya	8.4%	8.8%	10.1%	11.1%	11.1%	11.1%	10.7%	10.4%	10.9%	10.5%	10.7%	10.1%
FX Reserves (bln yuan)	3116	3107	3061	3091	3102	3112	3154	3165	3143	3128	3178	3217
New Loan Creation (bln yuan)	3340	906	2853	1698	1482	1811	993	1277	1896	690	1434	1255

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

...US-China trade relations could improve... interestingly, MSCI China's exposure to the US is rather limited

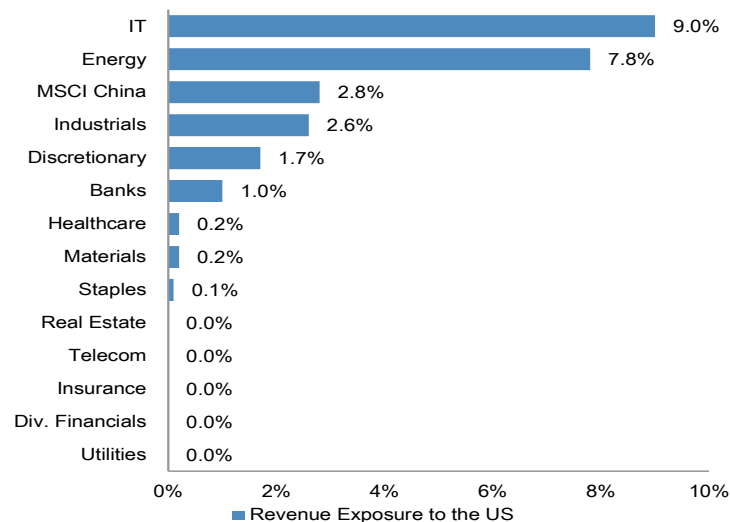
- MSCI China derives only 3% of its top line from the US
- It is notable that Chinese equities were relatively unharmed by the growing trade tensions between the US and China. In contrast, the rest of EM struggled each time trade tensions were rising. Improvement in US – China relations would bode favourably for the EM trade.

Regional returns during trade driven selloffs

	Feb'18	Oct'18	May'19	Aug'19	Average
S&P500	-2.6%	-0.2%	-0.6%	-1.3%	-1.2%
Stoxx600	5.6%	2.5%	1.0%	0.3%	2.4%
FTSE100	6.0%	3.6%	3.4%	3.8%	4.2%
TOPIX	7.0%	-2.6%	-1.1%	4.2%	1.9%
ASX200	6.2%	3.2%	3.2%	3.6%	4.1%
MSCI EM	0.9%	-0.2%	-0.7%	-4.9%	-1.2%
Shanghai Composite	1.6%	-0.4%	0.1%	4.2%	1.4%

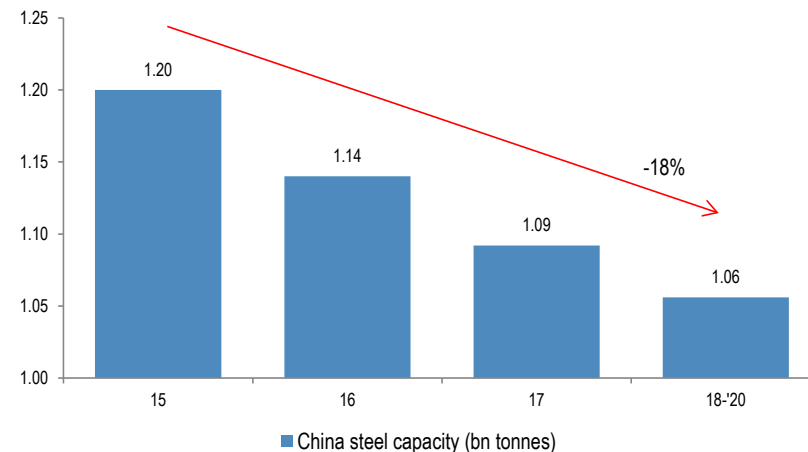
Source: Bloomberg Finance L.P.

US revenue exposure for MSCI China sectors



Source: MSCI

Chinese steel capacity



Source: CEIC, IMF

Within EM, our EM strategists are constructive on Brazil, Indonesia, Russia, South Korea and Thailand

- Brazil: (1) There are three potential sources of upside that could come in the 2Q: higher growth based on global economic recovery and supportive commodity prices; moderation of COVID-19 trends along with a quick rollout of the vaccine; and return to the reform agenda following elections for the leader of the Lower House and Senate; (2) Idiosyncratic factors may weight on the outlook. Fiscal policy concerns have been leading to a steeper yield curve at the same time when the BRL has been one of the main laggards among EM currencies.
- Indonesia: (1) We believe there is still upside to come driven by several near-term key catalysts: vaccine rollout (40mn people by Apr-21 targeting medical workers, public officers, and elderly); Sovereign Wealth Fund (SWF) fundraising and execution by 1H21; and Omnibus Law implementing regulation by Feb 1st; (2) Reversal of foreign fund flows on rotation to value; and (3) Potential tech listing (IDX listing/US SPAC) is a medium-term catalyst to bring “New Economy” exposure to the index and boost FDI/portfolio flow.
- Russia: (1) Russia remains one of the markets most geared to the global value trade (65% commodities and 18% financials); (2) Despite multiple expansion, the DY remains among the best within EM market at 6.7% on a 12m fwd basis; and (3) We expect consensus upgrades to Russian earnings by 10% for the market overall and 19% for the Energy sectors – based on the current oil price versus the depressed consensus earnings. Should we realize the US\$66 '22 JPMe price forecast, then earnings would see upgrade of >23% for the market overall and >34% for the Energy Sector.
- S. Korea: (1) Abundant liquidity under zero-rate environment and scarce alternative investment options, should drive retail investors to continue to accumulate stocks; (2) Upturn cycle in 2021E earnings given anticipated COVID-19 dissipation and low base impact in 2020; (3) Re-shuffling of top KOSPI composite geared towards higher valuation sectors such as Internet, Healthcare, and xEV players; and (4) Lift of short ban in mid-March are currently under talks and could serve as a near-term event driver, in our view.
- Thailand: We reiterate our OW call on Thailand equity as the key catalysts for sustainable recovery are staying on track: (1) Thailand government had secured 63m vaccine doses and aimed to inoculate at least 50% population by end-2021; (2) Investment disbursement is gathering steam; (3) Upbeat exports prospects from external demand and RCEP; and (4) Foreign investments are flowing back to EM and Thailand.

EM Countries' Rating and Performance Snapshot

	Weight in MSCI EM	JPM Rating	YTD Performance	
			L.C	US\$
CHINA	41%	N	12%	12%
TAIWAN	13%	N	12%	13%
KOREA	13%	OW	9%	7%
INDIA	8%	N	5%	5%
BRAZIL	5%	OW	1%	-1%
SOUTH AFRICA	4%	N	7%	5%
RUSSIA	3%	OW	6%	6%
THAILAND	2%	OW	3%	3%
MEXICO	2%	UW	2%	4%
MALAYSIA	2%	UW	-2%	-2%
INDONESIA	1%	OW	8%	8%
PHILIPPINES	1%	N	0%	0%
POLAND	1%	N	0%	-1%
CHILE	1%	N	12%	10%
TURKEY	0%	N	3%	3%
MSCI EM			9%	8%

Source: Datastream, J.P. Morgan

'21e, '22e EPS growth for key EM countries

	EPS growth	
	21e	22e
CHINA	18%	18%
TAIWAN (CHINA)	14%	12%
KOREA	45%	22%
INDIA	37%	19%
BRAZIL	230%	1%
SOUTH AFRICA	50%	12%
RUSSIA	58%	15%
THAILAND	35%	21%
MEXICO	85%	11%
MALAYSIA	65%	-6%
INDONESIA	32%	21%
PHILIPPINES	42%	23%
POLAND	20%	9%
CHILE	104%	19%
TURKEY	60%	32%
MSCI EM	35%	16%

Source: IBES

EM snapshot

MSCI EM countries valuations and performance

	Weight in MSCI EM	YTD Performance		12m Fwd P/E			P/Book			EPS growth	
		L.C	US\$	Current	10Y median	relative	Current	10Y median	relative	20e	21e
CHINA	41%	12%	12%	16.2	10.5	54%	2.4	1.6	49%	18%	18%
TAIWAN (CHINA)	13%	12%	13%	19.1	13.6	40%	2.9	1.9	59%	14%	12%
KOREA	13%	9%	7%	15.1	9.4	59%	1.5	1.1	38%	45%	22%
INDIA	8%	5%	5%	24.2	16.9	43%	3.4	2.9	16%	37%	19%
BRAZIL	5%	1%	-1%	12.3	10.9	13%	2.5	1.5	59%	230%	1%
SOUTH AFRICA	4%	7%	5%	10.7	13.6	-21%	2.1	2.4	-14%	50%	12%
RUSSIA	3%	6%	6%	8.5	5.2	62%	1.1	0.8	34%	58%	15%
THAILAND	2%	3%	3%	20.4	13.6	50%	1.9	2.1	-10%	35%	21%
MEXICO	2%	2%	4%	15.2	16.4	-7%	2.1	2.7	-23%	85%	11%
MALAYSIA	2%	-2%	-2%	14.6	15.5	-5%	1.7	1.8	-4%	65%	-6%
INDONESIA	1%	8%	8%	17.6	14.5	21%	2.6	3.0	-14%	32%	21%
PHILIPPINES	1%	0%	0%	19.0	17.1	11%	1.9	2.7	-29%	42%	23%
POLAND	1%	0%	-1%	13.8	11.6	19%	1.2	1.3	-6%	20%	9%
CHILE	1%	12%	10%	19.0	15.2	24%	1.5	1.8	-13%	104%	19%
TURKEY	0%	3%	3%	7.1	8.4	-16%	1.1	1.4	-23%	60%	32%

Source: IBES, Datastream

EM Sector snapshot

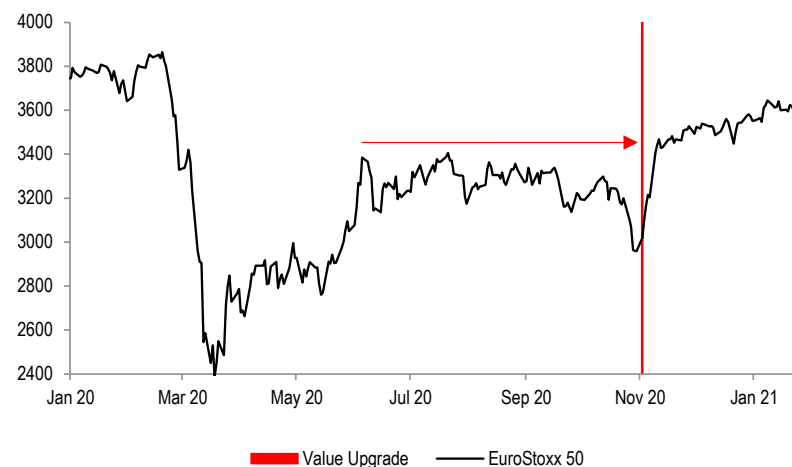
	YTD Performance, %	YTD Total return, %	Weight in Index		12m Fwd P/E		EPS growth, %	
			EM	vs MSCI World	Current	vs Median since '03	2020e	2021e
EM	9.2%	9.2%	100%	0%	16.6	49%	-4%	35%
Energy	1.4%	1.4%	5%	2%	11.2	40%	-74%	211%
Materials	4.0%	4.0%	8%	3%	11.6	9%	-2%	92%
Industrials	7.7%	7.7%	4%	-6%	16.0	27%	-16%	44%
Discretionary	14.4%	14.4%	18%	6%	28.9	142%	7%	51%
Staples	1.8%	1.9%	6%	-2%	25.0	36%	8%	20%
Healthcare	7.7%	7.7%	5%	-8%	36.9	91%	42%	51%
Financials	0.5%	0.5%	18%	5%	9.3	1%	-6%	14%
IT	13.4%	13.4%	20%	-2%	21.1	62%	39%	26%
Telecoms	22.2%	22.2%	12%	3%	28.7	126%	16%	26%
Utilities	0.0%	0.0%	2%	-1%	10.7	-4%	0%	25%
Real Estate	2.6%	2.6%	2%	-1%	6.3	-13%	-1%	18%
Cyclicals	11.9%	11.9%	51%	1%	20.0	66%	14%	50%
Defensives	12.6%	12.6%	24%	-8%	25.3	76%	13%	26%

Source: IBES, Datastream

2) Overweight Eurozone – it has underperformed and has seen significant outflows...

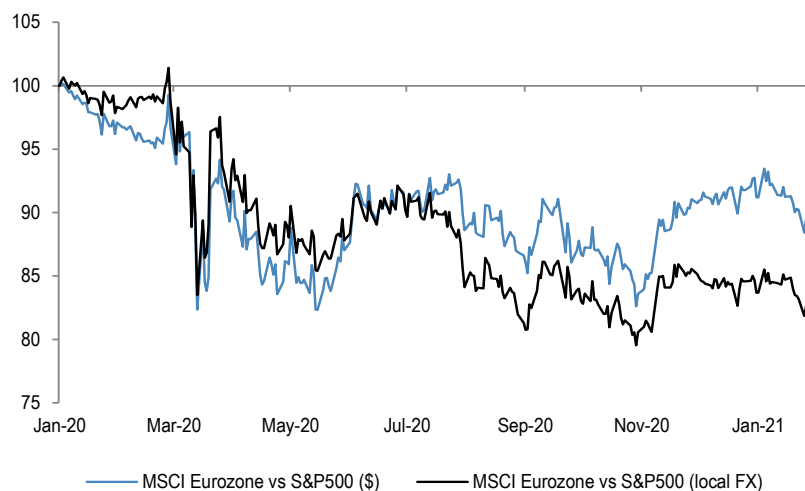
- Up until November last year, Eurozone equities performed poorly on a relative basis. We took advantage of this underperformance to upgrade Eurozone to OW in our global portfolio.
- The long spell of Eurozone underperformance has been reflected in outflows, where Eurozone, and Japan, appear to have suffered the most, compared to other regions.

EuroStoxx50 performance



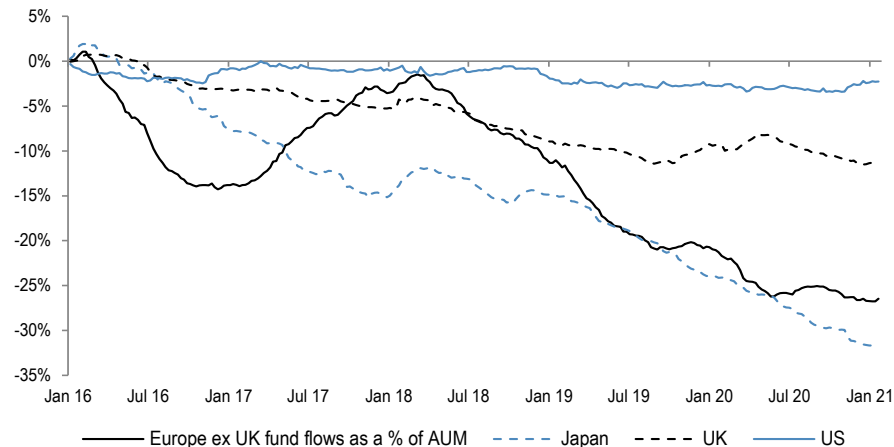
Source: Datastream

MSCI Eurozone vs S&P500 performance



Source: Datastream

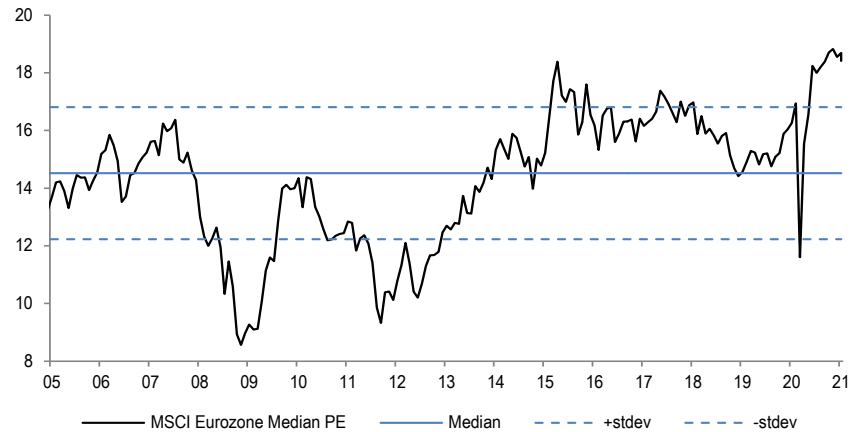
Cumulative fund flows into regional funds



Source: EPFR

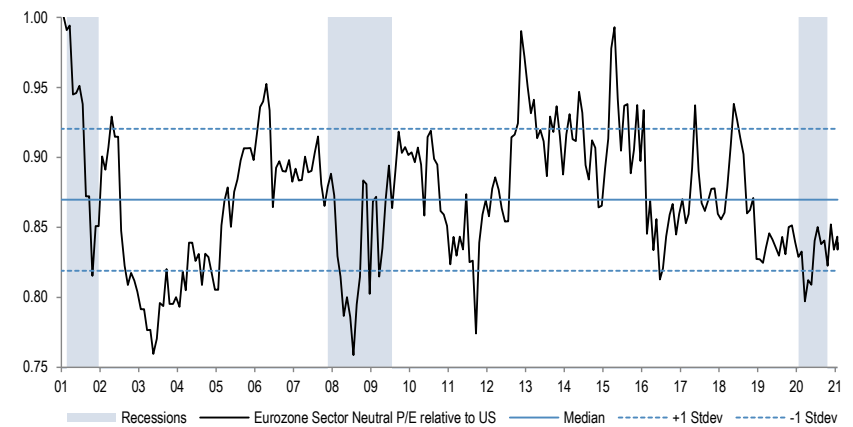
...Eurozone valuations look attractive on most metrics when compared to the US

MSCI Eurozone median P/E



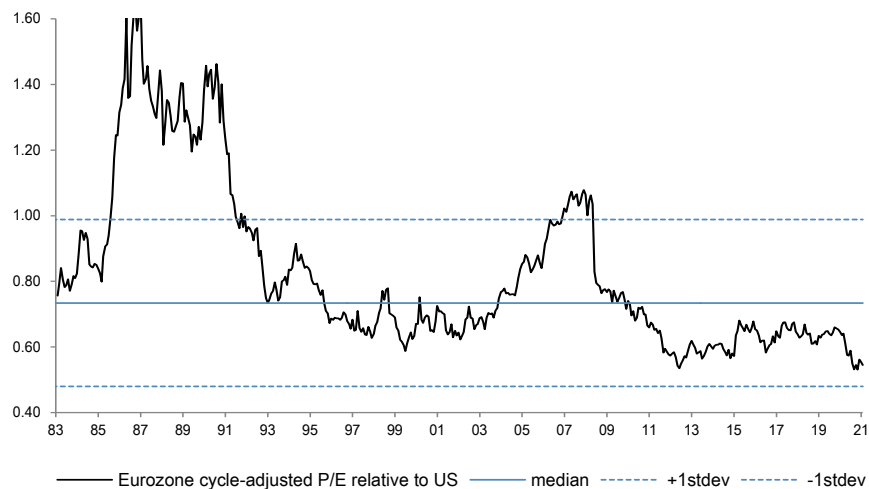
Source: IBES

MSCI Eurozone sector neutral P/E vs US



Source: IBES

Eurozone Cycle-adjusted P/E* relative to the US



Source: Datastream, J.P.Morgan, * current price divided by 10-year average EPS

MSCI Eurozone vs US P/Book

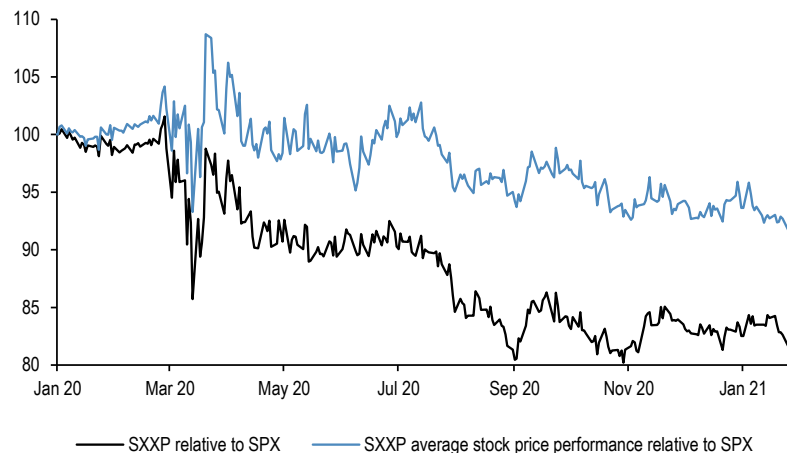


Source: Datastream

Eurozone is much more weighted toward Value style, and will likely do better against a reflationary backdrop

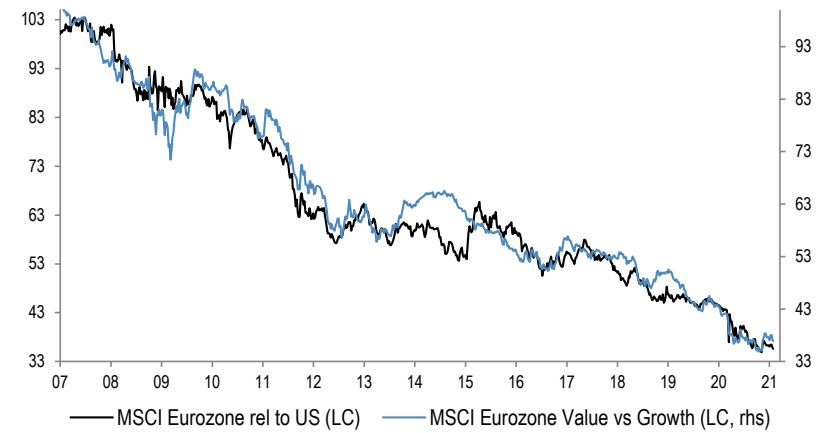
- An important consideration for regional preferences is the sector leadership. Eurozone equities tended to do better when Value outperforms, while the US is heavily tilted toward Quality / Growth style.
- More specifically, Eurozone vs US price differential is leveraged to the relative performance of Tech vs Banks, given the regional sector weight skews. The rotation out of Tech/Growth into Banks and Value should help Eurozone equities.
- Notably, equal-weighted SXXP performance relative to the S&P500 looks better than the market cap-weighted performance.

Equal weighted relative performance of Europe vs the US



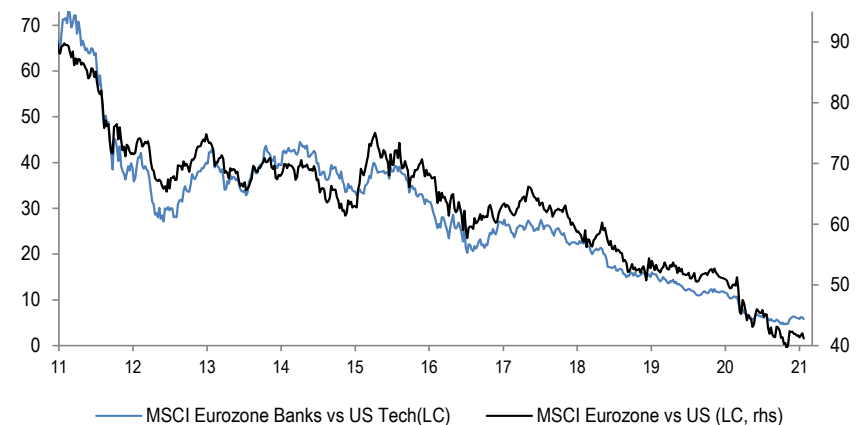
Source: Datastream

Eurozone relative to the US and Value vs Growth



Source: Datastream

Eurozone vs US and Banks vs Tech

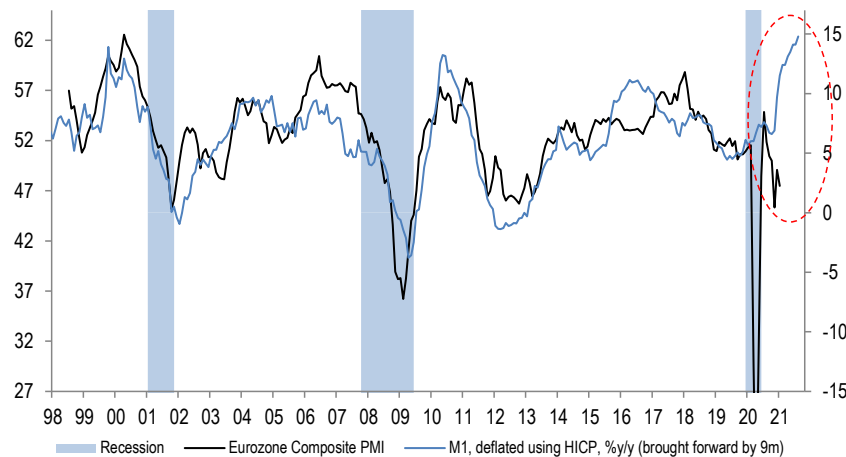


Source: Datastream

Ongoing lockdowns weigh on the near-term dataflow, but activity should improve entering Q2...

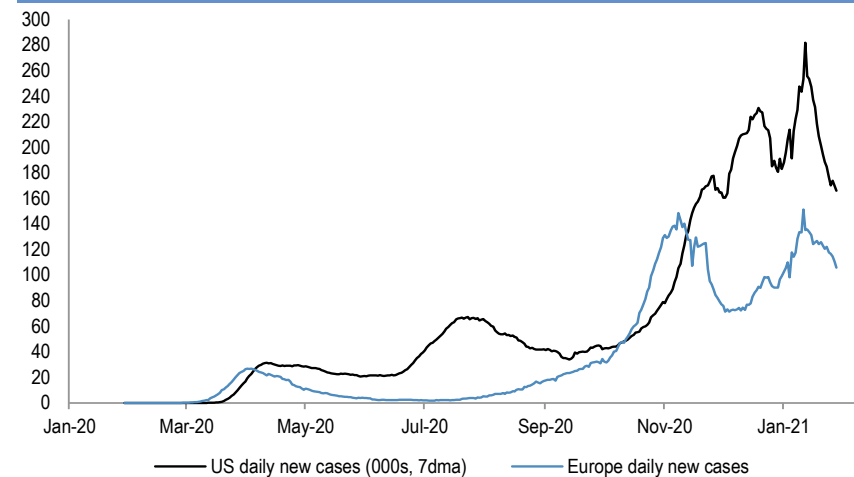
- Our money supply leading indicator suggests that Eurozone PMIs could stage a strong recovery in the coming months.
- The current renewed hit to Euro Area activity momentum is driven by the imposition of strict lockdowns. The pace of new infections in the region appears to be falling, though, and the reopening of the economies, combined with the vaccine implementation, should support strong recovery.

Eurozone M1 growth (deflated by HICP) vs PMI



Source: ECB, Markit

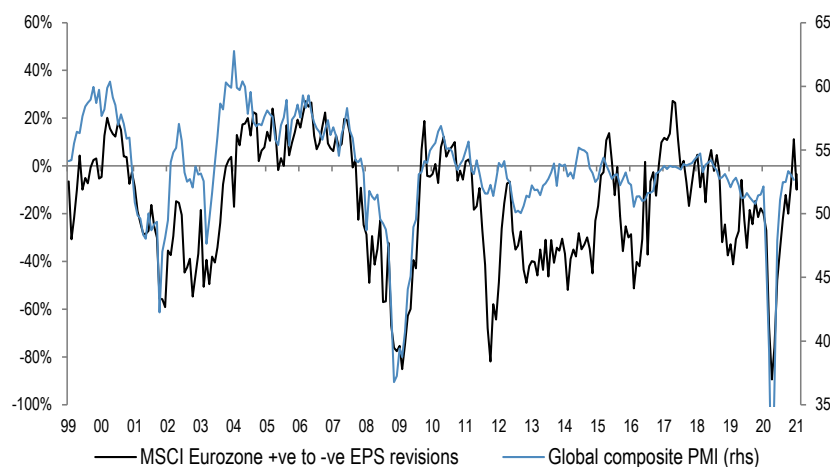
Daily new COVID-19 virus cases



Source: WHO, Bloomberg Finance L.P.

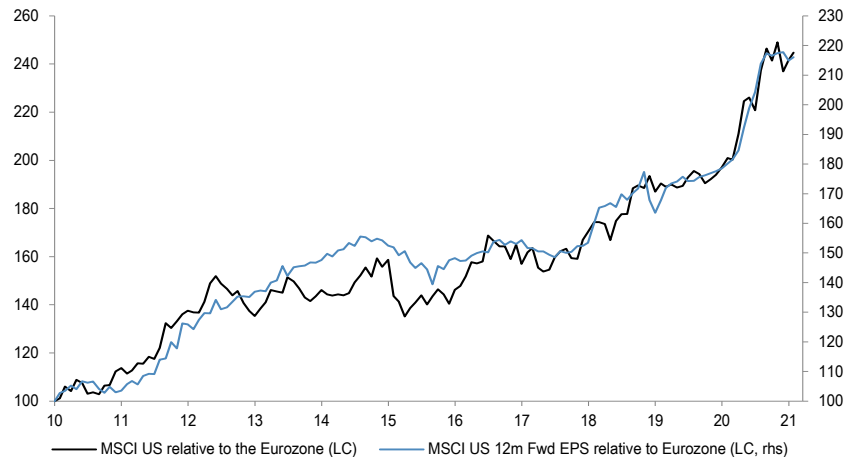
...better activity should in turn support stronger earnings growth

European +ve to -ve EPS revisions and composite PMI



Source: IBES, Markit

US EPS relative to Eurozone and relative performance



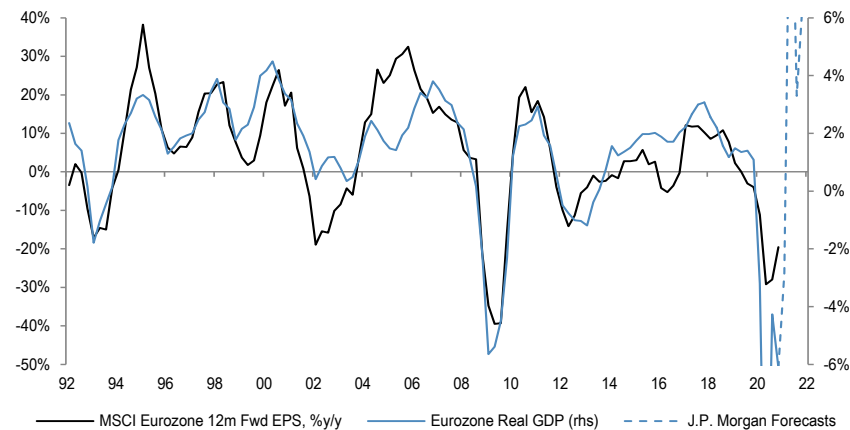
Source: Datastream

Regional consensus EPS growth expectations

	2021e	2022e
MSCI World	27.3%	15.1%
S&P 500	23.2%	16.2%
Stoxx 600	42.8%	16.6%
Euro Stoxx	48.8%	19.3%
FTSE 100	53.8%	15.2%

Source: IBES

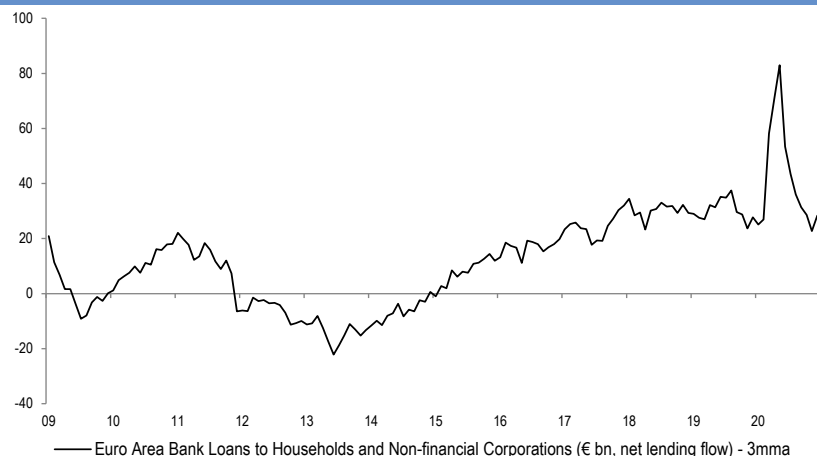
Eurozone earnings vs GDP growth



Source: IBES, J.P. Morgan

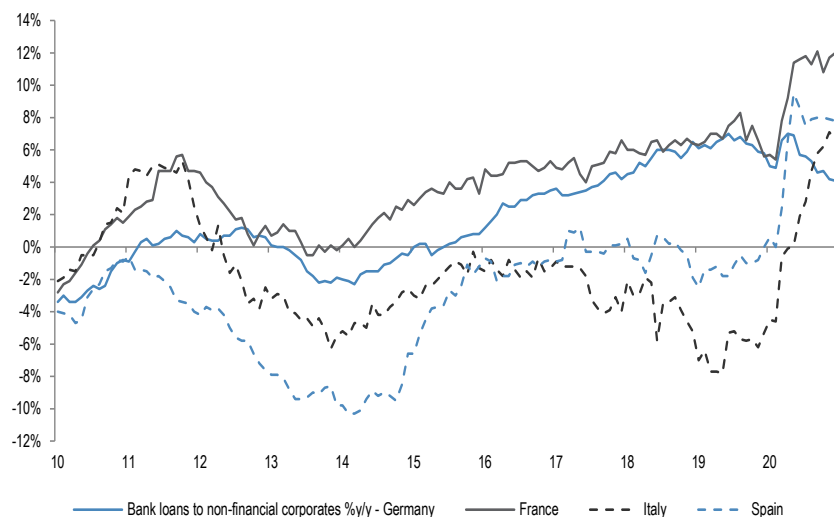
Credit growth in Eurozone remains relatively robust and peripheral spreads largely well behaved...

Eurozone bank loans to HH and nonfinancial corporates



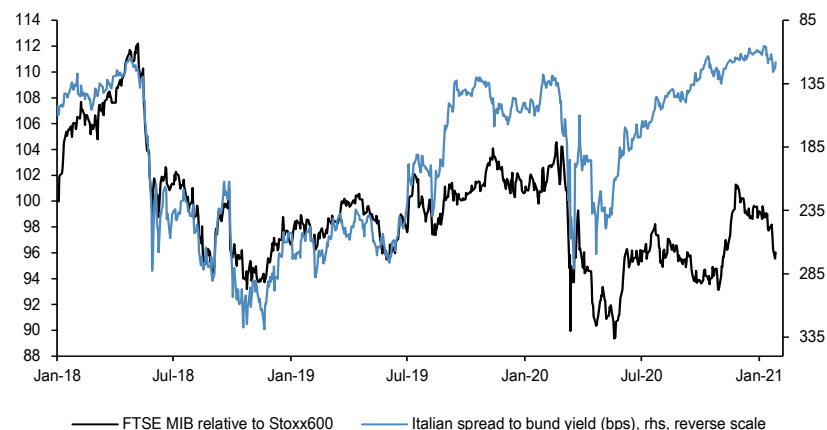
Source: ECB, J.P. Morgan

Euro area banks loans* to nonfinancial corporates



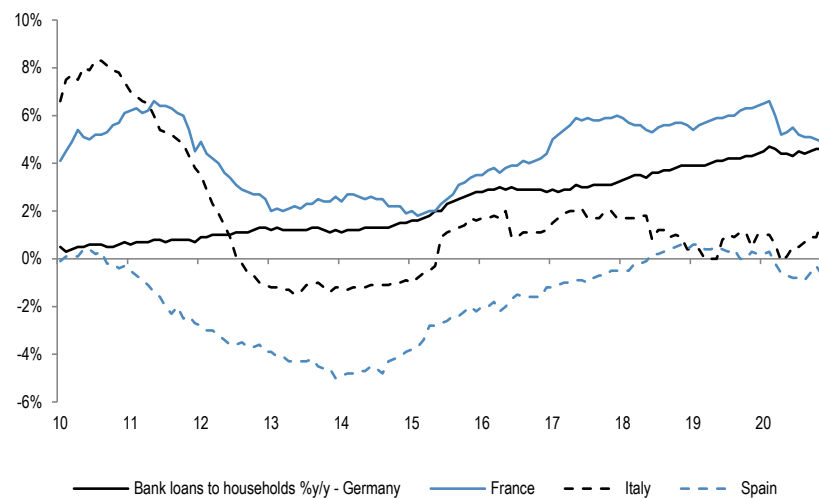
Source: ECB, *adjusted for securitisation

FTSEMIB relative and Italian 10Y spread to bunds



Source: Datastream

Euro area bank loans* to households



Source: ECB, *adjusted for securitisation

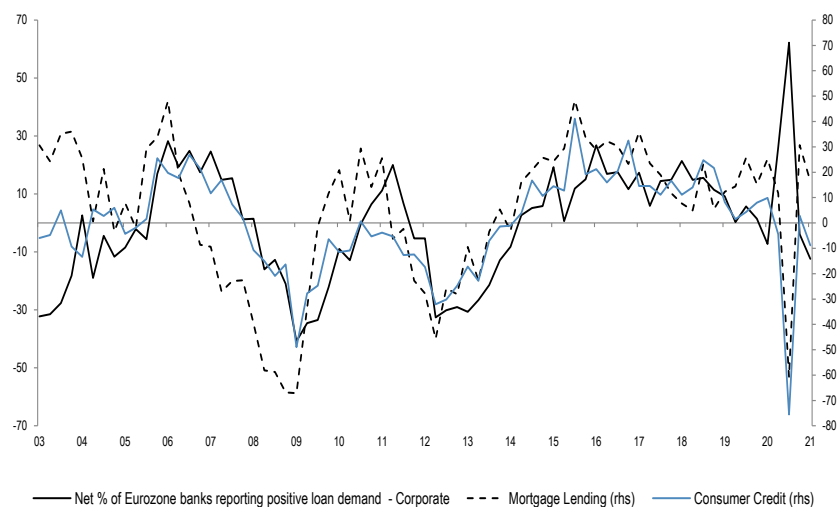
...lending conditions for corporates are starting to improve, the cost of debt remains subdued...

Eurozone private loan growth breakdown

Dec-20	Loan growth %yoy (€ bn)					
	Total private sector	Non-financial corporates	Households	Consumer credit	Lending for house purchase	Other lending
Euro area	4.7%	7.0%	3.1%	-1.7%	4.7%	1.5%
Belgium	2.3%	-0.2%	8.9%	-0.1%	10.6%	-5.4%
Germany	4.9%	4.1%	4.8%	-0.6%	6.5%	0.7%
France	7.0%	12.0%	4.9%	-0.6%	7.2%	1.5%
Netherlands	-0.1%	1.3%	-0.7%	-16.8%	1.1%	1.7%
Ireland	8.5%	8.4%	-1.5%	-17.4%	-2.6%	-16.9%
Greece	3.5%	10.2%	-2.0%	-2.3%	-3.1%	4.1%
Spain	3.1%	7.8%	-0.6%	-1.9%	-1.1%	2.9%
Austria	4.4%	5.1%	4.4%	-5.4%	6.9%	1.5%
Portugal	3.9%	9.4%	1.6%	0.5%	2.4%	-1.7%
Finland	3.6%	4.5%	3.3%	1.7%	3.3%	4.9%
Italy	0.9%	6.7%	1.6%	-1.9%	2.2%	3.0%
Core	4.7%	6.5%	4.4%	-1.1%	6.2%	0.9%
Periphery	2.4%	7.4%	0.3%	-2.5%	0.2%	2.7%

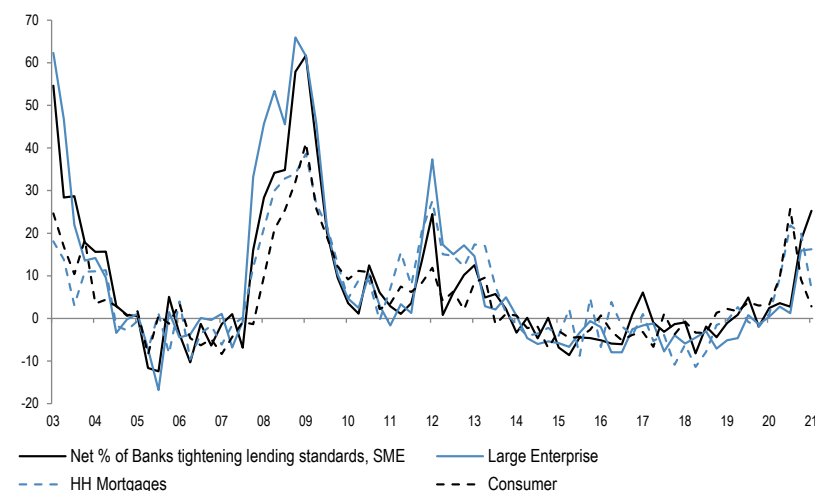
Source: ECB

Net % of Eurozone banks reporting positive loan demand



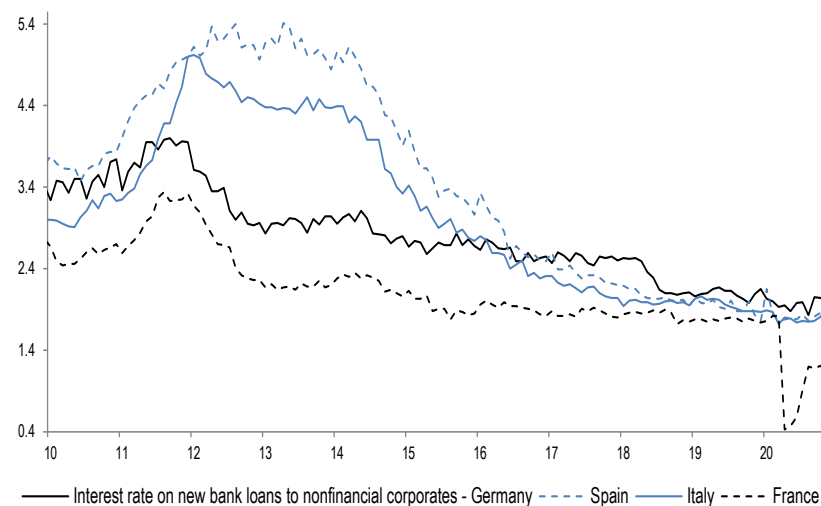
Source: ECB

Net % of Eurozone banks tightening lending standards



Source: ECB

Interest rate on new bank loans to nonfinancial corporates*



Source: ECB, J.P. Morgan, * Rates on Loans under €1 million and at variable rate

...Eurozone's fiscal position is better than for other regions

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

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

	Gross Debt (% of GDP)						Net Debt (% of GDP)						Primary Balance (% of GDP)					
	2019	2020	2021	2022	2023	2024	2019	2020	2021	2022	2023	2024	2019	2020	2021	2022	2023	2024
United States	108.7	131.2	133.6	134.5	135.2	136.0	84.1	106.8	107.3	109.5	110.2	111.4	-4.1	-16.7	-6.9	-4.9	-4.0	-3.9
Euro area	84.0	101.1	100.0	98.4	97.0	95.6	69.2	85.1	84.7	83.7	82.8	81.8	0.8	-8.7	-3.6	-1.3	-0.8	-0.6
Japan	238.0	266.2	264.0	263.0	262.8	263.0	154.9	177.1	178.9	178.6	178.5	178.7	-3.1	-13.9	-6.2	-3.1	-2.8	-2.7
United Kingdom	85.4	108.0	111.5	113.4	115.3	116.4	75.4	98.1	101.6	103.5	105.4	106.5	-0.8	-15.5	-8.1	-5.9	-4.6	-3.7

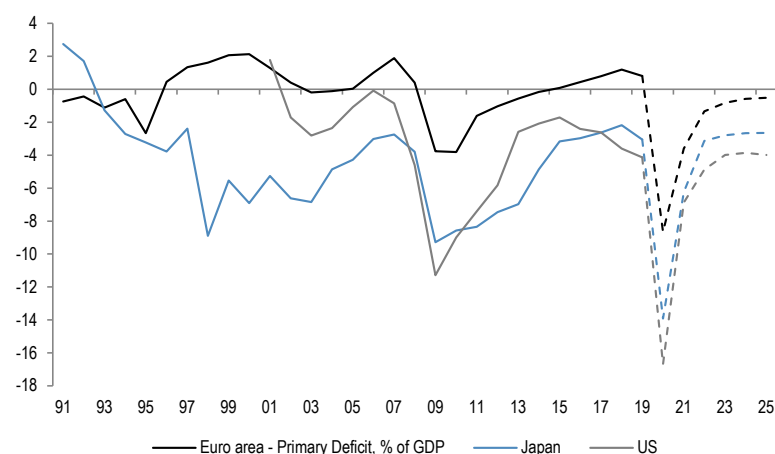
Source: IMF WEO - October 2020

Fiscal balance, % GDP

	Fiscal balance (% of GDP)						
	US	Japan	Germany	Italy	Spain	France	UK
19	-4.7%	-2.6%	1.5%	-1.6%	-2.9%	-3.0%	-2.0%
20e	-15.9%	-12.5%	-7.3%	-11.5%	-12.2%	-11.3%	-16.1%
21e	-10.0%	-7.5%	-3.5%	-6.5%	-7.5%	-6.9%	-8.5%
22e	-6.0%	-5.0%	-1.9%	-4.5%	-5.6%	-4.6%	-5.2%

Source: Bloomberg Finance L.P.

US, Eurozone and Japanese primary fiscal balance

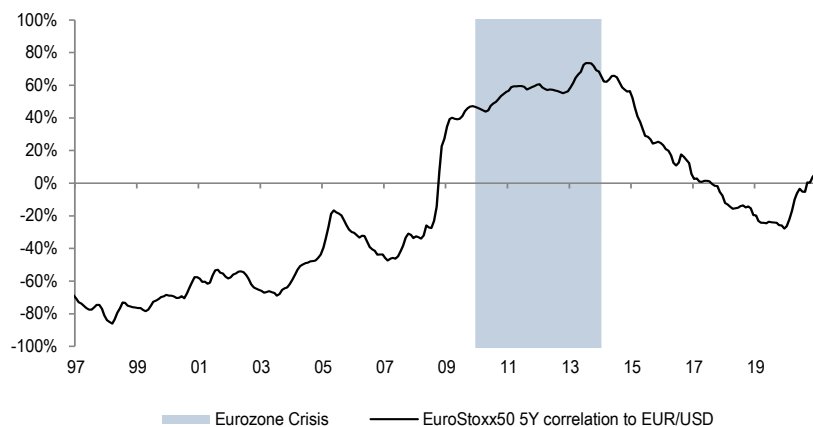


Source: IMF WEO - October 2020, dotted lines show IMF forecasts

Relative performance of exporters diverged from Euro... domestic stocks could start to perform better...

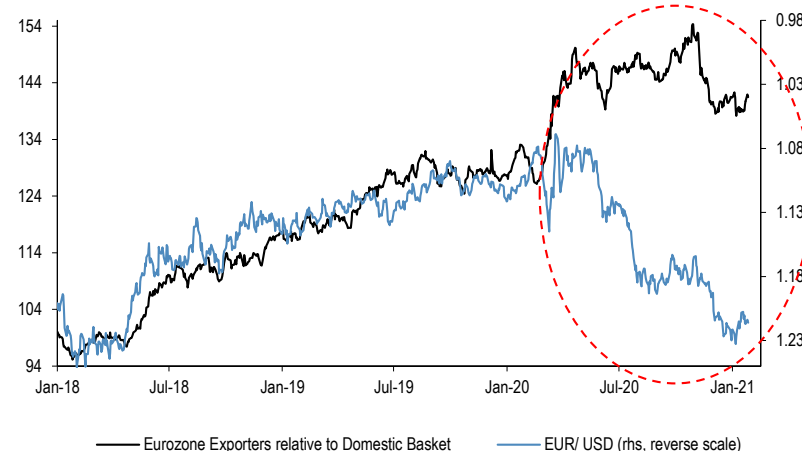
- The correlation between the relative performance of Eurozone equities and EUR/USD was typically negative, given the regions' high foreign revenue exposure. That said, Eurozone equities delivered strong returns in the 2016-17 Value rally episode, looking through the EUR strength.
- Exporters outperformed domestic stocks last year despite a stronger euro, opening up a gap. We think this could lead to a better run of Domestic plays over Exporters in Eurozone.

Correlation between EUR/USD and SX5E



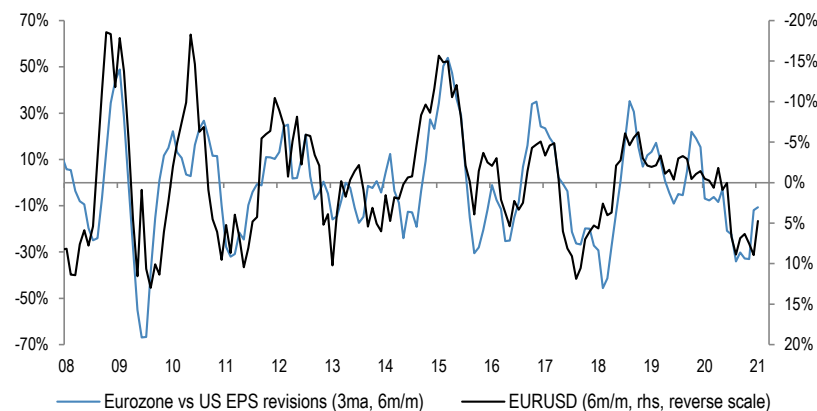
Source: Bloomberg Finance L.P.

Eurozone Exporters relative and EUR/USD



Source: Bloomberg Finance L.P.

Eurozone vs US +ve to -ve EPS revisions and EUR/USD

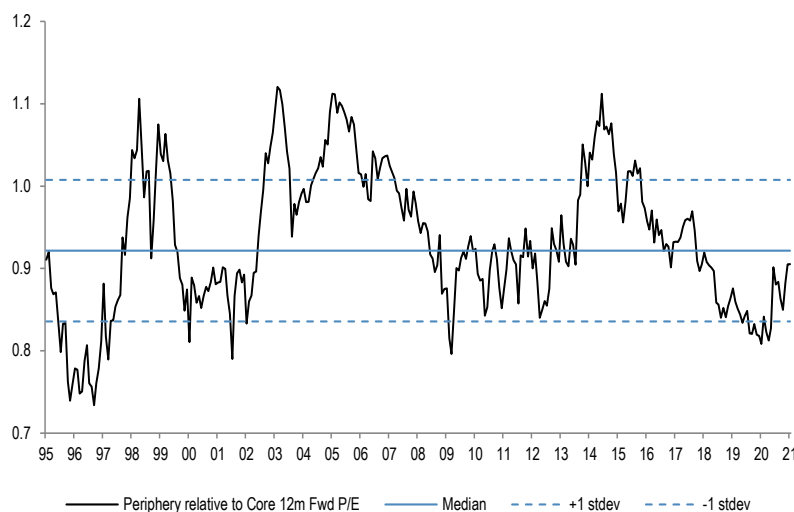


Source: Bloomberg Finance L.P., IBES

...Periphery has underperformed and should benefit if Banks do better...

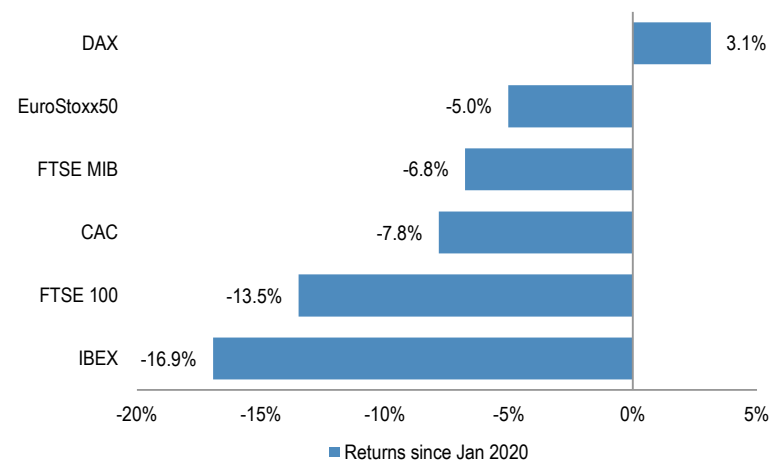
- We held an UW stance on Periphery last year, but now believe that the region has lagged and will outperform the core country indices. Italy and Spain feature among the cheapest markets globally.
- In addition, the style rotation into Value should support the Periphery vs Core trade. Italy and Spain have significant exposure to Banks, and should do better if the sector outperforms this year, as we expect.

Periphery vs Core 12m Fwd PE



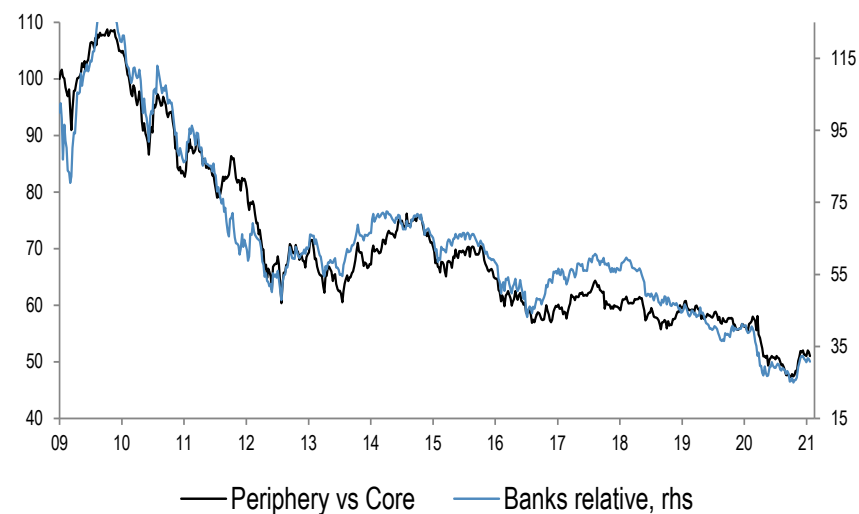
Source: IBES

Performance of Eurozone regions



Source: Datastream

Periphery vs Core and Eurozone Banks relative



Source: Datastream

...in December, we upgraded Periphery to OW, vs DAX and CAC

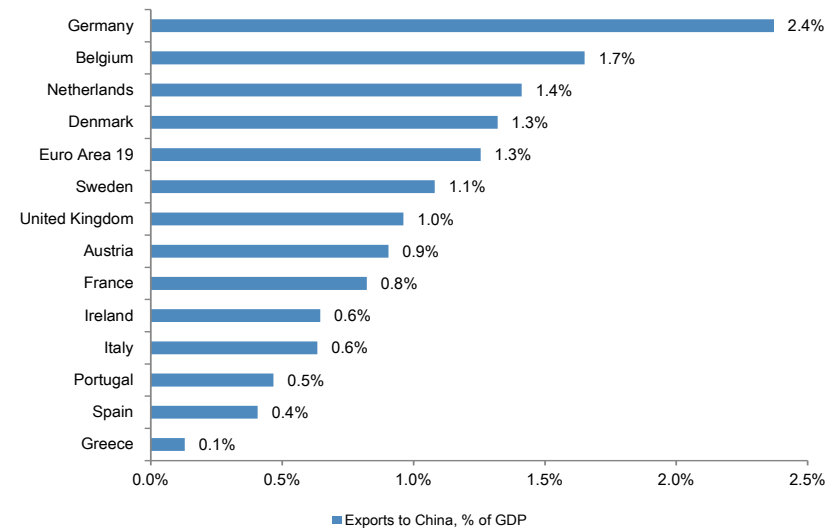
- Even though DAX is the most cyclically weighted of the main European indices, it doesn't have much of a Value tilt.
- Potential for Euro to strengthen further could be a problem for DAX.

DAX and other country indices sectoral composition

	DAX	SX5E	CAC	MIB	IBEX	FTSE100
Energy	0%	5%	8%	8%	3%	9%
Materials	17%	10%	6%	0%	1%	13%
Industrials	14%	14%	20%	9%	14%	10%
Discretionary	17%	18%	21%	14%	13%	8%
Staples	2%	8%	13%	2%	1%	19%
Healthcare	9%	7%	9%	4%	3%	11%
Financials	16%	14%	9%	31%	23%	19%
Real Estate	4%	1%	1%	0%	1%	1%
IT	11%	14%	6%	8%	7%	1%
Comm. Services	5%	3%	4%	2%	10%	5%
Utilities	4%	6%	3%	22%	25%	4%
Cyclicals	59%	56%	54%	31%	34%	32%
Defensives	21%	24%	29%	30%	39%	39%
Cyclicals vs Defensives	39%	32%	25%	1%	-5%	-6%

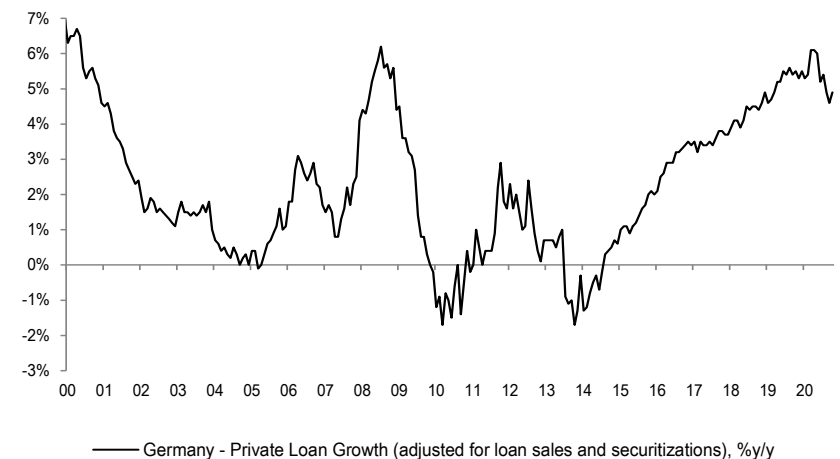
Source: Datastream

Exports to China as a share of GDP



Source: Eurostat

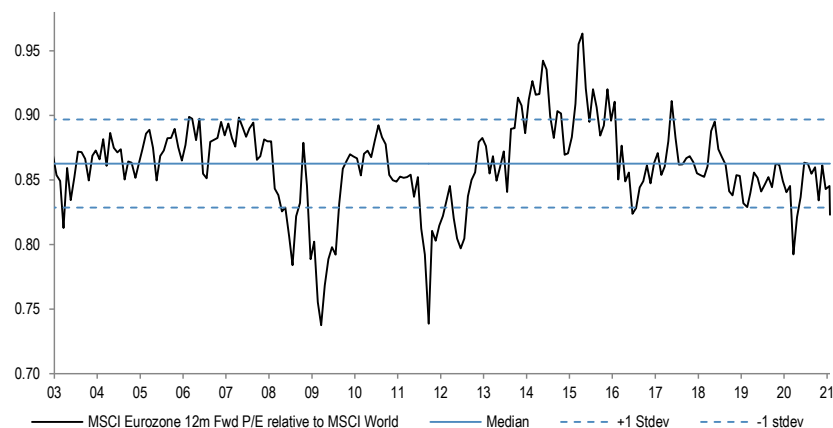
German credit growth



Source: ECB

Eurozone snapshot

MSCI Eurozone 12m Fwd PE relative to MSCI World



Source: IBES

MSCI Eurozone performance relative to MSCI World



Source: Datastream

Eurozone Sector snapshot

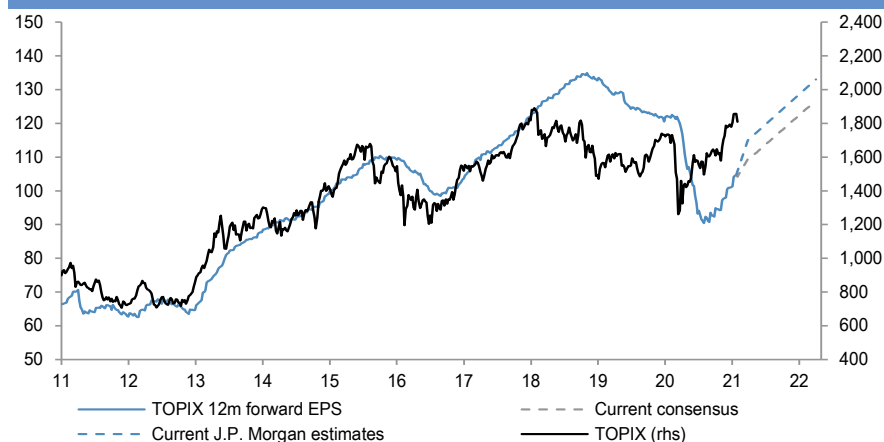
	YTD Performance, %	YTD Total return, %	Weight in Index		12m Fwd P/E		EPS growth, %	
			Eurozone	vs MSCI World	Current	vs Median since '06	2020e	2021e
Eurozone	1.2%	1.3%	100%	0%	17.6	47%	-36%	48%
Energy	1.6%	2.7%	4%	1%	16.4	68%	-75%	160%
Materials	2.0%	2.0%	7%	3%	19.7	62%	-25%	44%
Industrials	1.9%	1.9%	15%	4%	22.7	72%	-55%	80%
Discretionary	-0.5%	-0.5%	17%	5%	19.7	61%	-71%	259%
Staples	-1.9%	-1.9%	8%	1%	22.4	51%	-17%	13%
Healthcare	5.6%	5.6%	8%	-5%	17.0	18%	-4%	7%
Financials	-1.8%	-1.8%	14%	1%	10.4	6%	-39%	43%
IT	5.6%	5.6%	13%	-10%	33.0	90%	-8%	17%
Telecoms	1.6%	1.6%	5%	-4%	15.6	35%	-13%	13%
Utilities	1.6%	2.1%	7%	4%	17.0	48%	7%	13%
Real Estate	-5.9%	-5.9%	2%	-1%	16.2	6%	-8%	8%
Cyclicals	2.0%	2.0%	52%	3%	22.8	73%	-49%	129%
Defensives	1.7%	1.9%	28%	-4%	18.0	38%	-6%	11%

Source: IBES, Datastream

3) OW Japan – The region looks cheap and is a traditional beta play...

- Japan is a traditional play on the global cycle, and benefits from a Value turn.
- Japanese equities continue to trade at record cheap valuations.

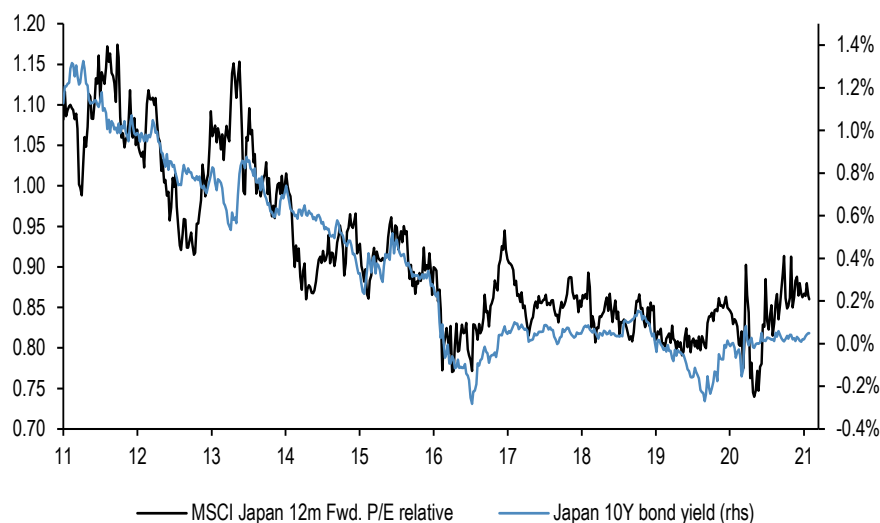
TOPIX and 12 month forward EPS



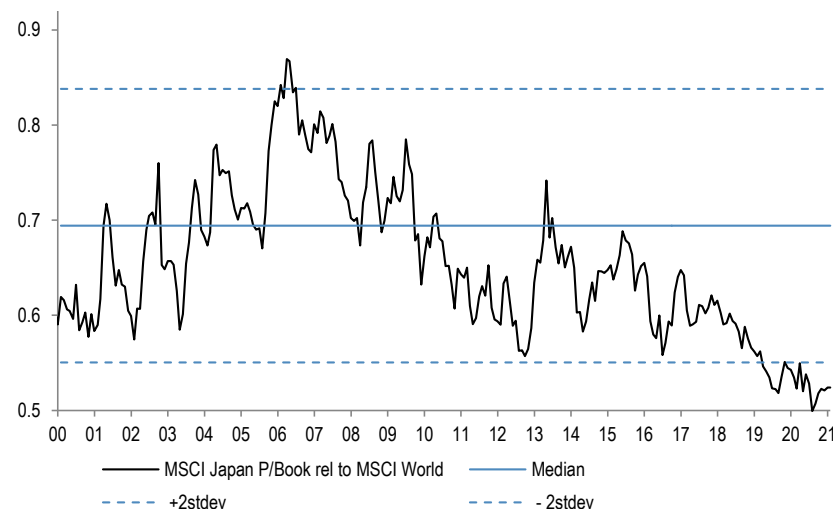
	2020	2021					
	Dec	Mar	Jun	Sep	Dec	High	Low
TPX	1,750	1,800	1,900	1,750	1,800	1,950	1,600
NKY	26,000	27,000	28,000	26,000	27,000	29,000	23,500

Source: IBES, Datastream, J.P. Morgan

MSCI Japan 12m forward P/E and bond yields



MSCI Japan Price to Book relative



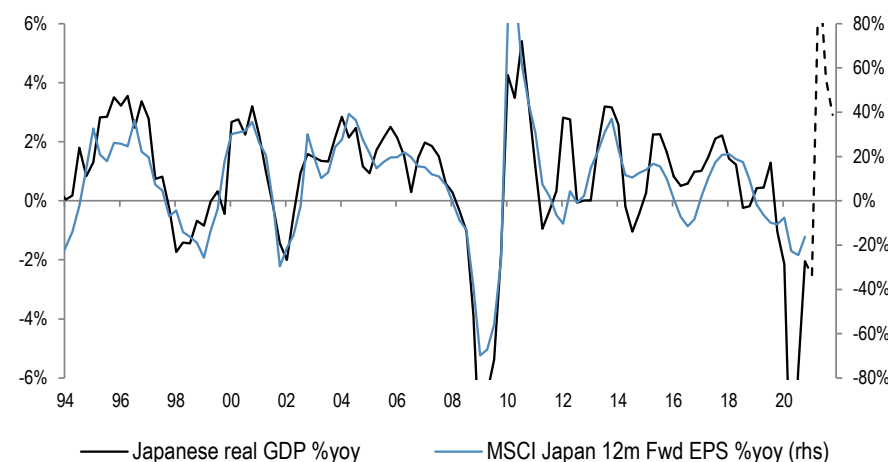
Source: IBES, Bloomberg Finance L.P.

Source: IBES

...Japanese EPS revisions are positively correlated to the global activity momentum...

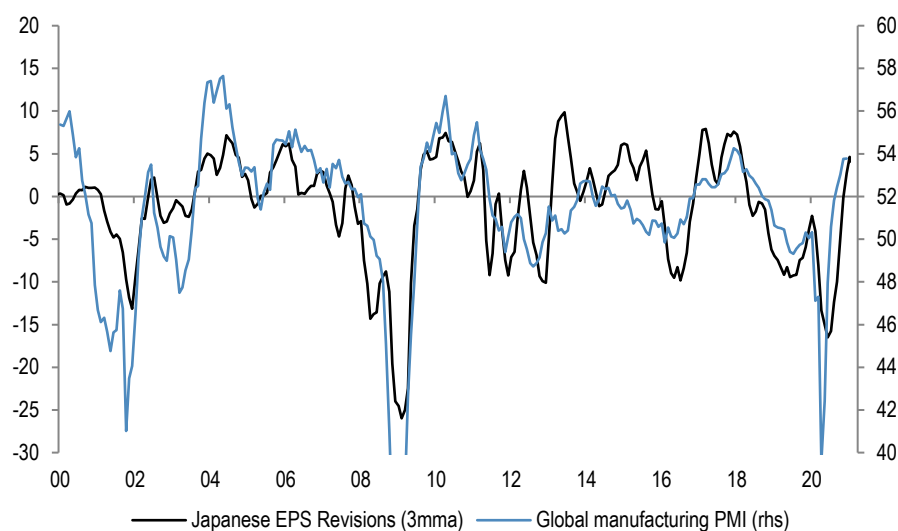
- Japanese EPS revisions are positively correlated to the Global manufacturing PMI.
- TOPIX EPS revisions have recently entered positive territory.

Japanese 12m Fwd. EPS and GDP



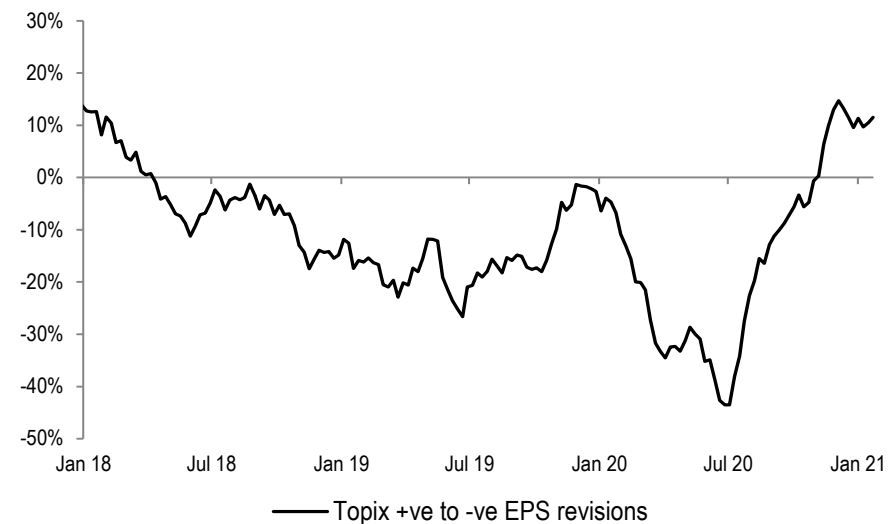
Source: J.P.Morgan, IBES

Japan EPS revisions and Global manufacturing PMI



Source: Datastream, J.P. Morgan

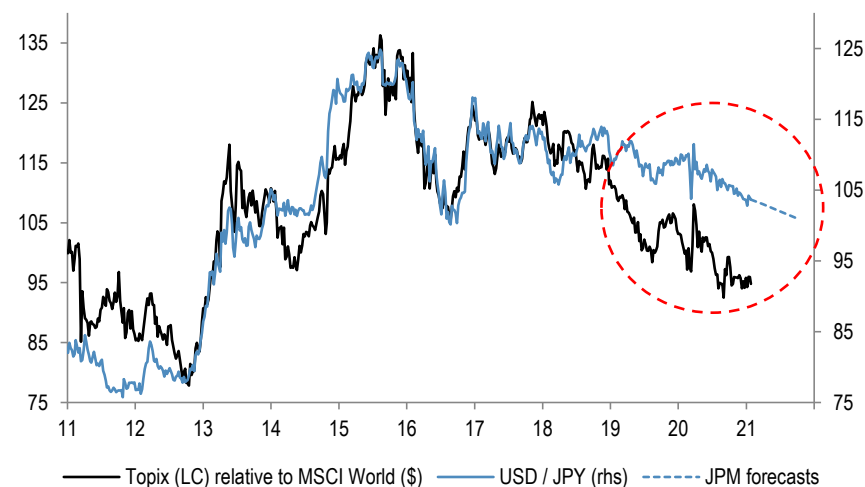
Topix +ve to -ve EPS revisions



...one concern is if the yen strengthens

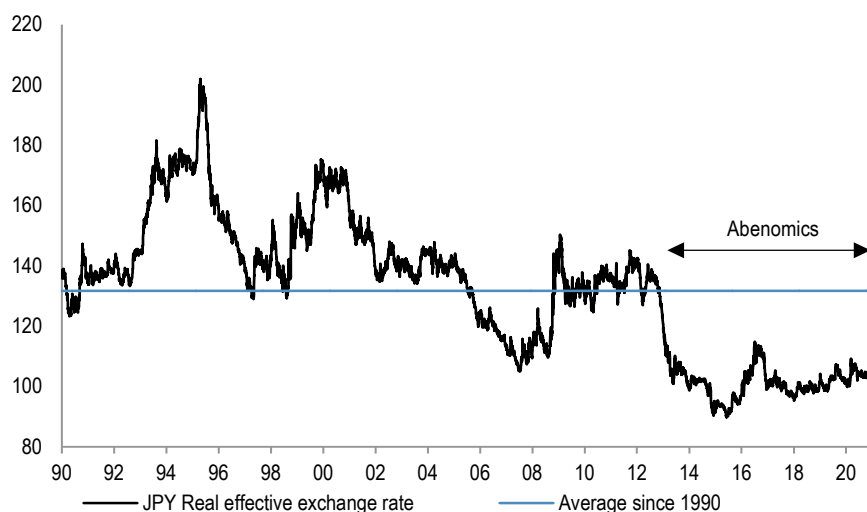
- The yen might not weaken from here. US-Japan interest rate differential and current account balances point to a stronger JPY over the medium to long term horizon.
- Japanese equities tend to do poorly against a stronger yen backdrop. That said, they are already at levels consistent with much stronger USD/JPY, so some upmove in the Yen may not derail the Japanese equity story.

Topix relative and Yen



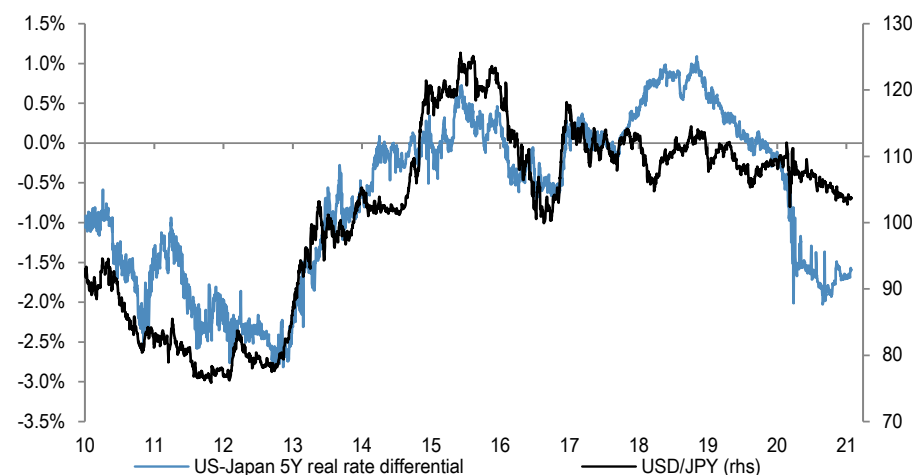
Source: Bloomberg Finance L.P., J.P. Morgan

JPY Real effective exchange rate (REER)



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

US-Japan 5Y interest rate differential and USDJPY

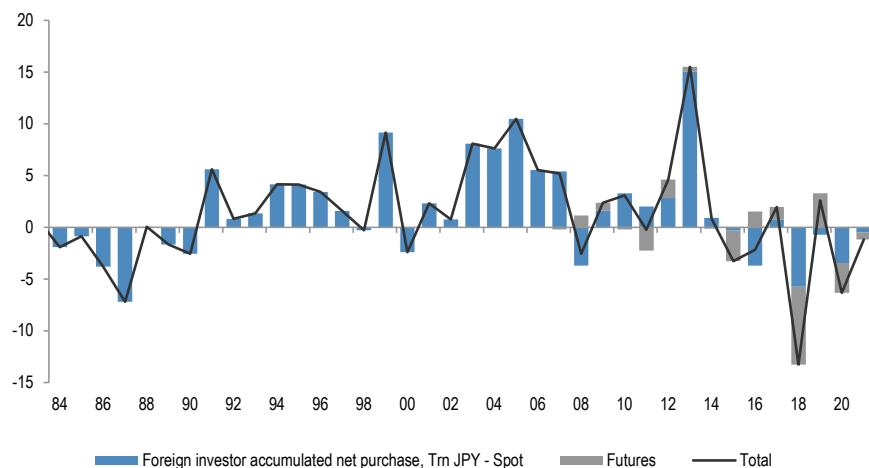


Source: Bloomberg Finance L.P.

On the positive side, investor positioning remains extremely subdued, and BoJ purchases have doubled...

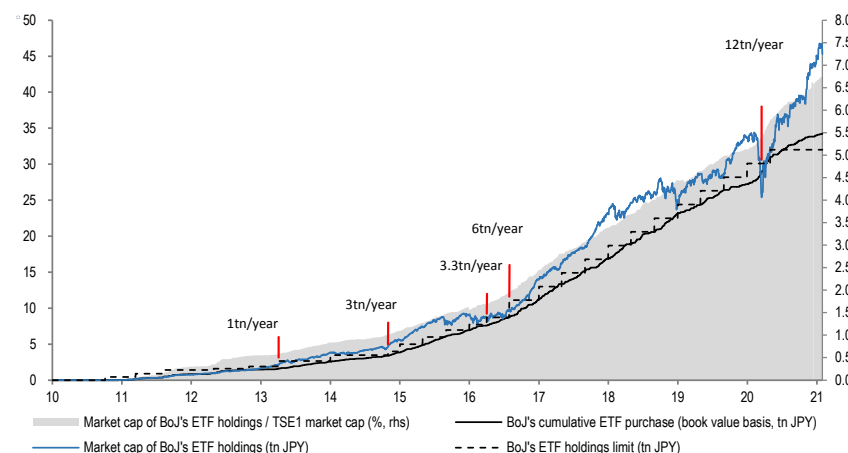
- Foreign investors sold over ¥6 trillion worth of Japanese equities in 2020. While this is less than the ¥13 trillion outflows from the region in 2018, we note that positioning in Japanese equities is a net short in the average investor portfolio.
- A more positive earnings outlook for Japan could help reverse this trend.
- BoJ has doubled the pace of ETF purchases to ¥12 trillion per year.
- Positioning by domestic investors is also light, excluding the BoJ purchases. Cumulative flows into Japanese equities are at 10-year lows.

Foreign investors accumulated net purchases



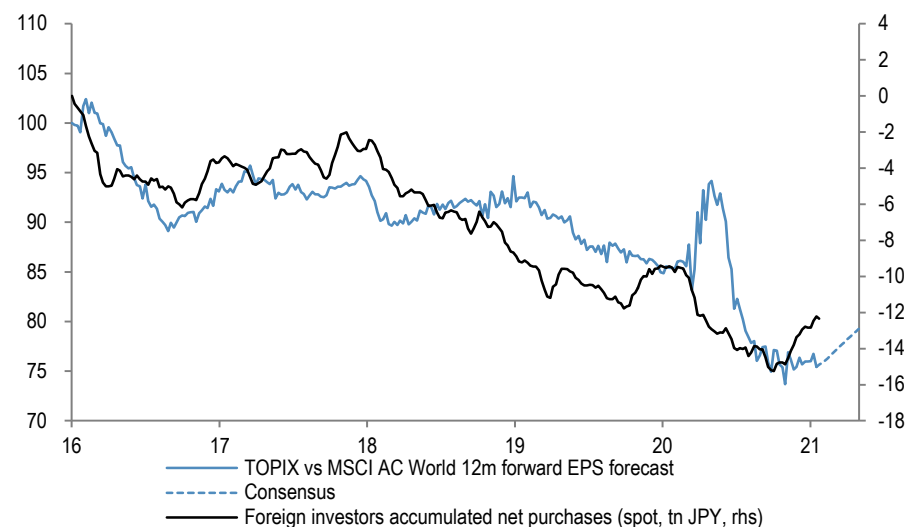
Source: Japan Exchange Group (JPX)

BoJ ETF ownership



Source: BoJ, J.P. Morgan

Foreign investors accumulated net spot purchases and TOPIX EPS relative



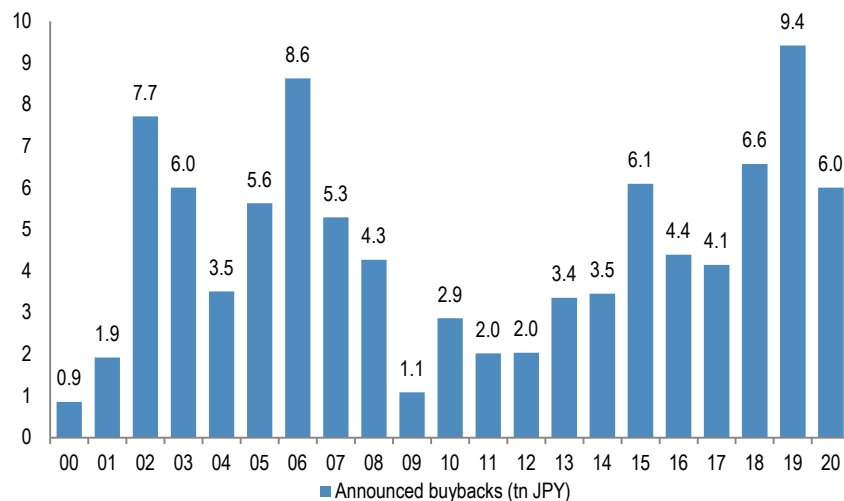
Source: Japan Exchange Group (JPX), IBES

J.P.Morgan CAZENOVE

...corporate balance sheets are net cash...

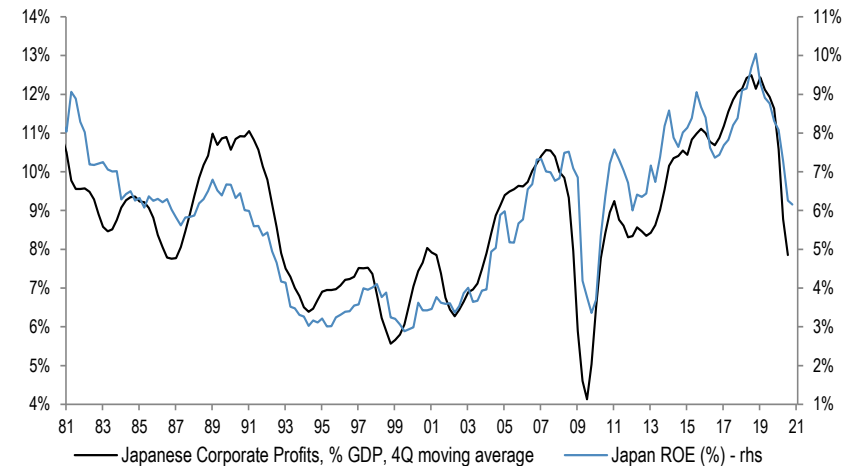
- Japanese corporate balance sheets are extremely robust, with almost 50% of corporates in the Topix1000 having more cash than debt.
- Corporates had significantly improved their profitability over the last few years, through capital discipline, efficiency gains and more shareholder-friendly policies. While last year saw some deterioration in the trend, we believe that the cash-rich balance sheets would help Japanese corporates to withstand the worst impact of the crisis.

Announced buybacks - TOPIX universe



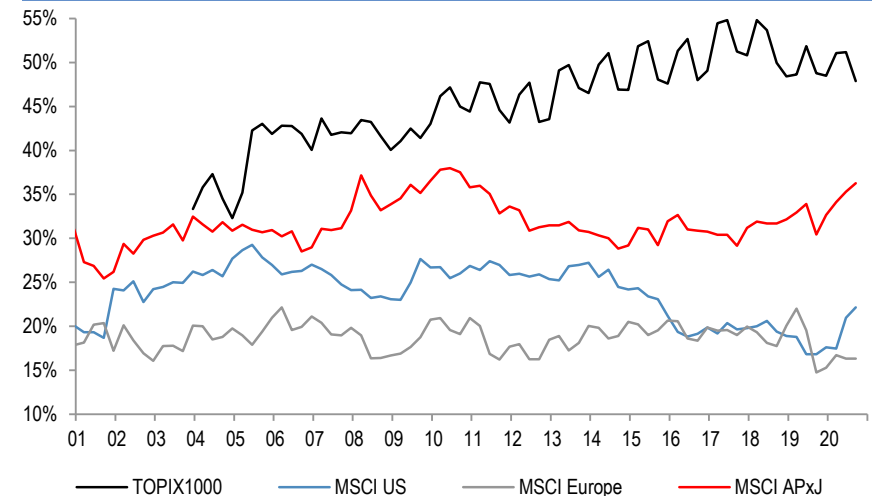
Source: QUICK

Japanese profit margins and RoE



Source: ESRI, Bloomberg Finance L.P.

Net cash firm weightings



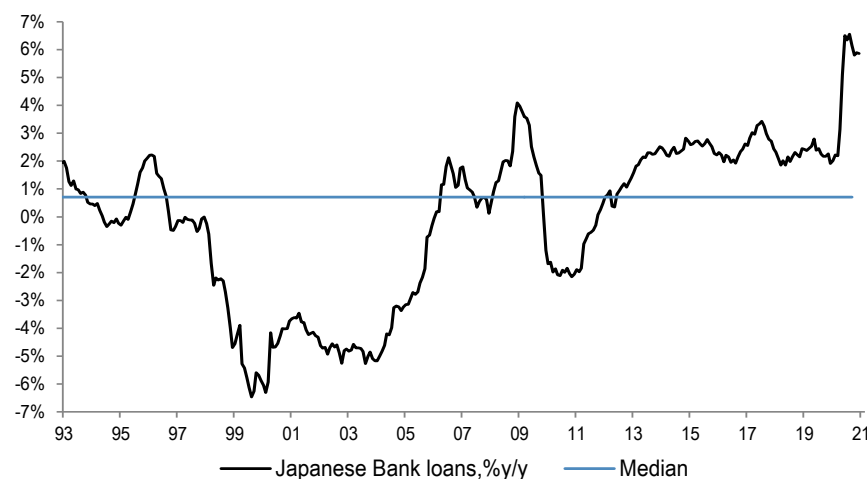
Source: Bloomberg Finance L.P.

J.P.Morgan CAZENOVE

...domestic activity was relatively resilient – loan growth has moved higher

- Government and BoJ backed lending programs have supported households and small businesses in mitigating some of the detrimental impact of COVID-19 related disruptions.
- The tightness in labor markets in Japan before the pandemic has helped them fare better during the crisis. Job offers-to-applicants ratio has deteriorated somewhat, but remains well behaved in a historical context.

Japanese private loan growth



Source: Bloomberg Finance L.P.

Japanese Unemployment vs Job offers to Applicants Ratio



Source: J.P. Morgan

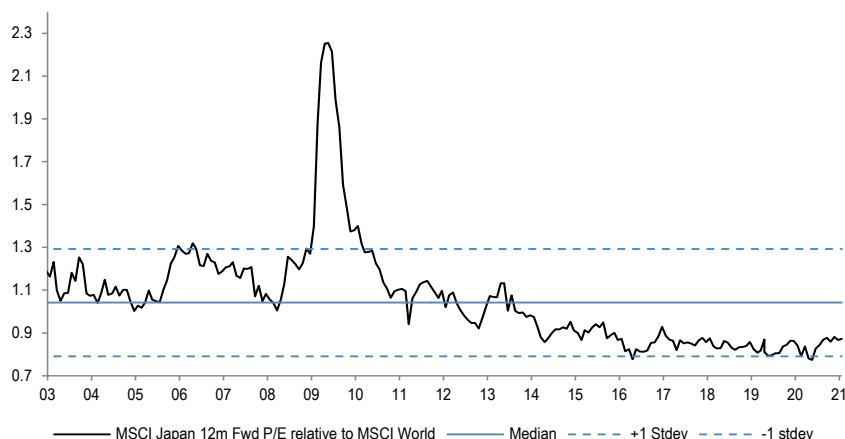
Growth in Japan monthly earnings



Source: MHLW

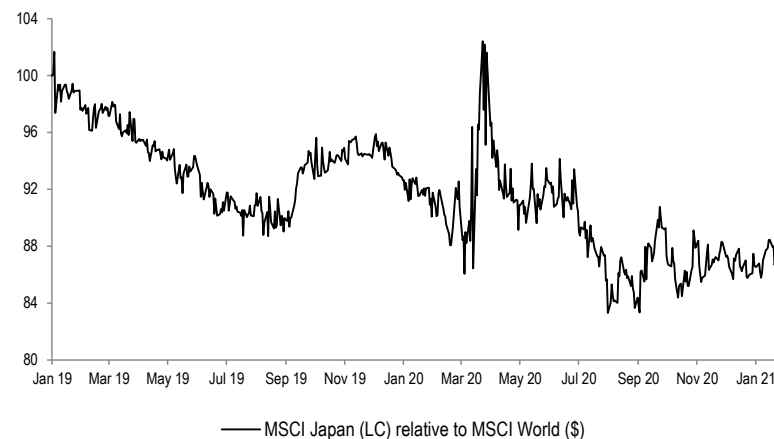
Japan snapshot

MSCI Japan 12m Fwd PE relative to MSCI World



Source: IBES

MSCI Japan performance relative to MSCI World



Source: Datastream

Japan Sector snapshot

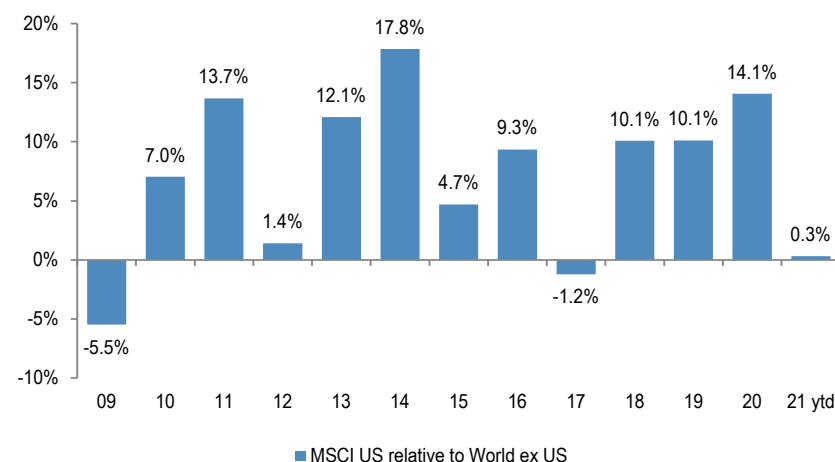
	YTD Performance, %	YTD Total return, %	Weight in Index		12m Fwd P/E		EPS growth*, %	
			Japan	vs MSCI World	Current	vs Median since '06	2020e	2021e
Japan	3.5%	3.5%	100%	0%	18.4	31%	-4%	37%
Energy	14.5%	14.5%	1%	-2%	9.7	-4%	-	9726%
Materials	5.8%	5.8%	5%	1%	19.7	49%	67%	118%
Industrials	4.3%	4.3%	21%	10%	22.1	67%	-59%	154%
Discretionary	1.2%	1.2%	18%	6%	16.8	30%	-18%	52%
Staples	-0.3%	-0.3%	8%	0%	23.0	10%	-16%	34%
Healthcare	1.3%	1.3%	11%	-2%	30.0	36%	-1%	35%
Financials	4.3%	4.3%	8%	-5%	9.0	-25%	-2%	12%
IT	8.2%	8.2%	14%	-8%	25.7	53%	12%	23%
Telecoms	3.8%	3.8%	10%	1%	16.2	25%	350%	-20%
Utilities	6.2%	6.2%	1%	-2%	10.2	-30%	10%	-4%
Real Estate	-0.1%	-0.1%	3%	1%	15.1	-7%	-22%	23%
Cyclicals	4.4%	4.4%	58%	9%	20.5	49%	-26%	91%
Defensives	1.9%	1.9%	30%	-3%	20.9	19%	60%	19%

Source: IBES, Datastream, *for the year ending March 2021 and 2022

4) Neutral US – We recently took profits on our OW US stance... Fed's backstop was the strongest, but that is turning...

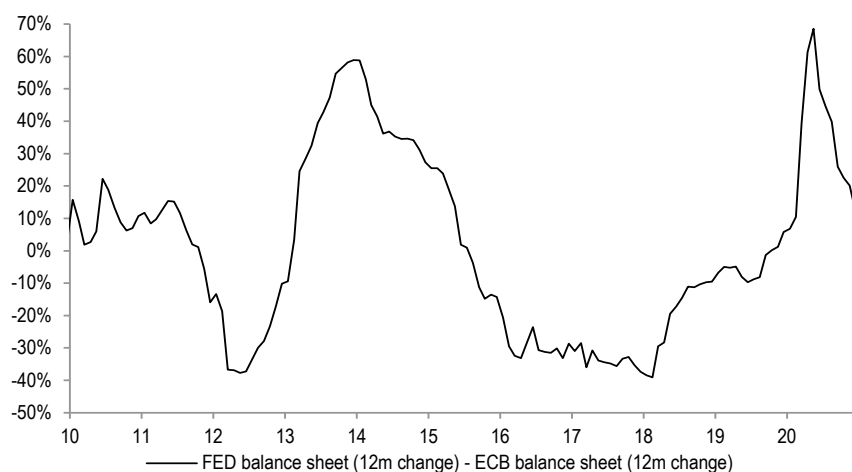
- Post the 2017 reflation trade, we were OW US in 2018, 2019 and last year.
- US equities benefitted from stronger policy support, but that could be peaking now.

MSCI US relative to MSCI World ex US (\$)



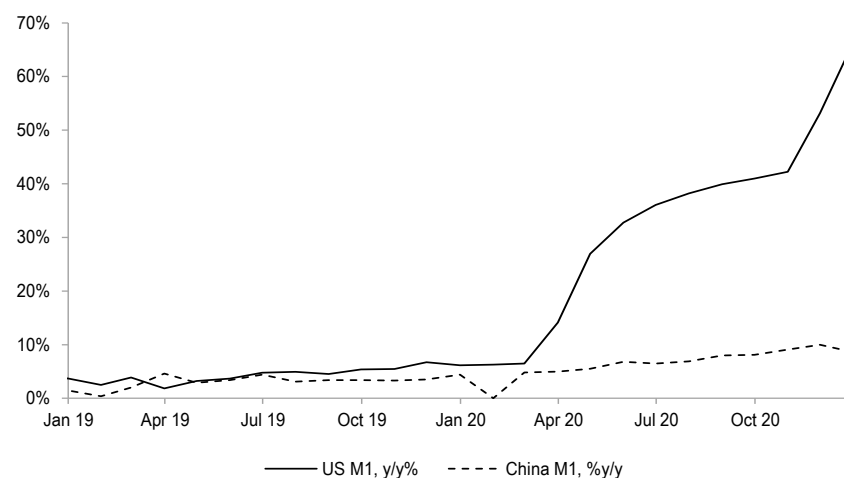
Source: Datastream

Fed vs ECB balance sheet



Source: J.P. Morgan

US and Chinese money supply

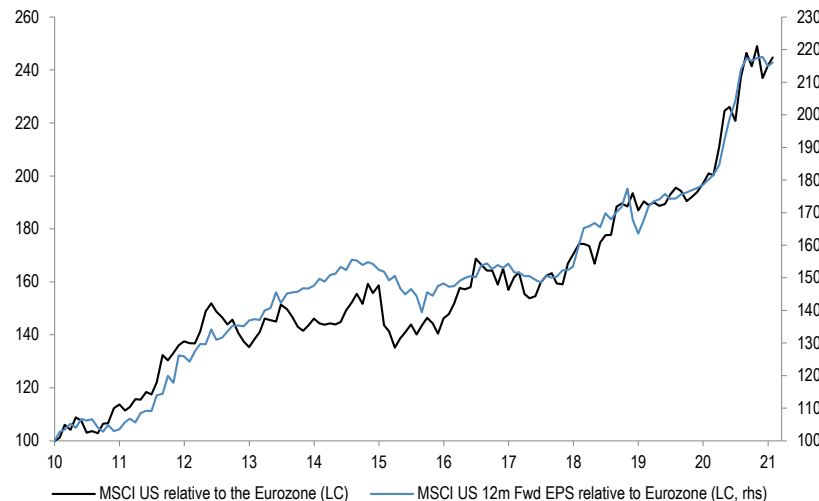


Source: Bloomberg Finance L.P.

...better US earnings delivery supported the outperformance of the region...

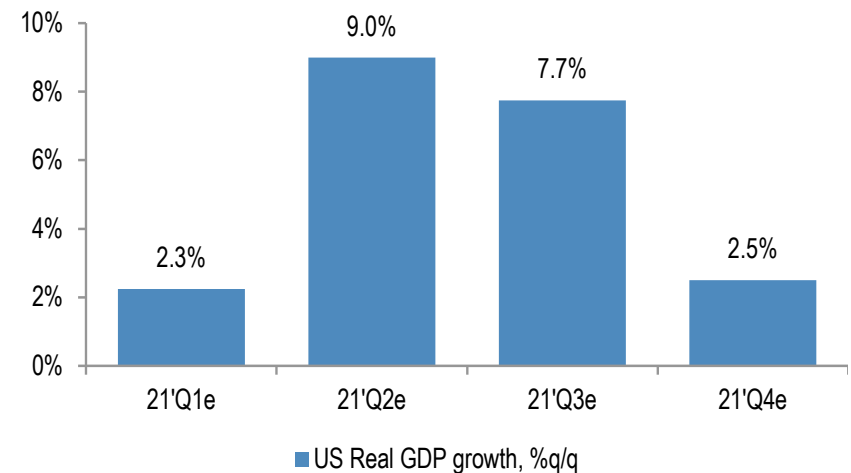
- Strong US earnings delivery supported its outperformance, and we still expect robust US EPS growth this year. However, the growth differential between the US and RoW may start narrowing.

US vs Eurozone and earnings relative



Source: J.P. Morgan

US Real GDP forecast

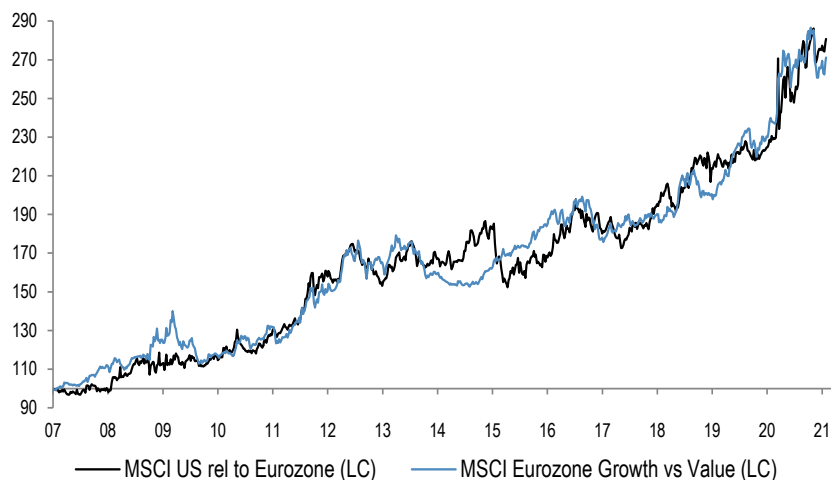


Source: J.P. Morgan

...US equities exhibit a strong Growth tilt, which was a big help again in 2020, but this could start to change...

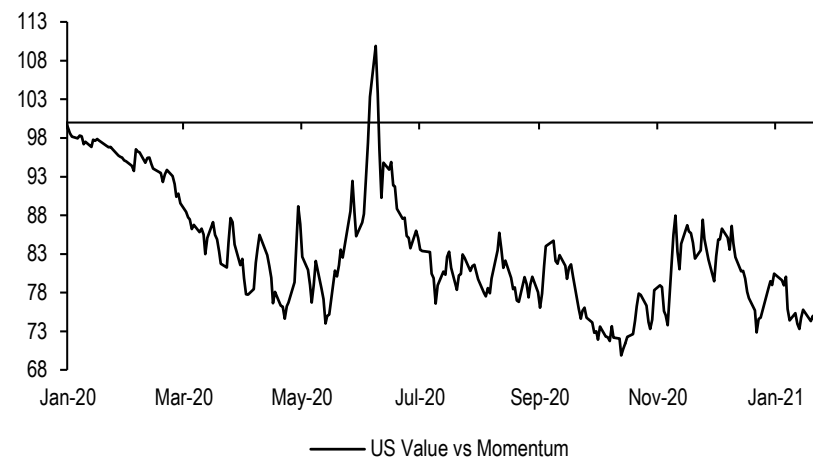
- US leadership over other regions has been consistent with Growth outperforming Value, and Tech outperforming Banks.
- This might not continue this year.

Growth vs Value and US vs Eurozone



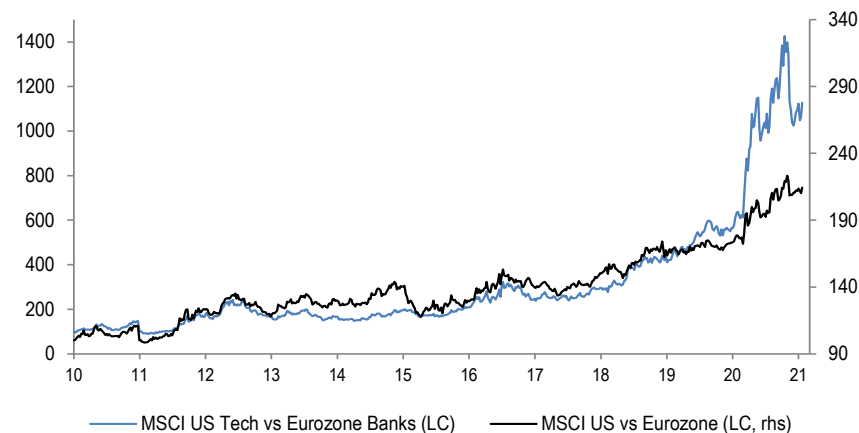
Source: Bloomberg Finance L.P.

US Value vs Momentum basket



Source: J.P. Morgan

US vs Eurozone and Tech vs Banks



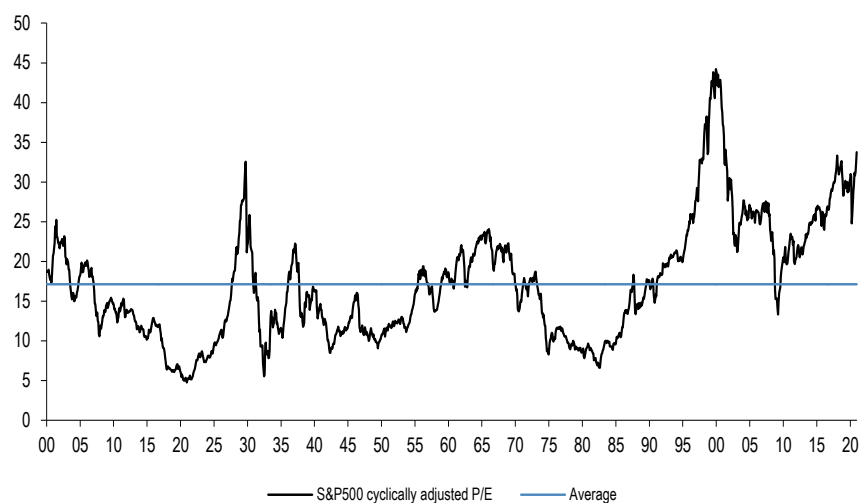
Source: Bloomberg Finance L.P.

J.P.Morgan CAZENOVE

...relative valuations present some challenge for the US

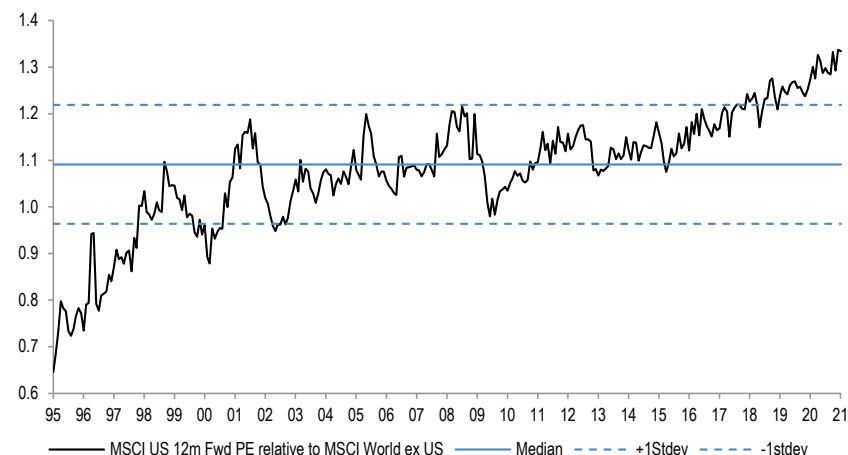
- S&P500 has moved up over 5 times since the '09 lows and appears stretched on most valuation metrics.
- S&P500 cycle-adjusted P/E is currently over 90% above the long-term average.
- Historically, from these P/E levels, real capital returns have tended to be unappealing over the next ten years.

S&P500 cycle-adjusted P/E



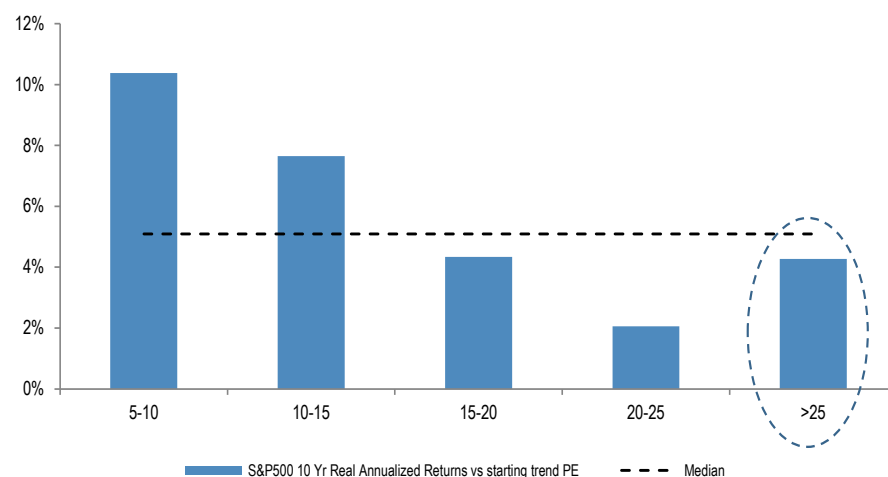
Source: Shiller Data, J.P. Morgan

MSCI US 12m Fwd. P/E relative



Source: IBES

10 Yr S&P500 real capital return (p.a.) vs starting trend P/E



Source: Shiller Data

A number of Biden's policy proposals could hurt the relative performance of the US this year

- We do not believe that US politics will hurt US stocks in absolute terms, as it is unlikely that Biden will be able to deliver on some potentially market-unfriendly proposals. In relative terms though, investor sentiment might be impeded as there is a headline newsflow risk with respect to some of these policies.

Biden's key policy proposals

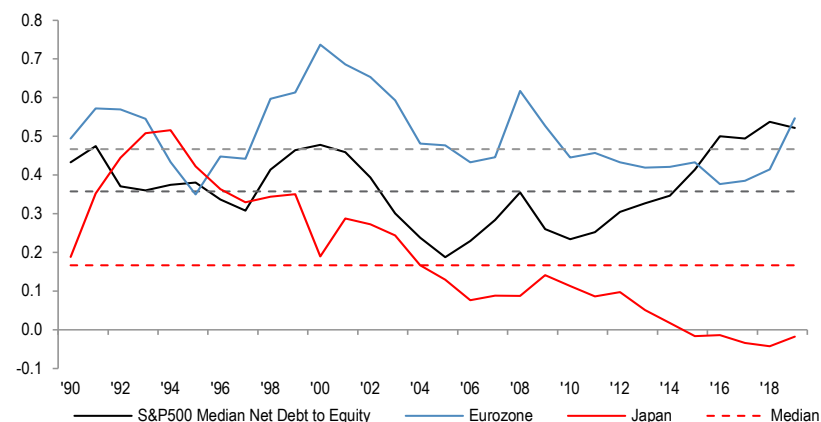
Biden's policy	
Corporate taxes	Raise corporate rate to 28%; create minimum tax rate of 15% on book income
Personal income taxes	Restore top rate to 39.6%; raise capital gains tax to ordinary rate for those earning >\$1mn; wealth tax (details unspecified)
COVID-19	A national test and trace programme: To provide free testing for all and hire 100,000 people to set up a national contact-tracing programme.
Foreign Policy	Enlist US allies to challenge China on trade; advocates enforcing existing trade laws while writing new rules that protect workers, the environment and labour standards.
Healthcare	Improve Affordable Care Act (ObamaCare) by adding public insurance option; Medicare to negotiate drug prices; link domestic to int'l prices
Energy	Ban new leases for drilling offshore and on federal land; partially supports Green New Deal end fossil fuel subsidies; supports carbon tax; end fossil fuel subsidies; 100% clean energy by 2050
Tech & Comms	Supports using anti-trust legislation to investigate anticompetitive practices
Finance	Support a financial transactions tax
Infrastructure	\$1.3trn plan, including green proposals
Immigration	End family separation; protect DACA; create a pathway to citizenship; give more resources to better leadership/training within ICE; don't decriminalize crossing the border
Jobs & Money	Raise minimum wage to \$15/hr
Race	Criminal justice reform, grants for minority communities
Climate change	Rejoin global climate accord

Source: J.P. Morgan

Government and corporate leverage is elevated... household leverage has picked up, as well

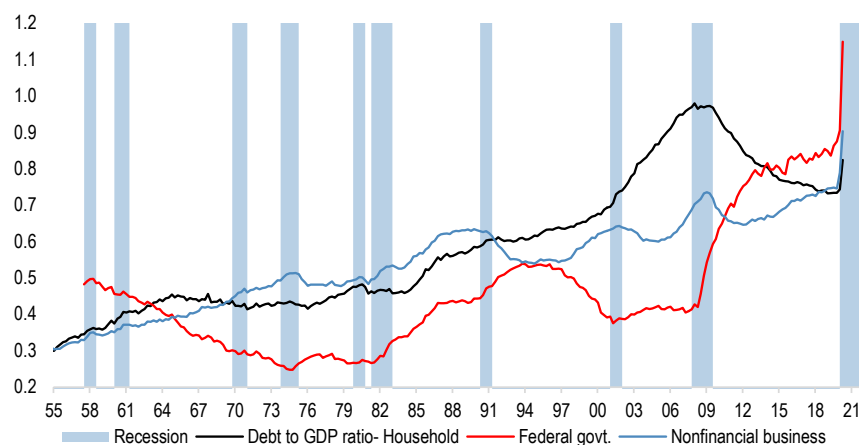
- Corporate and government leverage is elevated.
- US household leverage has also picked up recently.

Median net debt to equity of US, Europe and Japan



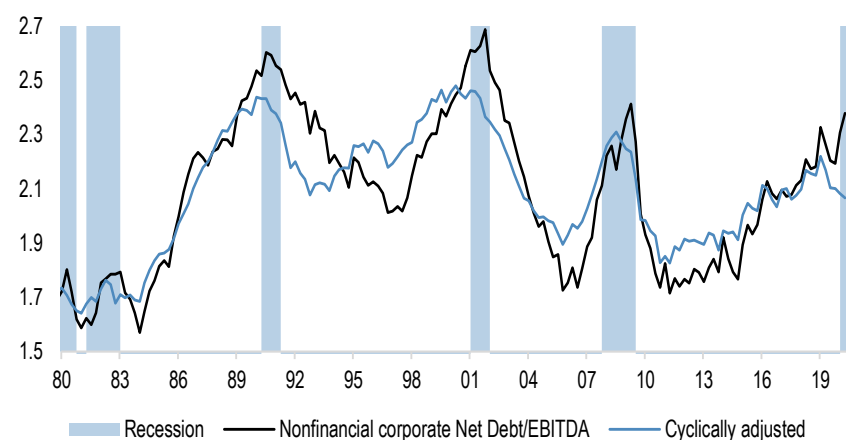
Source: Worldscope

US debt, share of GDP



Source: J.P. Morgan

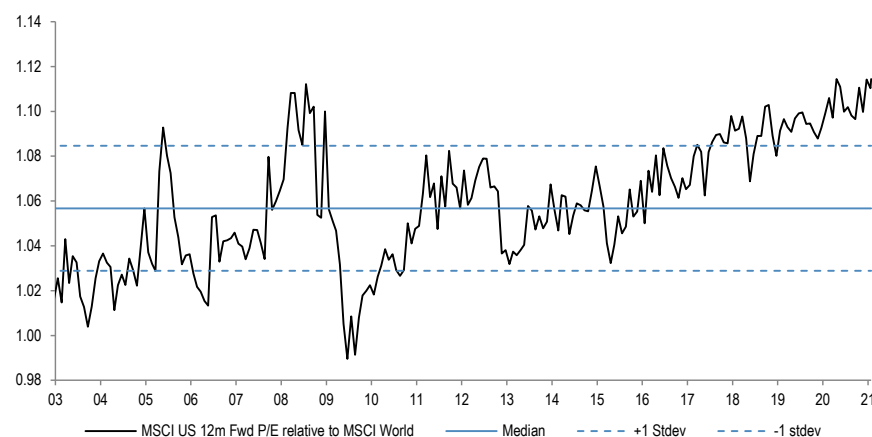
US nonfinancial corporate leverage



Source: J.P. Morgan

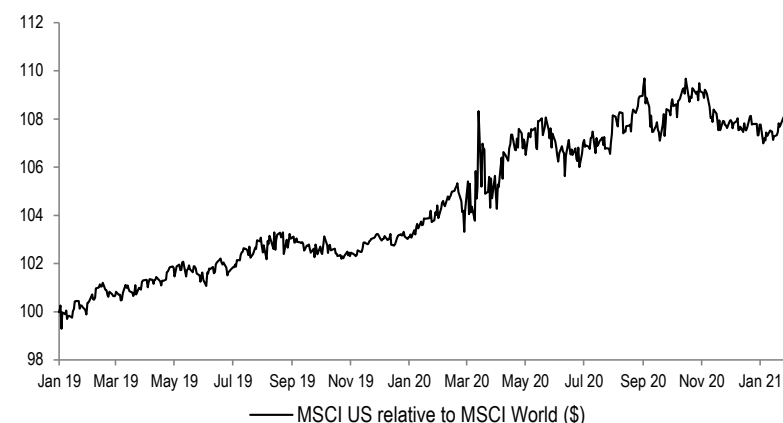
US snapshot

MSCI US 12m Fwd PE relative to MSCI World



Source: IBES

MSCI US performance relative to MSCI World



Source: Datastream

US Sector snapshot

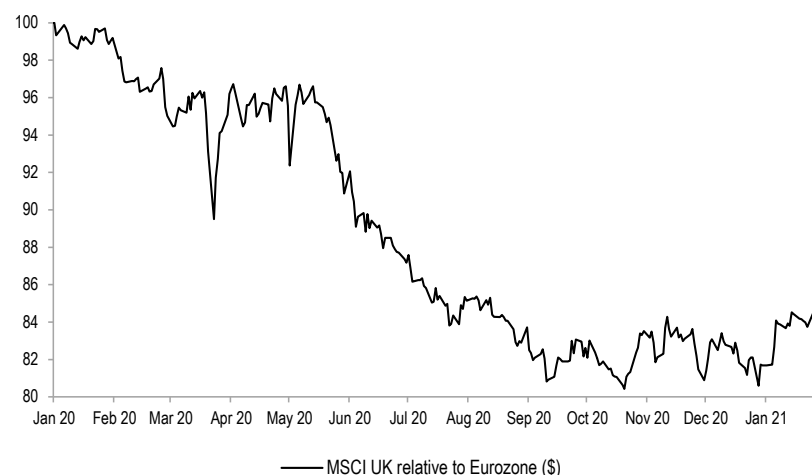
	YTD Performance, %	YTD Total return, %	Weight in Index		12m Fwd P/E		EPS growth, %	
			US	vs MSCI World	Current	vs Median since '06	2020e	2021e
US	3%	3%	100%	0%	23.5	54%	-11%	21%
Energy	10%	10%	2%	-1%	27.9	113%	-106%	-
Materials	2%	2%	3%	-2%	20.5	35%	-9%	31%
Industrials	-1%	-1%	8%	-2%	23.1	46%	-23%	30%
Discretionary	5%	5%	12%	0%	38.0	109%	-23%	51%
Staples	-3%	-3%	6%	-1%	20.2	17%	4%	6%
Healthcare	5%	5%	14%	1%	17.8	15%	9%	13%
Financials	2%	2%	10%	-3%	14.2	13%	-23%	25%
IT	3%	3%	29%	7%	29.8	84%	5%	16%
Telecoms	3%	3%	11%	2%	24.9	64%	-4%	14%
Utilities	2%	2%	3%	0%	18.6	19%	-4%	3%
Real Estate	1%	1%	3%	0%	50.3	30%	-31%	2%
Cyclicals	3%	3%	52%	3%	29.3	77%	-7%	27%
Defensives	2%	3%	33%	1%	20.2	27%	3%	11%

Source: IBES, Datastream

5) Neutral UK – we have closed our multi-year UW position on the UK this summer... the region has significantly underperformed...

- UK was by far the worst-performing equity region last year, down almost 15% in USD terms, underperforming Eurozone by 20%.
- It has also lagged global peers in each of the last 5 years, and has underperformed Eurozone by over 30% since the referendum, in local currency. Given the significant underperformance, in the summer we closed our long-standing cautious stance on UK, upgrading it to Neutral.

UK relative to Eurozone in 2020, common currency



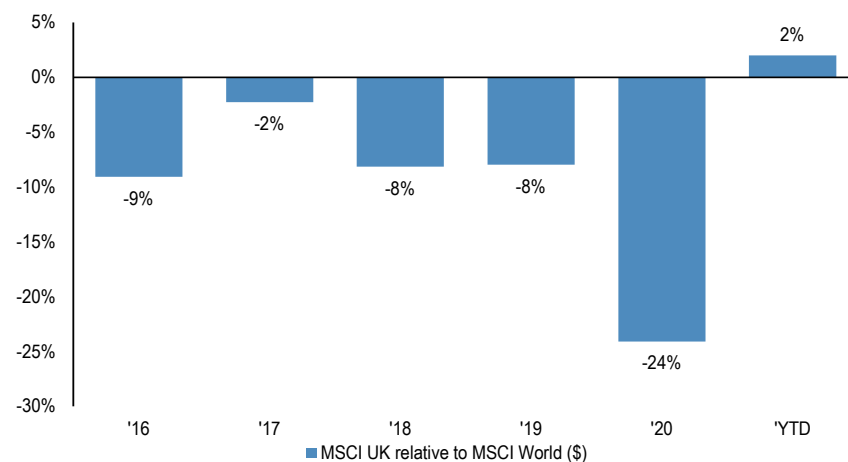
Source: Datastream

MSCI UK relative to MSCI Eurozone



Source: Bloomberg Finance L.P.

UK relative performance in the last 5 years



Source: Bloomberg Finance L.P.

...UK appears attractively valued...

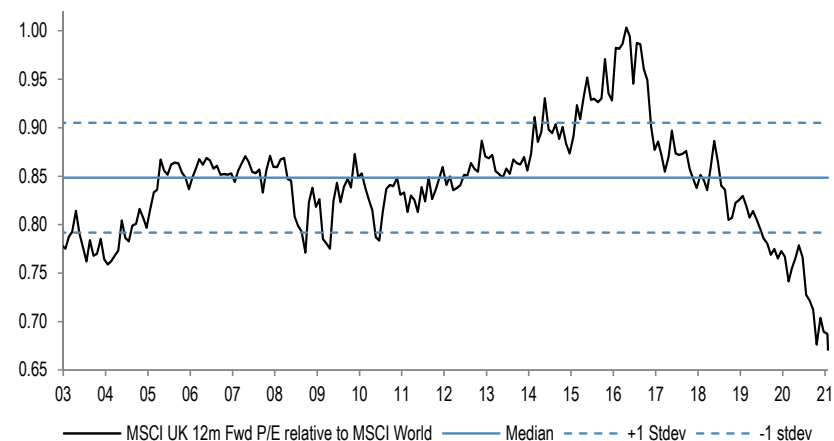
- UK has de-rated strongly since the 2016 Brexit vote, and is currently trading at the lowest forward P/E level vs global peers in the last two decades. This holds even if one were to exclude Banks and Energy from the calculation.
- The last two times UK traded at an extreme P/E discount, it beat the global benchmark over the following 12 months.

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



Source: Bloomberg Finance L.P.

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



Source: Datastream

UK returns from lows in ex Banks and Energy P/E relative

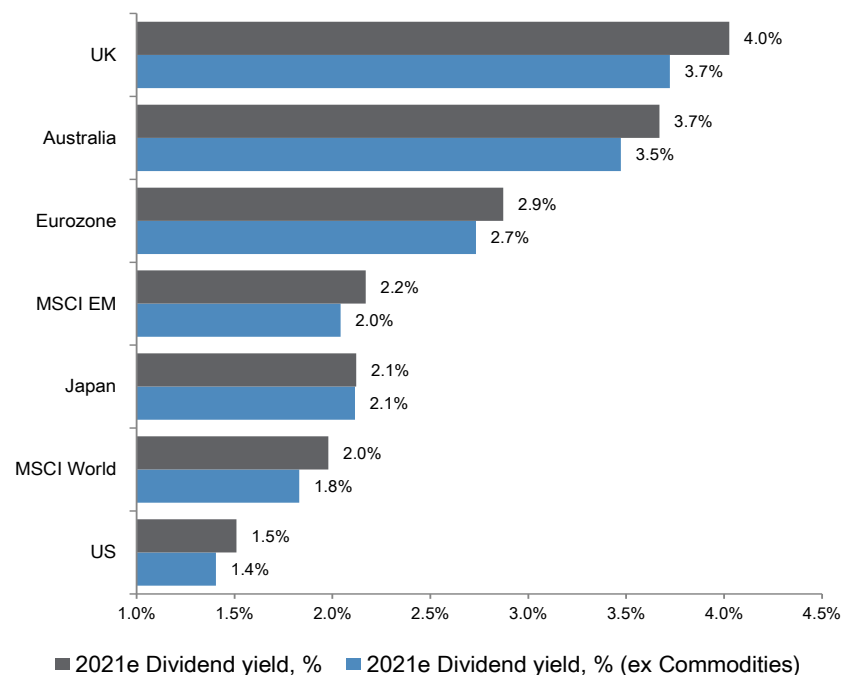
	MSCI UK relative to MSCI World (\$)			
	+1m	+3m	+6m	+12m
Jul-03	-3.5%	-0.3%	0.4%	3.9%
Apr-09	4.6%	6.0%	6.8%	5.1%
Average	0.5%	2.8%	3.6%	4.5%

Source: Bloomberg Finance L.P.

...and offers the highest dividend yield globally... the return of dividends will be a positive...

- UK is traditionally seen as a dividend play, and has a high proportion of income funds vs continental Europe and US. UK continues to offer the highest dividend yield globally.
- In terms of dividend yield–bond yield gap, UK scores very well compared to other key regions.

'21e DY for the key regional markets



Source: Bloomberg Finance L.P.

Dividend yield minus bond yield for key DM regions

	Dividend yield	10Y Bond yield	Dividend yield minus bond yield	Average since '00	Current vs Average (bp)
US	1.5%	1.0%	0.4%	-1.4%	179
Japan	1.9%	0.0%	1.9%	0.8%	113
Eurozone	2.2%	-0.2%	2.4%	0.3%	206
UK	3.2%	0.3%	2.9%	0.5%	245

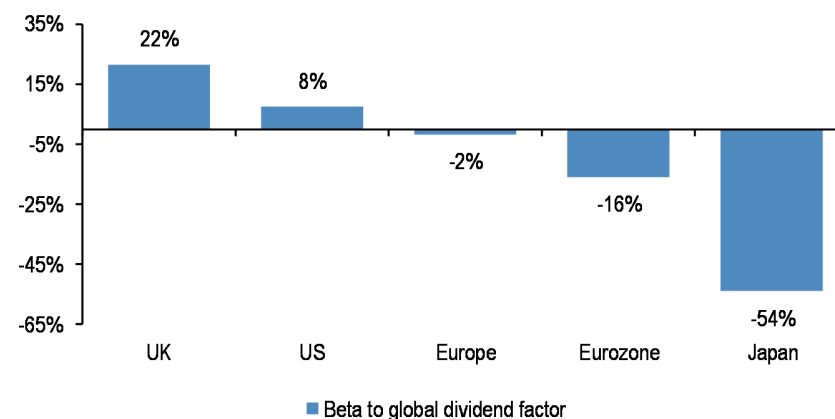
Source: Datastream

Proportion of dividend funds in key regions

	Dividend Funds, proportion of:	
	Total Net Assets	# of Funds
UK	18%	19%
Europe ex UK	6%	7%
US	8%	9%

Source: EPFR

Beta to dividend factor



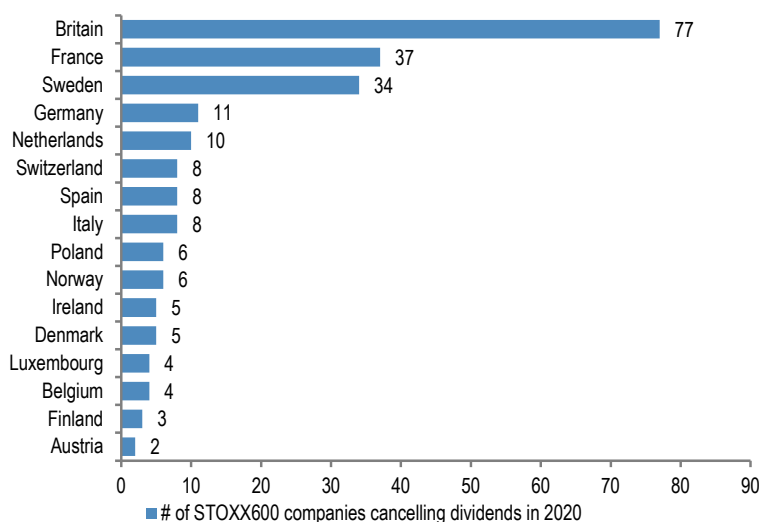
Source: Bloomberg Finance L.P.

J.P.Morgan CAZENOVE

...UK has suffered from disproportionately large dividend cuts, but the worst might be behind us

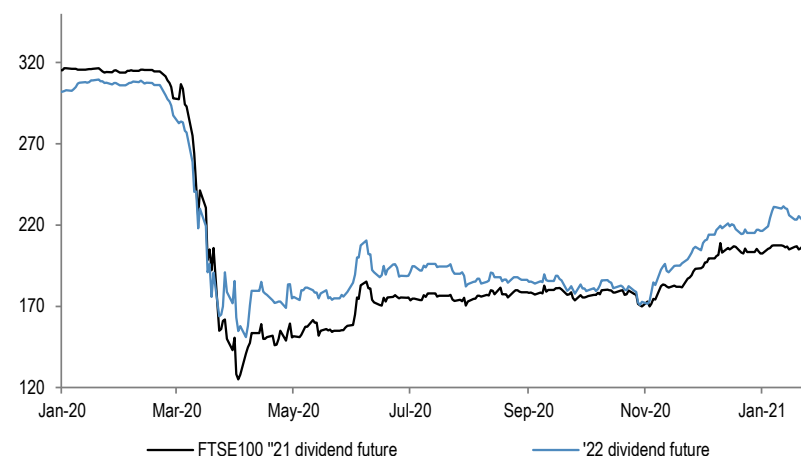
- The UK dividend projections endured a sharper cut than what was seen elsewhere in the early part of last year. However, we believe the worst is likely behind us, and UK could benefit if dividends were to return.

Stoxx600 companies cutting dividend in '20, by country



Source: Bloomberg Finance L.P.

FTSE100 dividend futures



Source: Bloomberg Finance L.P.

However, UK's Defensive tilt may be a problem against a more reflationary backdrop...

- Of the main regions, the US and UK are heavily tilted towards Defensive sectors.
- While some pundits believe the UK is a Value play, we tend to disagree. Looking at every single Value rally that the market witnessed over the past 10 years, the UK was the laggard vs Eurozone.
- In addition, the UK has a low beta with respect to the MSCI World performance. If global equities perform well, the UK might lag.

Sector composition of key markets

	FTSE100	MSCI US	Topix	MSCI Eurozone
Energy	9%	2%	1%	4%
Materials	14%	3%	6%	7%
Industrials	10%	8%	22%	15%
Discretionary	8%	12%	17%	17%
Staples	19%	6%	8%	8%
Healthcare	11%	14%	10%	8%
Financials	18%	10%	9%	14%
IT	1%	29%	14%	13%
Comm. Services	5%	11%	9%	5%
Utilities	4%	3%	1%	7%
Real Estate	1%	3%	2%	2%
Cyclicals	33%	52%	60%	52%
Defensives	38%	33%	29%	28%
Cyclicals vs Defensives	-5%	18%	32%	24%

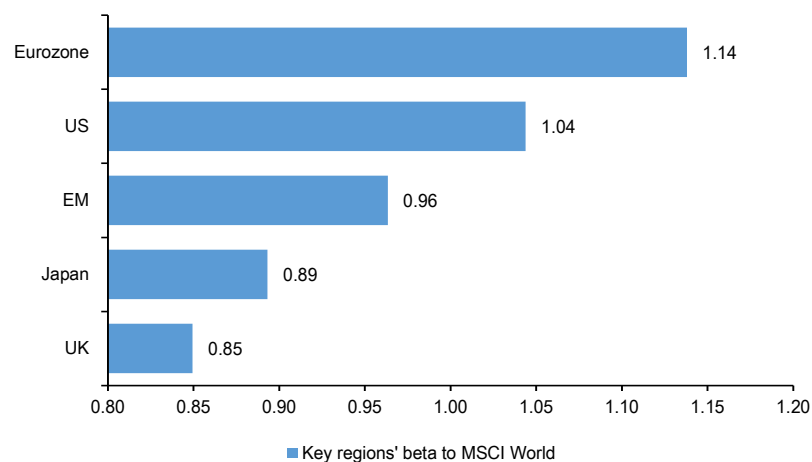
Source: Datastream

MSCI UK vs Eurozone performance during Value rallies in the last 10 years

MSCI Europe Value vs Growth			MSCI UK vs Eurozone (lc)
Trough	Peak	% change	
Mar-09	Aug-09	25%	-9%
Apr-13	May-14	10%	-13%
Aug-16	Dec-16	17%	-4%
May-20	Jun-20	10%	-3%
Oct-20	Nov-20	14%	-1%
Average		15%	-6%

Source: Datastream

Key regions beta to MSCI World

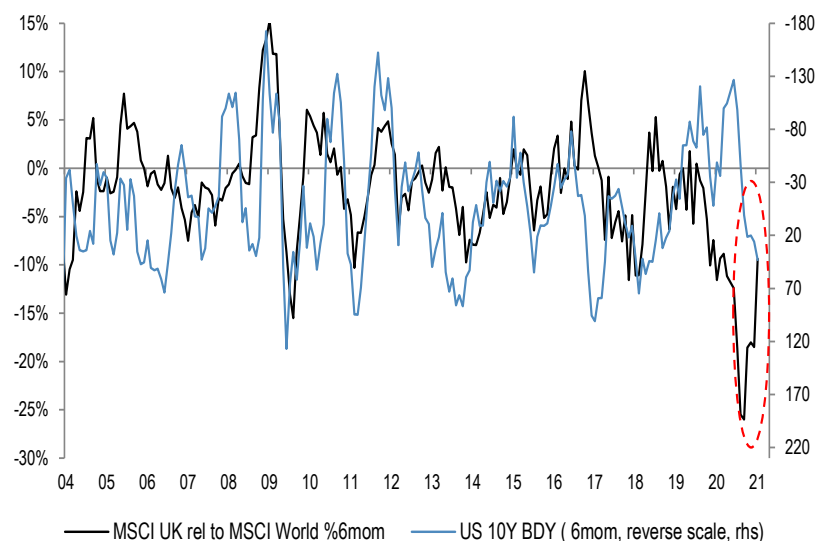


Source: Datastream

...UK has typically exhibited an inverse correlation to bond yields... if yields start moving higher, that would be a headwind...

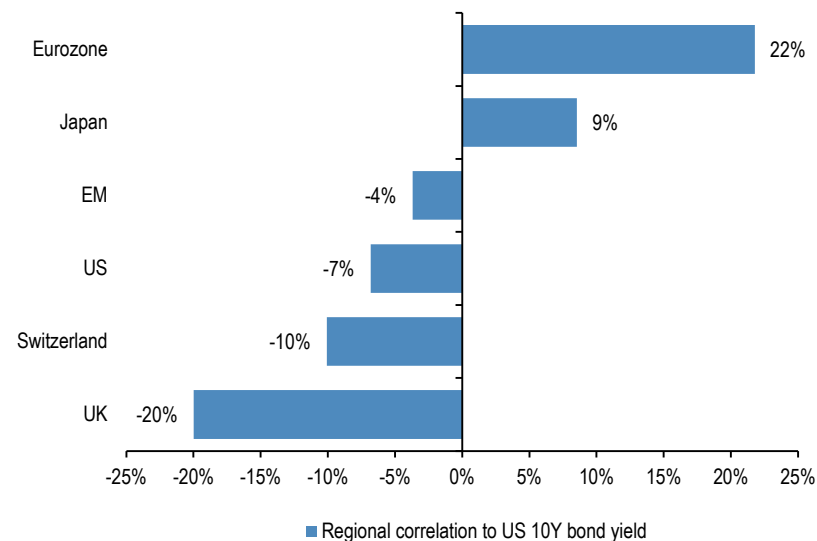
- UK equities typically do better when bond yields are falling, and display the most negative correlation to bond yields, out of all regions.
- The break in the relationship seen in the last 12 months could be accounted for by dividend headwind, and we think the inverse relationship will resume this year.

UK performance relative and 10Y bond yields



Source: Datastream

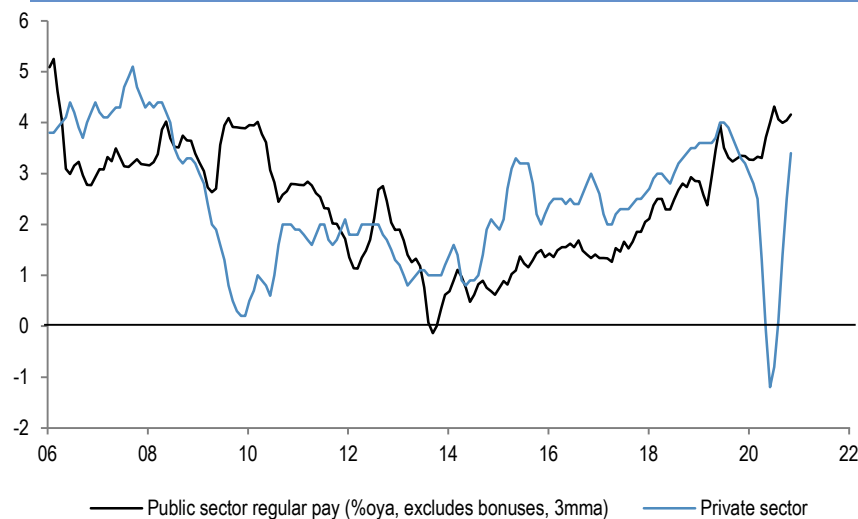
Key regional price relative correlations to bond yields



Source: Datastream

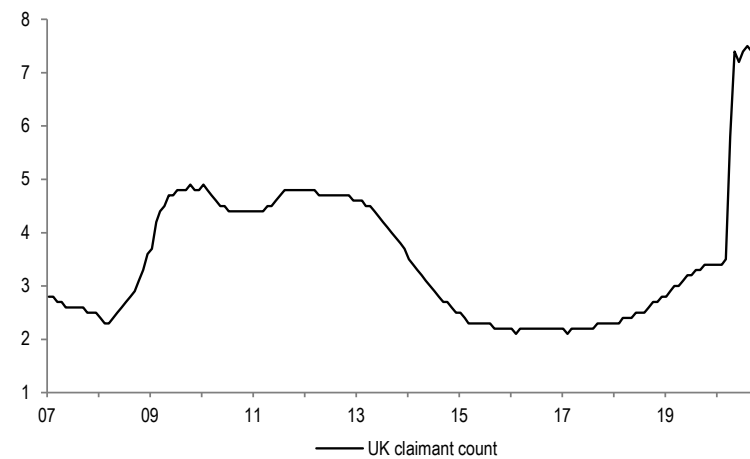
... UK labour market could remain challenged...

UK public vs private sector pay



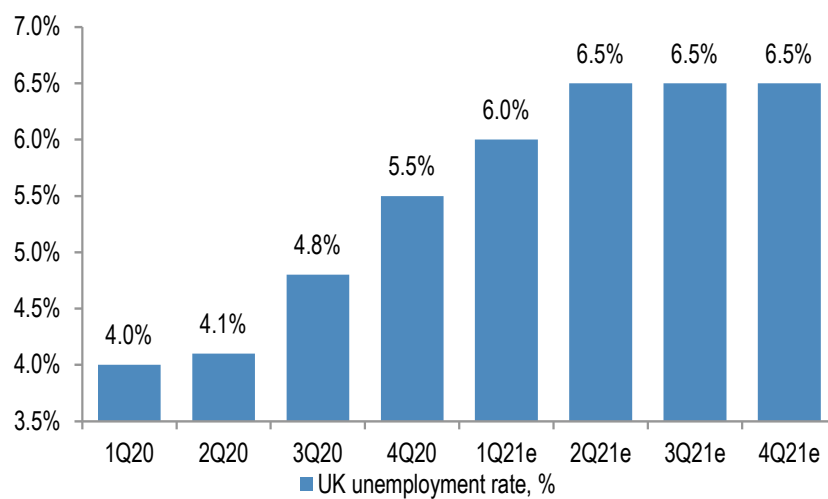
Source: ONS, J.P. Morgan

UK Claimant count



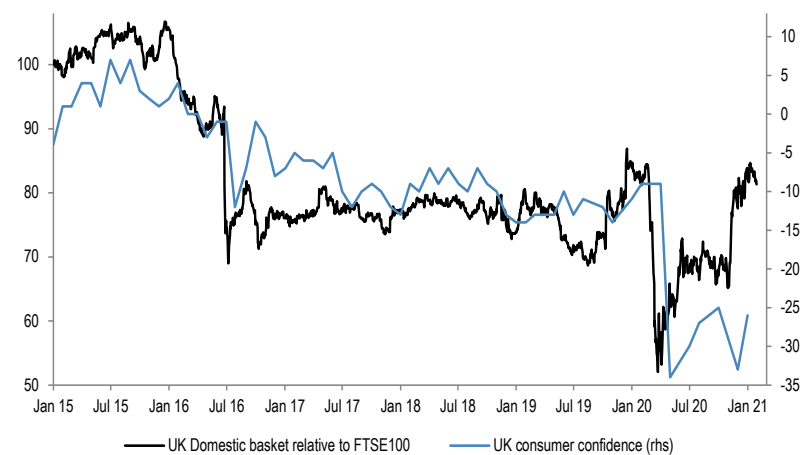
Source: ONS, J.P. Morgan

UK unemployment rate



Source: J.P. Morgan

UK Domestic basket relative and consumer confidence



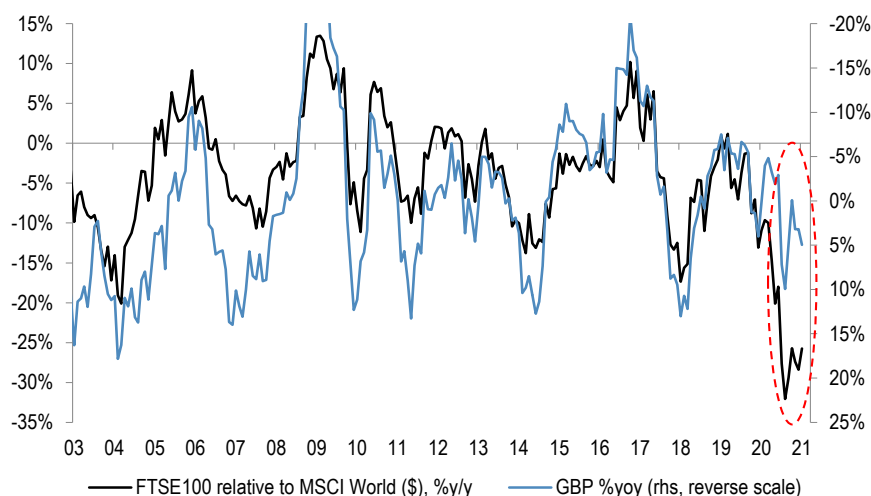
Source: Bloomberg Finance L.P., J.P. Morgan

J.P.Morgan CAZENOVE

...GBP may stay resilient, which is a problem for UK equities, given the strong inverse correlation to GBP

- FTSE100 shows a strong inverse correlation to the GBP, as almost 80% of the index revenues are derived from outside the UK.
- With the Brexit deal finally done, GBP could continue to stay supported.

FTSE100 relative to World and GBP



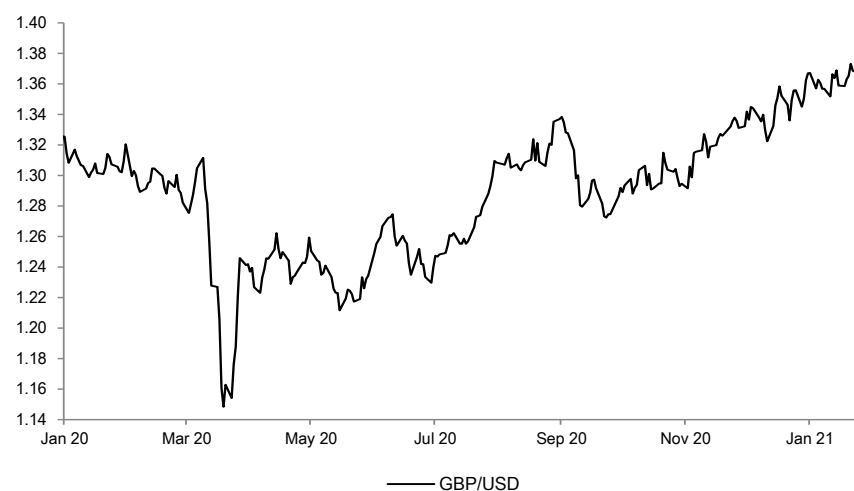
Source: Datastream

Foreign revenue exposure of FTSE100 and FTSE250

	Ex - UK Exposure	
	FTSE100	FTSE250
Energy	88%	89%
Healthcare	95%	83%
Materials	97%	69%
Telecoms	64%	60%
Real Estate	14%	52%
Industrials	82%	46%
IT	86%	45%
Utilities	48%	45%
Discretionary	56%	45%
Staples	57%	35%
Financials	59%	8%
Market	77%	44%

Source: Bloomberg Finance L.P.

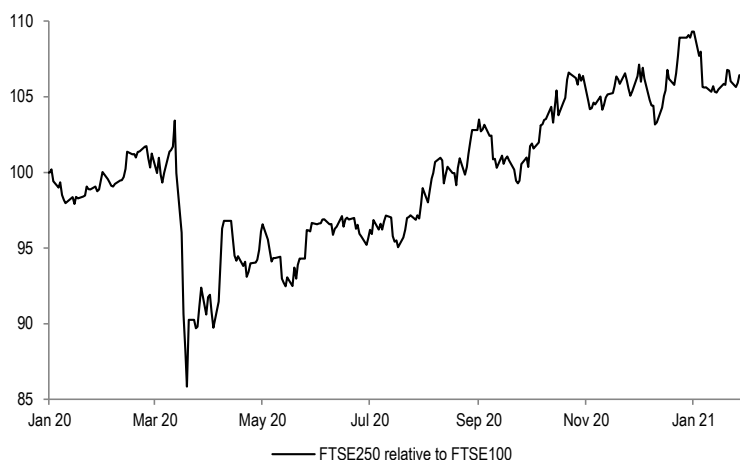
GBP/USD



Source: Bloomberg Finance L.P.

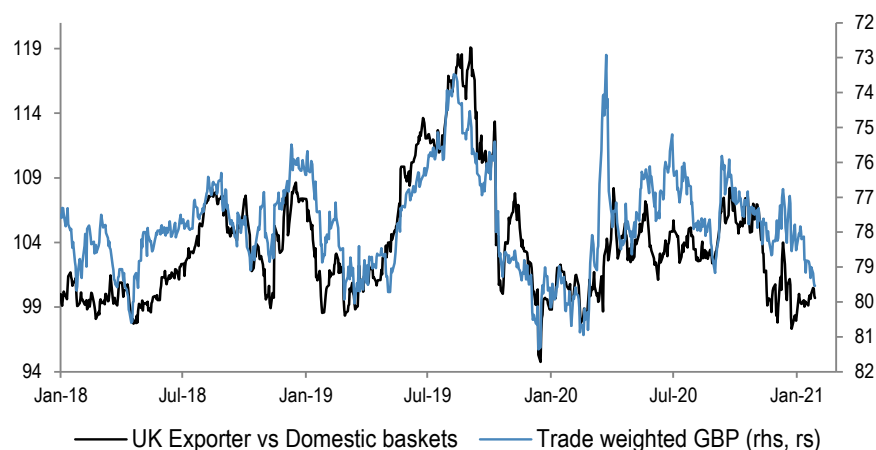
Domestic sectors are likely to do well if GBP strengthens... FTSE250 could do better than FTSE100 against this backdrop

FTSE250 vs FTSE100



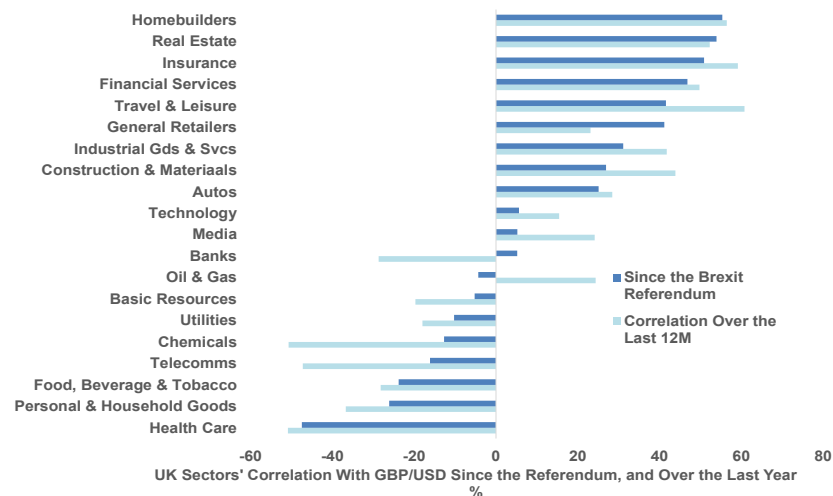
Source: Datastream

UK Exporters vs Domestic baskets and trade-weighted GBP



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

UK Sectors correlation to GBP/USD



Source: Datastream

Exporters vs Domestic basket composition

	Domestics weight	Exporters weight	Exporters - Domestics
INDUSTRIALS	9%	31%	22%
HEALTH CARE	0%	13%	13%
STAPLES	12%	15%	4%
ENERGY	0%	3%	3%
MATERIALS	0%	3%	3%
IT	0%	3%	3%
UTILITIES	3%	3%	0%
COM. SERVICES	12%	8%	-4%
REAL ESTATE	9%	0%	-9%
DISCRETIONARY	26%	13%	-14%
FINANCIALS	29%	10%	-19%

Source: J.P. Morgan

UK snapshot

MSCI UK 12m Fwd PE relative to MSCI World



Source: IBES

MSCI UK performance relative to MSCI World



Source: Datastream

UK Sector snapshot

	YTD Performance , %	YTD Total return, %	Weight in Index		12m Fwd P/E		EPS growth, %	
			UK	vs MSCI World	Current	vs Median since '06	2020e	2021e
UK	3%	3%	100%	0%	14.2	19%	-37.8%	44.2%
Energy	7%	7%	9%	7%	12.4	22%	-94.4%	1068.2%
Materials	7%	7%	12%	7%	11.2	0%	-4.6%	43.6%
Industrials	0%	0%	11%	0%	21.8	72%	-80.2%	365.8%
Discretionary	1%	1%	7%	-5%	22.2	71%	-55.6%	62.0%
Staples	2%	2%	22%	14%	14.5	6%	-7.4%	5.9%
Healthcare	6%	6%	11%	-2%	16.4	31%	-1.4%	12.8%
Financials	0%	0%	18%	6%	11.2	5%	-44.6%	32.1%
IT	8%	9%	1%	-21%	35.4	93%	-5.3%	-0.9%
Telecoms	1%	1%	5%	-4%	12.8	12%	-23.3%	25.8%
Utilities	3%	3%	4%	0%	16.8	37%	-8.8%	9.8%
Real Estate	-2%	-2%	1%	-1%	22.7	13%	-22.6%	18.4%
Cyclicals	3%	3%	30%	-19%	16.2	32%	-38.5%	141.6%
Defensives	3%	3%	41%	8%	14.9	17%	-8.3%	10.5%

Source: IBES, Datastream

6) UW Rest of the World

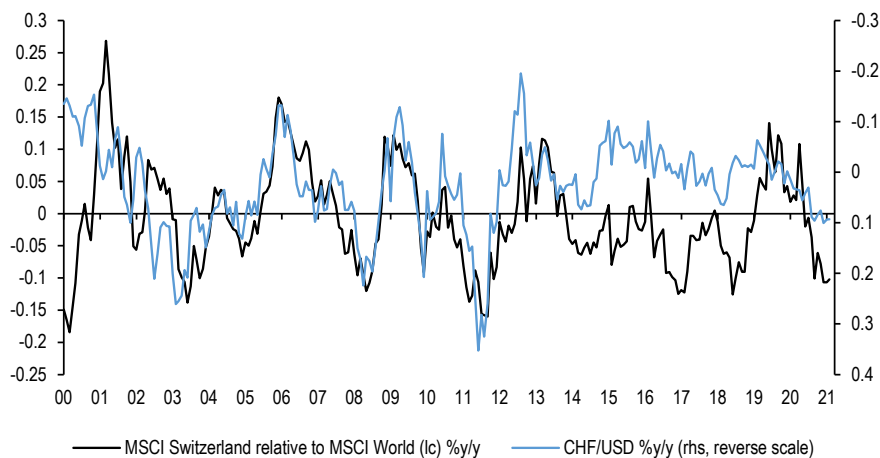
- We hold a generally cautious stance on some of the bigger components of RoW group.
- Switzerland has a clear Defensive tilt and could struggle this year if the cyclical recovery materializes. In addition, the region benefits from a weaker CHF, but this might not materialize.
- Australian and Canadian equities have higher dividend yields vs global, and might not be the relative outperformers if interest rates were to grind higher from here.

ROW sector composition and weights in MSCI World

	Weight in MSCI		
	World	Cyclicals	Defensives
SWITZERLAND	3.1%	20.8	64.5
CANADA	3.1%	41.0	9.4
AUSTRALIA	2.1%	34.3	21.9
HONG KONG	1.0%	19.9	15.9
SWEDEN	1.0%	60.9	8.5
DENMARK	0.8%	32.5	63.7
SINGAPORE	0.3%	15.5	4.3
ISRAEL	0.2%	62.9	12.2
NORWAY	0.2%	13.6	19.9
NEW ZEALAND	0.1%	14.3	72.1
ROW	11.8%	31.6	29.2

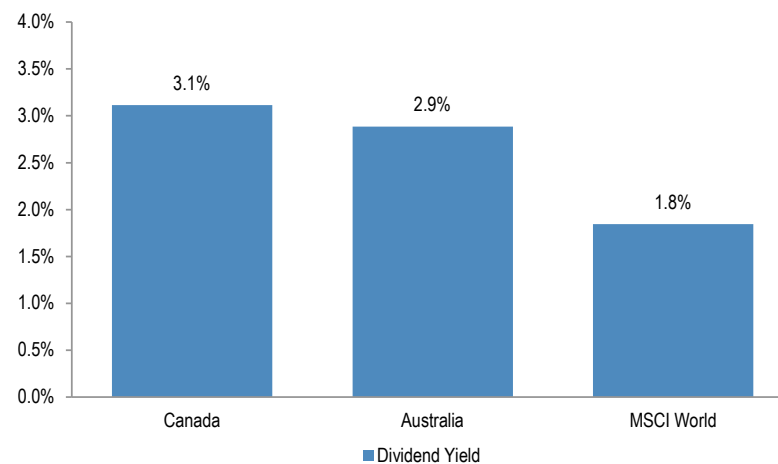
Source: Datastream

MSCI Switzerland relative and CHF/USD



Source: Datastream

Dividend yield for Australia, Canada and global equities



Source: Datastream

Regional and Asset Allocation, with Index targets

Global All country Regional Allocation				
	MSCI Weight	Allocation	Deviation	Recommendation
EM	12.7%	15.0%	2.3%	Overweight
DM	87.3%	85.0%	-2.3%	Underweight
	100.0%	100.0%	0.0%	Balanced

Global Developed Regional Allocation				
	MSCI Weight	Allocation	Deviation	Recommendation
US	66.1%	65.0%	-1.1%	Neutral
Japan	7.9%	10.0%	2.1%	Overweight
Eurozone	9.9%	13.0%	3.1%	Overweight
UK	4.3%	5.0%	0.7%	Neutral
Others*	11.8%	7.0%	-4.8%	Underweight
	100.0%	100.0%	0.0%	Balanced

European Regional Allocation				
	MSCI Weight	Allocation	Deviation	Recommendation
Eurozone	51.9%	60.0%	8.1%	Overweight
United Kingdom	22.3%	21.0%	-1.3%	Neutral
Others**	25.8%	19.0%	-6.8%	Underweight
	100.0%	100.0%	0.0%	Balanced

Asset Allocation				
	Benchmark weighting	Allocation	Deviation	Recommendation
Equities	60%	65%	5%	Overweight
Bonds	30%	25%	-5%	Underweight
Cash	10%	10%	0%	Neutral
	100%	100%	0%	Balanced

Source: MSCI, J.P. Morgan, Datastream. All regional recommendations are currency hedged.

**Others include Denmark, Norway, Sweden and Switzerland

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

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

***Targets and growth estimates from our regional strategists

Year end Index Targets		
	Dec '21 Target	Upside
MSCI Eurozone	268	17%
FTSE 100	7,100	9%
MSCI EUROPE	1,830	13%

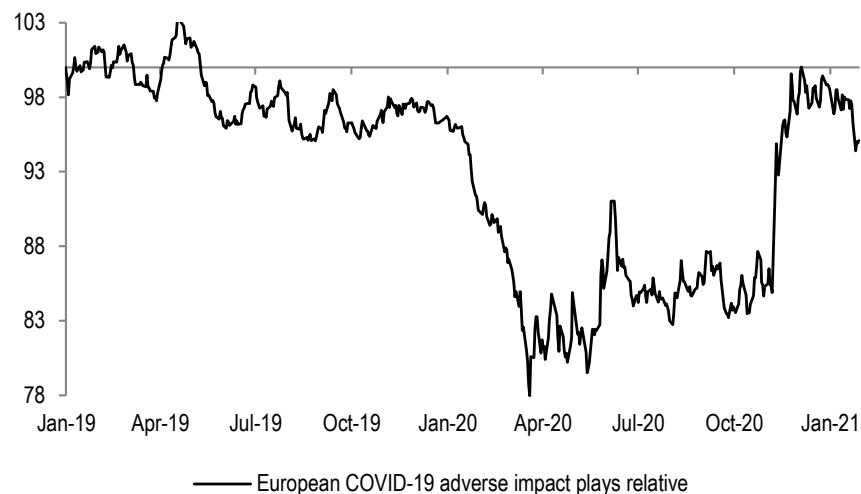
Source: J.P. Morgan, Datastream.

Key Global Sector Calls	
Sector	JPM Recommendation
Financials	Overweight
Communication Services	Overweight
Utilities	Overweight
Energy	Neutral
IT	Neutral
Industrials	Neutral
Consumer Discretionary	Neutral
Healthcare	Neutral
Materials	Neutral
Real Estate	Underweight
Consumer Staples	Underweight

Themes and Baskets: 1) COVID-19 losers...

- Our basket of COVID-19 adverse impact plays strongly underperformed earlier last year, but has posted a sharp recovery in the last six months. We believe that these stocks will continue to benefit from the potential "Re-opening" trade through 2021, although there could be some near term profit taking.
- The basket includes names that were hurt by increasing restrictions as governments acted to combat the spread of the virus.

COVID-19 adverse impact plays relative performance



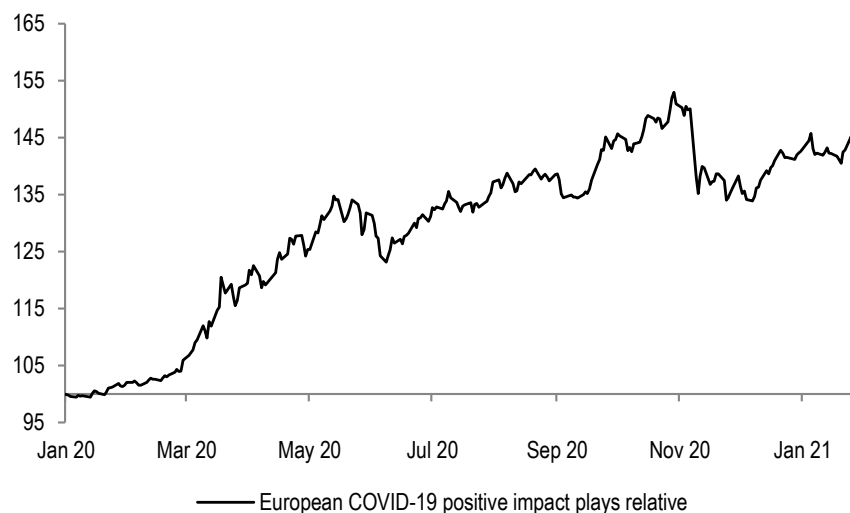
Source: Bloomberg Finance L.P., J.P.Morgan

Name	Ticker	Sector
INFORMA PLC	INF LN	COM. SERVICES
ITV PLC	ITV LN	COM. SERVICES
STROEER SE & CO KGAA	SAX GR	COM. SERVICES
ACCOR SA	AC FP	DISCRETIONARY
BAYERISCHE MOTOREN WERKE AG	BMW GR	DISCRETIONARY
COMPASS GROUP PLC	CPG LN	DISCRETIONARY
CONTINENTAL AG	CON GR	DISCRETIONARY
DAIMLER AG-REGISTERED SHARES	DAI GR	DISCRETIONARY
FAURECIA	EO FP	DISCRETIONARY
INTERCONTINENTAL HOTELS GROU	IHG LN	DISCRETIONARY
MARKS & SPENCER GROUP PLC	MKS LN	DISCRETIONARY
MICHELIN (CGDE)	ML FP	DISCRETIONARY
MONCLER SPA	MONC IM	DISCRETIONARY
RENAULT SA	RNO FP	DISCRETIONARY
SWATCH GROUP AG/THE-BR	UHR SW	DISCRETIONARY
VALEO SA	FR FP	DISCRETIONARY
VOLKSWAGEN AG-PREF	VOW GR	DISCRETIONARY
WHITBREAD PLC	WTB LN	DISCRETIONARY
ABN AMRO BANK NV-CVA	ABN NA	FINANCIALS
AEGON NV	AGN NA	FINANCIALS
AGEAS	AGS BB	FINANCIALS
ALLIANZ SE-REG	ALV GR	FINANCIALS
AXA SA	CS FP	FINANCIALS
BANCO SANTANDER SA	SAN SM	FINANCIALS
BARCLAYS PLC	BARC LN	FINANCIALS
BNP PARIBAS	BNP FP	FINANCIALS
ING GROEP NV	INGA NA	FINANCIALS
INTESA SANPAOLO	ISP IM	FINANCIALS
LEGAL & GENERAL GROUP PLC	LGEN LN	FINANCIALS
LLOYDS BANKING GROUP PLC	LLOY LN	FINANCIALS
M&G PLC	MNG LN	FINANCIALS
PRUDENTIAL PLC	PRU LN	FINANCIALS
ROYAL BANK OF SCOTLAND GROUP	RBS LN	FINANCIALS
SOCIETE GENERALE SA	GLE FP	FINANCIALS
SWISS RE AG	SREN SW	FINANCIALS
UNICREDIT SPA	UCG IM	FINANCIALS
SMITH & NEPHEW PLC	SN/ LN	HEALTH CARE
ADECCO GROUP AG-REG	ADEN SW	INDUSTRIALS
ADP	ADP FP	INDUSTRIALS
AIR FRANCE-KLM	AF FP	INDUSTRIALS
AIRBUS SE	AIR FP	INDUSTRIALS
COMPAGNIE DE SAINT GOBAIN	SGO FP	INDUSTRIALS
DEUTSCHE LUFTHANSA-REG	LHA GR	INDUSTRIALS
EASYJET PLC	EZJ LN	INDUSTRIALS
ELIS SA	ELIS FP	INDUSTRIALS
FRAPORT AG FRANKFURT AIRPORT	FRA GR	INDUSTRIALS
INTL CONSOLIDATED AIRLINE-DI	IAG LN	INDUSTRIALS
MEGGITT PLC	MGIT LN	INDUSTRIALS
MTU AERO ENGINES AG	MTX GR	INDUSTRIALS
RANDSTAD NV	RAND NA	INDUSTRIALS
ROLLS-ROYCE HOLDINGS PLC	RR/ LN	INDUSTRIALS
RYANAIR HOLDINGS PLC	RYA ID	INDUSTRIALS
SAFRAN SA	SAF FP	INDUSTRIALS
AMADEUS IT GROUP SA	AMS SM	IT
WORLDLINE SA	WLN FP	IT
ANTOFAGASTA PLC	ANTO LN	MATERIALS
ARCELORMITTAL	MT NA	MATERIALS
BHP GROUP PLC	BHP LN	MATERIALS
GLENORE PLC	GLEN LN	MATERIALS
HEIDELBERGCEMENT AG	HEI GR	MATERIALS
JOHNSON MATTHEY PLC	JMAT LN	MATERIALS
LAFARGEHOLCIM LTD-REG	LHN SW	MATERIALS
RIO TINTO PLC	RIO LN	MATERIALS
THYSSENKRUPP AG	TKA GR	MATERIALS
VOESTALPINE AG	VOE AV	MATERIALS
ANHEUSER-BUSCH INBEV SA/NV	ABI BB	STAPLES
BRITVIC PLC	BVIC LN	STAPLES
CARLSBERG AS-B	CARLB DC	STAPLES
COCA-COLA EUROPEAN PARTNERS	COEP LN	STAPLES
COCA-COLA HBC AG-DI	CCH LN	STAPLES
DAVIDE CAMPARI-MILANO SPA	CPR IM	STAPLES
DIAGEO PLC	DGE LN	STAPLES
FEVERTREE DRINKS	FEVR LN	STAPLES
HEINEKEN NV	HEIA NA	STAPLES
PERNOD RICARD SA	RI FP	STAPLES
CENTRICA PLC	CNA LN	UTILITIES

...and winners

- On the other hand, COVID-19 beneficiary stocks have done much better, outperforming the market by almost 60% in 2020, even accounting for the weakness post vaccine related announcements.
- Our COVID-19 positive impact plays basket comprises of stocks that benefitted from “Staying / Working from home” trends and from virus dislocation, and could offer potential short opportunities.

COVID-19 positive impact plays relative performance



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

COVID-19 positive impact plays - JPDEUCVW

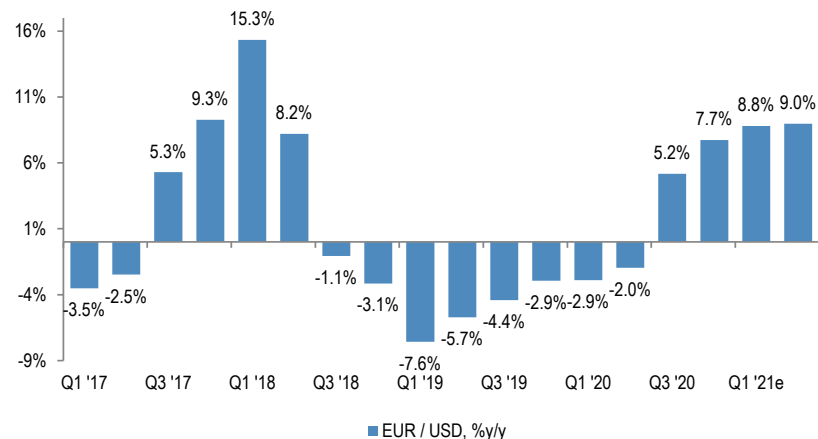
Name	Ticker	Sector
UBISOFT ENTERTAINMENT	UBI FP	COM. SERVICES
KINGFISHER	KGF LN	DISCRETIONARY
OCADO GROUP	OCDO LN	DISCRETIONARY
PUMA SE	PUM GY	DISCRETIONARY
ZALANDO	ZAL GR	DISCRETIONARY
DELIVERY HERO SE	DER GY	DISCRETIONARY
HELLOFRESH SE	HFG GY	DISCRETIONARY
JUST EAT TAKEAWAY	TKWY NA	DISCRETIONARY
B&M EUROPEAN VALUE RETAIL SA	BME LN	DISCRETIONARY
ZOPLUS AG	ZO1 GY	DISCRETIONARY
FLUTTER ENTERTAINMENT PLC	FLTR ID	DISCRETIONARY
GVC HOLDINGS PLC	GVC LN	DISCRETIONARY
888 HOLDINGS PLC	888 LN	DISCRETIONARY
AO WORLD PLC	AO/ LN	DISCRETIONARY
ADMIRAL GROUP	ADM LN	FINANCIALS
DIRECT LINE INSURANCE GROUP	DLG LN	FINANCIALS
SARTORIUS AG	SRT GR	HEALTH CARE
SARTORIUS STEDIM BIOTECH	DIM FP	HEALTH CARE
LONZA GROUP AG-REG	LONN SW	HEALTH CARE
GERRESHEIMER AG	GXI GY	HEALTH CARE
GN STORE NORD A/S	GN DC	HEALTH CARE
MERCK KGAA	MRK GY	HEALTH CARE
ROCHE HOLDING AG-GENUSSCHEIN	ROG SE	HEALTH CARE
AMBU A/S-B	AMBUB DC	HEALTH CARE
FERGUSON	FERG LN	INDUSTRIALS
AVAST PLC	AVST LN	IT
TEAMVIEWER AG	TMV GY	IT
ADYEN NV	ADYEN NA	IT
AKZO NOBEL N.V.	AKZA NA	MATERIALS
CARREFOUR SA	CA FP	STAPLES
NESTLE SA-REG	NESN SW	STAPLES
RECKITT BENCKISER GROUP	RB/ LN	STAPLES
SAINSBURY (J)	SBRY LN	STAPLES
WM MORRISON SUPERMARKETS	MRW LN	STAPLES
KONINKLIJKE AHOLD DELHAIZE N	AD NA	STAPLES

Source: J.P. Morgan

2) FX exposure: a) stronger euro is likely to be a headwind to relative performance of exporters...

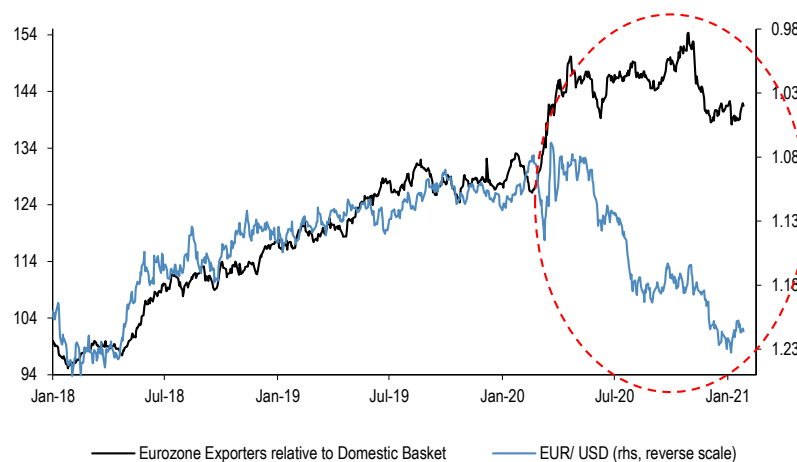
- Our Eurozone Exporters basket did well last year; however, a large gap has opened up between its relative performance and EUR/USD.

EUR / USD y/y



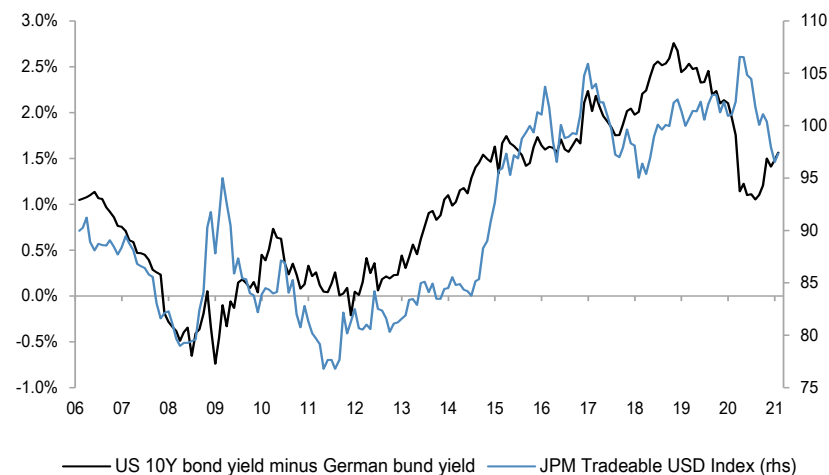
Source: Bloomberg Finance L.P., J.P.Morgan

Eurozone Exporters relative and EUR/USD



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

US minus German yield spread and USD

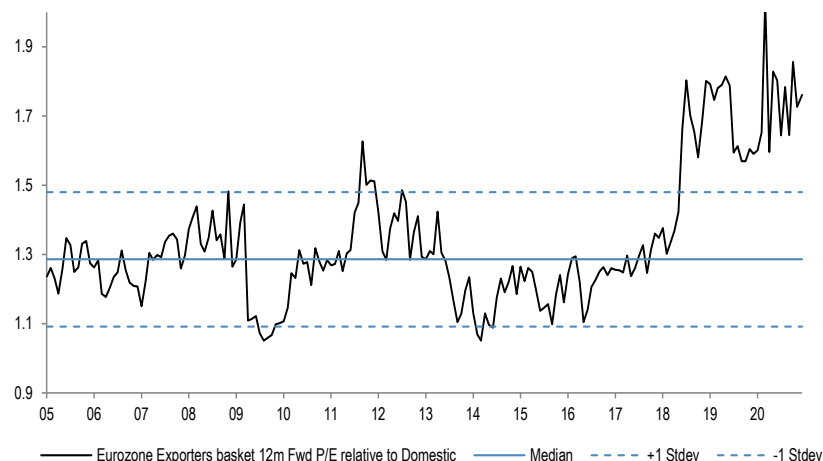


Source: Bloomberg Finance L.P.

...valuations for the group appear stretched

- Valuations of Exporters vs Domestic remain in outright expensive territory.
- Our basket of Eurozone Exporters comprises of stocks with the highest international revenue exposure and could be hurt by a stronger Euro.

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



Source: IBES, J.P.Morgan

JPM Eurozone exporters - JPDEEZEX Index

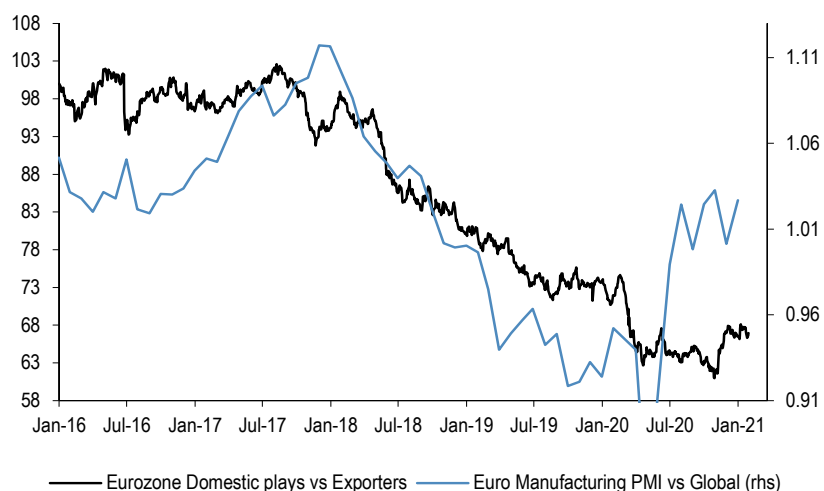
Name	Ticker	Sector	Ex-W.E. exposure
KONINKLIJKE PHILIPS NV	PHIA NA	HEALTH CARE	86%
FRESENIUS MEDICAL CARE AG &	FME GR	HEALTH CARE	84%
PERNOD RICARD SA	RI FP	STAPLES	80%
L'OREAL	OR FP	STAPLES	79%
PUBLICIS GROUPE	PUB FP	COM. SERVICES	77%
SALVATORE FERRAGAMO SPA	SFER IM	DISCRETIONARY	76%
SANOFI	SAN FP	HEALTH CARE	76%
EUTELSAT COMMUNICATIONS	ETL FP	COM. SERVICES	75%
ADIDAS AG	ADS GY	DISCRETIONARY	75%
HELLOFRESH SE	HFG GR	DISCRETIONARY	75%
EDENRED	EDEN FP	INDUSTRIALS	75%
WOLTERS KLUWER	WKL NA	INDUSTRIALS	75%
ACERINOX SA	ACX SM	MATERIALS	75%
REMY COINTREAU	RCO FP	STAPLES	75%
AEGON NV	AGN NA	FINANCIALS	74%
UCB SA	UCB BB	HEALTH CARE	72%
BUREAU VERITAS SA	BVI FP	INDUSTRIALS	72%
MERCK KGAA	MRK GR	HEALTH CARE	71%
KERING	KER FP	DISCRETIONARY	70%
PUMA SE	PUM GY	DISCRETIONARY	70%
MTU AERO ENGINES AG	MTX GR	INDUSTRIALS	70%
BAYER AG-REG	BAYN GR	HEALTH CARE	70%
HERMES INTERNATIONAL	RMS FP	DISCRETIONARY	69%
GEA GROUP AG	G1A GR	INDUSTRIALS	69%
AIRBUS SE	AIR FP	INDUSTRIALS	68%
MUENCHENER RUECKVER	MUV2 GR	FINANCIALS	67%
CRH PLC	CRH ID	MATERIALS	66%
AIR LIQUIDE SA	AI FP	MATERIALS	66%
NEOEN SA	NEOEN FP	UTILITIES	65%
ACCOR SA	AC FP	DISCRETIONARY	62%
KONINKLIJKE AHOLD DELHAIZE N	AD NA	STAPLES	62%
MONCLER SPA	MONC IM	DISCRETIONARY	61%
HEIDELBERGCEMENT AG	HEI GR	MATERIALS	61%
SES	SESG FP	COM. SERVICES	60%
MICHELIN (CGDE)	ML FP	DISCRETIONARY	60%
DAVIDE CAMPARI-MILANO SPA	CPR IM	STAPLES	60%
IBERDROLA SA	IBE SM	UTILITIES	60%
SAFRAN SA	SAF FP	INDUSTRIALS	59%
HUGO BOSS AG -ORD	BOSS GY	DISCRETIONARY	58%
UBISOFT ENTERTAINMENT	UBI FP	COM. SERVICES	55%
BMW	BMW GR	DISCRETIONARY	55%
DAIMLER	DAI GR	DISCRETIONARY	55%
BUZZI UNICEM SPA	BZU IM	MATERIALS	55%
CONTINENTAL AG	CON GR	DISCRETIONARY	50%
VOLKSWAGEN AG-PREF	VOW GR	DISCRETIONARY	50%
DEUTSCHE TELEKOM AG-REG	DTE GR	COM. SERVICES	45%
SAP SE	SAP GR	IT	44%
FERROVIAL SA	FER SM	INDUSTRIALS	43%
AGEAS	AGS BB	FINANCIALS	39%
DASSAULT SYSTEMES SA	DSY FP	IT	32%
ENEL SPA	ENEL IM	UTILITIES	30%

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

b) Eurozone domestic exposure

- Our Domestic exposure basket performed poorly. We now advise to be outright long Domestic vs Exporters plays in Eurozone.
- We believe the relative weakness in Eurozone activity has been one of the factors dragging down the domestic parts of the European market, but that might be changing.
- The basket is heavily weighed in Financials, which could start performing better.

Eurozone Domestic vs Exporters and Euro vs Global PMI



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

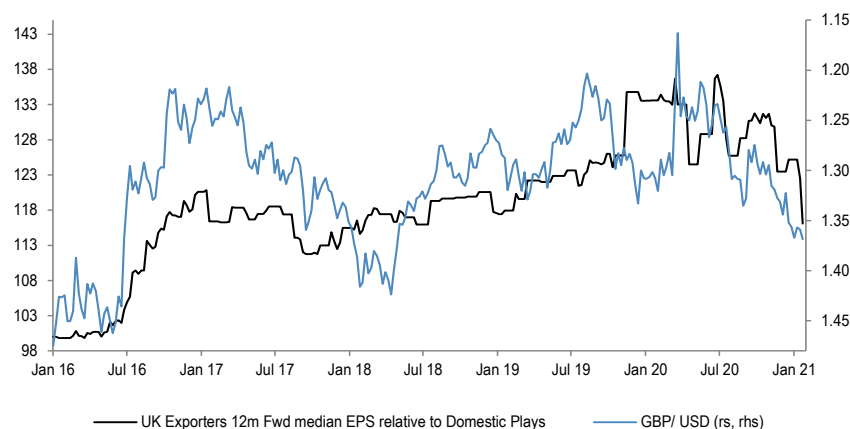
JPM Eurozone Domestic - JPDEEZDR

Name	Ticker	Sector	W.E. exposure
ELISA OYJ	ELISA FH	COM. SERVICES	100%
KONINKLIJKE KPN NV	KPN NA	COM. SERVICES	100%
PROXIMUS	PROX BB	COM. SERVICES	100%
ASR NEDERLAND NV	ASRNL NA	FINANCIALS	100%
CAIXABANK SA	CABK SM	FINANCIALS	100%
POSTE ITALIANE SPA	PST IM	FINANCIALS	100%
GECINA SA	GFC FP	REAL ESTATE	100%
IMMOBILIARIA COLONIAL SOCIMI	COL SM	REAL ESTATE	100%
MERLIN PROPERTIES SOCIMI SA	MRL SM	REAL ESTATE	100%
KLEPIERRE	LI FP	REAL ESTATE	100%
STROEER SE & CO KGAA	SAX GR	COM. SERVICES	98%
COMMERZBANK AG	CBK GY	FINANCIALS	96%
ASSICURAZIONI GENERALI	G IM	FINANCIALS	95%
EIFFAGE	FGR FP	INDUSTRIALS	95%
WORLDLINE SA	WLN FP	IT	93%
INTESA SANPAOLO	ISP IM	FINANCIALS	91%
SPIE SA	SPIE FP	INDUSTRIALS	90%
NN GROUP NV	NN NA	FINANCIALS	89%
PROSIEBENSAT.1 MEDIA SE	PSM GR	COM. SERVICES	86%
VINCI SA	DG FP	INDUSTRIALS	82%
UNICREDIT SPA	UCG IM	FINANCIALS	80%
TELECOM ITALIA SPA	TIT IM	COM. SERVICES	77%
RYANAIR HOLDINGS PLC	RYA ID	INDUSTRIALS	77%
TELENET GROUP HOLDING NV	TNET BB	COM. SERVICES	75%
CREDIT AGRICOLE SA	ACA FP	FINANCIALS	74%
KBC GROUP NV	KBC BB	FINANCIALS	72%
CELLNEX TELECOM SA	CLNX SM	COM. SERVICES	70%
ALLIANZ SE-REG	ALV GR	FINANCIALS	66%
COMPAGNIE DE SAINT GOBAIN	SGO FP	INDUSTRIALS	66%
RENAULT SA	RNO FP	DISCRETIONARY	65%
ING GROEP NV	INGA NA	FINANCIALS	65%
BNP PARIBAS	BNP FP	FINANCIALS	64%
OUTOKUMPU OYJ	OUT1V FH	MATERIALS	61%
INDUSTRIA DE DISENO TEXTIL	ITX SM	DISCRETIONARY	60%
DEUTSCHE POST AG-REG	DPW GR	INDUSTRIALS	60%
VOESTALPINE AG	VOE AV	MATERIALS	58%
AIR FRANCE-KLM	AF FP	INDUSTRIALS	57%
SOCIETE GENERALE SA	GLE FP	FINANCIALS	56%
BANCO COMERCIAL PORTUGUES-R	BCP PL	FINANCIALS	55%
REXEL SA	RXL FP	INDUSTRIALS	55%
DEUTSCHE LUFTHANSA-REG	LHA GR	INDUSTRIALS	54%
PRYSMIAN SPA	PRY IM	INDUSTRIALS	54%
APERAM	APAM NA	MATERIALS	53%
IPSEN	IPN FP	HEALTH CARE	52%
ARCELORMITTAL	MT NA	MATERIALS	50%
CARREFOUR SA	CA FP	STAPLES	50%
LANXESS AG	LXS GR	MATERIALS	50%
THYSSENKRUPP AG	TKA GR	MATERIALS	49%
CAPGEMINI SE	CAP FP	IT	48%

c) UK Exporters' performance is closely linked to the direction of GBP

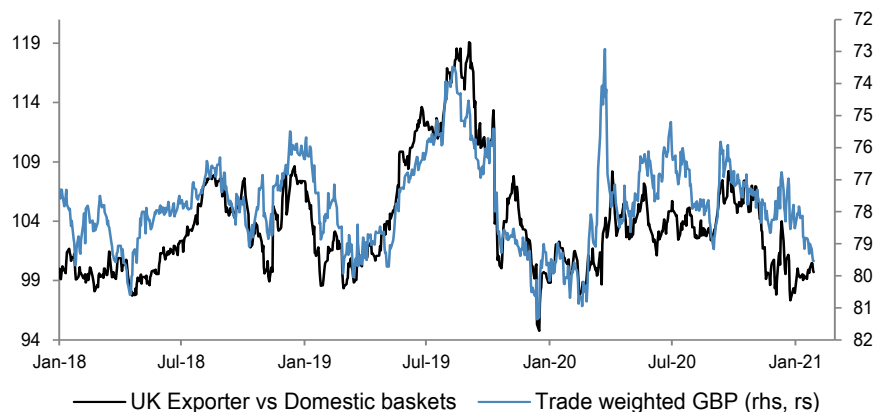
- UK exporters display a clear negative correlation with FX, and could be hurt by a stronger GBP.

UK Exporters vs Domestic earnings and GBP



Source: Datastream, J.P. Morgan

UK Exporters vs Domestic baskets vs trade-weighted GBP



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

JPM UK Exporters - JPDEUKEX

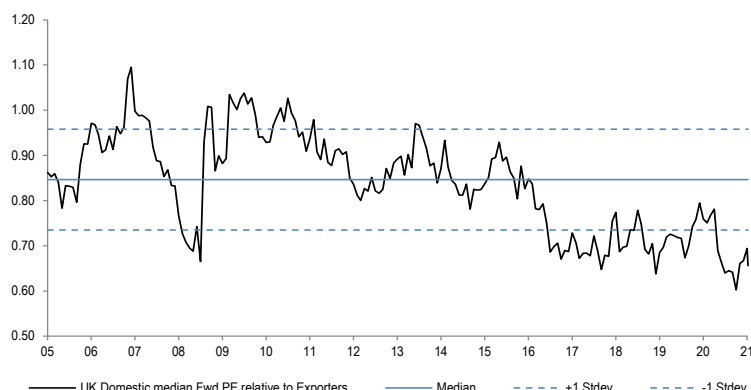
Name	Ticker	Sector	ex-UK exposure
BRITISH AMERICAN TOBACCO	BATS LN	STAPLES	99%
ASTRAZENECA	AZN LN	HEALTH CARE	98%
WPP	WPP LN	COM. SERVICES	96%
RELX	REL LN	INDUSTRIALS	96%
GLAXOSMITHKLINE	GSK LN	HEALTH CARE	95%
SMITH & NEPHEW	SN/ LN	HEALTH CARE	95%
SMITHS GROUP	SMIN LN	INDUSTRIALS	95%
SPIRAX-SARCO ENGINEERING	SPX LN	INDUSTRIALS	95%
DIAGEO	DGE LN	STAPLES	95%
UNILEVER	ULVR LN	STAPLES	95%
ABCAM	ABC LN	HEALTH CARE	95%
RECKITT BENCKISER GROUP	RB/ LN	STAPLES	94%
INTERCONTINENTAL HOTELS GROU	IHG LN	DISCRETIONARY	93%
STANDARD CHARTERED PLC	STAN LN	FINANCIALS	93%
INTERTEK GROUP	ITRK LN	INDUSTRIALS	93%
COMPASS GROUP	CPG LN	DISCRETIONARY	92%
CONVATEC GROUP	CTEC LN	HEALTH CARE	92%
FERGUSON	FERG LN	INDUSTRIALS	92%
IMPERIAL BRANDS	IMB LN	STAPLES	92%
PEARSON	PERSON LN	COM. SERVICES	91%
MELROSE INDUSTRIES	MRO LN	INDUSTRIALS	90%
ROLLS-ROYCE HOLDINGS	RR/ LN	INDUSTRIALS	90%
ROTORC	ROR LN	INDUSTRIALS	88%
BURBERRY GROUP	BRBY LN	DISCRETIONARY	88%
RENTOKIL INITIAL	RTO LN	INDUSTRIALS	88%
BUNZL	BNZL LN	INDUSTRIALS	87%
VODAFONE GROUP	VOD LN	COM. SERVICES	86%
JOHNSON MATTHEY	JMAT LN	MATERIALS	83%
PRUDENTIAL	PRU LN	FINANCIALS	80%
EXPERIAN	EXP LN	INDUSTRIALS	80%
HSBC HOLDINGS	HSBA LN	FINANCIALS	77%
ROYAL DUTCH SHELL-A SHS	RDSA LN	ENERGY	72%
ASOS	ASC LN	DISCRETIONARY	63%
ASSOCIATED BRITISH FOODS	ABF LN	STAPLES	62%
KINGFISHER	KGF LN	DISCRETIONARY	60%
RSA INSURANCE GROUP	RSA LN	FINANCIALS	60%
DCC	DCC LN	INDUSTRIALS	52%
NATIONAL GRID	NG/ LN	UTILITIES	50%
SAGE GROUP/THE	SGE LN	IT	47%

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

d) Within UK, domestic plays could do better

- Domestic stocks remain depressed compared to their pre-referendum levels.
- UK business and consumer sentiment has been extremely weak in the aftermath of the Brexit vote, but could start to recover once a deal is in place.

UK Domestic vs Exporters 12m Fwd. P/E



Source: IBES

UK Domestic basket relative and consumer confidence



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

JPM UK Domestic - JPDEUKDM

Name	Ticker	Sector	UK exposure
AUTO TRADER GROUP	AUTO LN	COM. SERVICES	100%
RIGHTMOVE	RMV LN	COM. SERVICES	100%
BARRATT DEVELOPMENTS	BDEV LN	DISCRETIONARY	100%
BERKELEY GROUP HOLDINGS/THE	BKG LN	DISCRETIONARY	100%
PERSIMMON	PSN LN	DISCRETIONARY	100%
ADMIRAL GROUP	ADM LN	FINANCIALS	100%
DIRECT LINE INSURANCE GROUP	DLG LN	FINANCIALS	100%
HARGREAVES LANSDOWN	HL/ LN	FINANCIALS	100%
ST JAMES'S PLACE	STJ LN	FINANCIALS	100%
HOWDEN JOINERY GROUP	HWDN LN	INDUSTRIALS	100%
BRITISH LAND CO	BLND LN	REAL ESTATE	100%
LAND SECURITIES GROUP	LAND LN	REAL ESTATE	100%
DERWENT LONDON PLC	DLN LN	REAL ESTATE	100%
SAINSBURY (J)	SBRY LN	STAPLES	100%
WM MORRISON SUPERMARKETS	MRW LN	STAPLES	100%
WHITBREAD	WTB LN	DISCRETIONARY	99%
TRAVIS PERKINS	TPK LN	INDUSTRIALS	99%
TAYLOR WIMPEY	TW/ LN	DISCRETIONARY	97%
BT GROUP	BT/A LN	COM. SERVICES	95%
LEGAL & GENERAL GROUP	LGDN LN	FINANCIALS	95%
LLOYDS BANKING GROUP	LLOY LN	FINANCIALS	95%
B&M EUROPEAN VALUE RETAIL SA	BME LN	DISCRETIONARY	93%
MARKS & SPENCER GROUP	MKS LN	DISCRETIONARY	90%
NEXT	NXT LN	DISCRETIONARY	90%
M&G PLC	MNG LN	FINANCIALS	90%
QUILTER	QLT LN	FINANCIALS	90%
ROYAL BANK OF SCOTLAND GROUP	RBS LN	FINANCIALS	90%
CENTRICA PLC	CNA LN	UTILITIES	90%
OCADO GROUP	OCDO LN	DISCRETIONARY	80%
ITV	ITV LN	COM. SERVICES	71%
BRITVIC	BVIC LN	STAPLES	60%
BARCLAYS	BARC LN	FINANCIALS	52%
FEVERTREE DRINKS	FEVR LN	STAPLES	50%
EASYJET	EZJ LN	INDUSTRIALS	44%

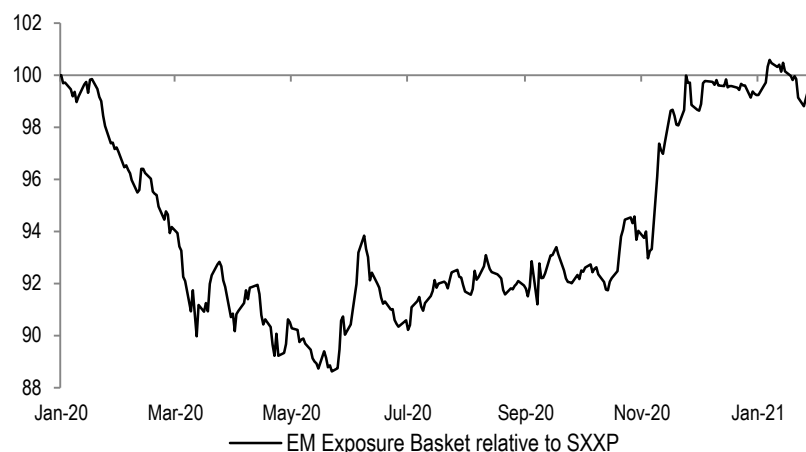
Source: Bloomberg Finance L.P., J.P. Morgan, all stocks are liquidity weighted in the basket

J.P.Morgan CAZENOVE

3) EM exposure

- Our EM exposure basket underperformed for the most part of last year, but has recovered recently. We believe that the risk-reward for EM equities remains favourable given potentially lower trade uncertainty, stronger EM FX and likely global recovery, among other factors.
- Our EM exposure basket comprises of stocks with the highest exposure to the region, and most geared to EM growth recovery.

EM exposure basket price relative



Source: Bloomberg Finance L.P.

JPM EM exposure - JPDEEMEX

Name	Ticker	Sector	EM exposure
STANDARD CHARTERED PLC	STAN LN	FINANCIALS	86%
KAZ MINERALS PLC	KAZ LN	MATERIALS	83%
SAIPEM SPA	SPM IM	ENERGY	78%
ANGLO AMERICAN PLC	AAL LN	MATERIALS	69%
BHP GROUP PLC	BHP LN	MATERIALS	69%
AGEAS	AGS BB	FINANCIALS	68%
UNILEVER PLC	ULVR LN	STAPLES	67%
HSBC HOLDINGS PLC	HSBA LN	FINANCIALS	66%
COCA-COLA HBC AG-DI	CCH LN	STAPLES	65%
ANHEUSER-BUSCH INBEV SA/NV	ABI BB	STAPLES	62%
PERNOD RICARD SA	RI FP	STAPLES	60%
RIO TINTO PLC	RIO LN	MATERIALS	58%
YARA INTERNATIONAL ASA	YAR NO	MATERIALS	55%
MTU AERO ENGINES AG	MTX GR	INDUSTRIALS	55%
LAFARGEHOLCIM LTD-REG	LHN SW	MATERIALS	55%
TELENOR ASA	TEL NO	COM. SERVICES	54%
SWATCH GROUP AG/THE-BR	UHR SW	DISCRETIONARY	54%
ERSTE GROUP BANK AG	EBS AV	FINANCIALS	53%
SGS SA-REG	SGSN SW	INDUSTRIALS	50%
CARLSBERG AS-B	CARLB DC	STAPLES	50%
HEINEKEN NV	HEIA NA	STAPLES	50%
GLENCORE PLC	GLEN LN	MATERIALS	46%
ABB LTD-REG	ABBN SW	INDUSTRIALS	45%
AIRBUS SE	AIR FP	INDUSTRIALS	45%
ATLAS COPCO AB-A SHS	ATCOA SS	INDUSTRIALS	45%
BANCO SANTANDER SA	SAN SM	FINANCIALS	44%
SALVATORE FERRAGAMO SPA	SFER IM	DISCRETIONARY	43%
NOKIA OYJ	NOKIA FH	IT	42%
GIVAUDAN-REG	GIVN SW	MATERIALS	42%
AP MOLLER-MAERSK A/S-B	MAERSKB DC	INDUSTRIALS	41%
BURBERRY GROUP PLC	BRBY LN	DISCRETIONARY	40%
INCHCAPE PLC	INCH LN	DISCRETIONARY	40%
PRUDENTIAL PLC	PRU LN	FINANCIALS	40%
BUREAU VERITAS SA	BVI FP	INDUSTRIALS	40%
INTERTEK GROUP PLC	ITRK LN	INDUSTRIALS	40%
REMY COINTREAU	RCO FP	STAPLES	40%
KERING	KER FP	DISCRETIONARY	39%
ACCOR SA	AC FP	DISCRETIONARY	38%
EDENRED	EDEN FP	IT	38%
CIE FINANCIERE RICHEMONT-REG	CFR SW	DISCRETIONARY	37%
HERMES INTERNATIONAL	RMS FP	DISCRETIONARY	36%
ERICSSON LM-B SHS	ERICB SS	IT	36%
HEIDELBERGCEMENT AG	HEI GR	MATERIALS	35%
ASTRAZENECA PLC	AZN LN	HEALTH CARE	35%
KONINKLIJKE PHILIPS NV	PHIA NA	HEALTH CARE	33%
HIKMA PHARMACEUTICALS PLC	HIK LN	HEALTH CARE	33%
SANOFI	SAN FP	HEALTH CARE	30%
ANTOFAGASTA PLC	ANTO LN	MATERIALS	22%
ENEL	ENEL IM	UTILITIES	20%
ADIDAS AG	ADS GY	DISCRETIONARY	15%
PUMA SE	PUMA GY	DISCRETIONARY	15%
HEXAGON AB-B SHS	HEXAB SS	IT	15%
NATURGY ENERGY GROUP SA	NTGY SM	UTILITIES	15%
ASHMORE GROUP PLC	ASHM LN	FINANCIALS	-

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

4) European fiscal stimulus basket

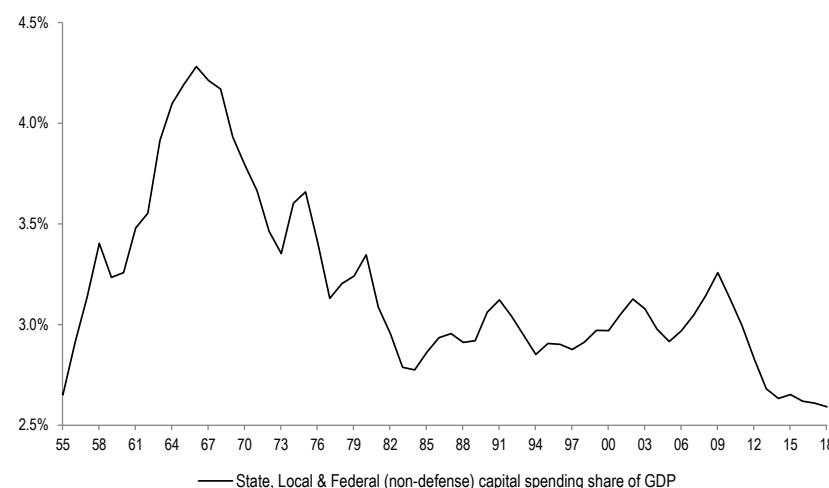
- We have compiled a basket of stocks which could benefit from increased fiscal and targeted infrastructure spend in Europe.

Name	Ticker	Sector
PROSIEBENSAT.1 MEDIA SE	PSM GR	COM. SERVICES
BAYERISCHE MOTOREN WERKE AG	BMW GR	DISCRETIONARY
DAIMLER	DAI GR	DISCRETIONARY
KINGFISHER	KGF LN	DISCRETIONARY
RENAULT	RNO FP	DISCRETIONARY
VOLKSWAGEN	VOW GR	DISCRETIONARY
REPSOL	REP SM	ENERGY
TOTAL	FP FP	ENERGY
BNP PARIBAS	BNP FP	FINANCIALS
CAIXABANK	CABK SM	FINANCIALS
ING GROEP	INGA NA	FINANCIALS
INTESA SANPAOLO	ISP IM	FINANCIALS
SOCIETE GENERALE	GLE FP	FINANCIALS
UNICREDIT	UCG IM	FINANCIALS
KONINKLUKE PHILIPS	PHIA NA	HEALTH CARE
STRAUMANN HOLDING	STMN SW	HEALTH CARE
ABB LTD	ABBN SW	INDUSTRIALS
AIR FRANCE	AF FP	INDUSTRIALS
ALSTOM	ALO FP	INDUSTRIALS
BRENNTAG	BNR GR	INDUSTRIALS
BUREAU VERITAS	BVI FP	INDUSTRIALS
COMPAGNIE DE SAINT GOBAIN	SGO FP	INDUSTRIALS
EASYJET	EZJ LN	INDUSTRIALS
EIFFAGE	FGR FP	INDUSTRIALS
KINGSPAN GROUP PLC	KSP ID	INDUSTRIALS
LEGRAND SA	LR FP	INDUSTRIALS
LUFTHANSA	LHA GR	INDUSTRIALS
PRYSMIAN	PRY IM	INDUSTRIALS
REXEL SA	RXL FP	INDUSTRIALS
RYANAIR HOLDINGS	RYA ID	INDUSTRIALS
SIEMENS	SIE GR	INDUSTRIALS
SIEMENS GAMESA RENEWABLE	SGRE SM	INDUSTRIALS
SIGNIFY NV	LIGHT NA	INDUSTRIALS
SPIE SA	SPIE FP	INDUSTRIALS
VESTAS WIND SYSTEMS	VWS DC	INDUSTRIALS
VINCI	DG FP	INDUSTRIALS
ACERINOX SA	ACX SM	MATERIALS
ANGLO AMERICAN PLC	AAL LN	MATERIALS
ANTOFAGASTA PLC	ANTO LN	MATERIALS
APERAM	APAM NA	MATERIALS
ARCELORMITTAL	MT NA	MATERIALS
BHP GROUP PLC	BHP LN	MATERIALS
CRH	CRH LN	MATERIALS
GLENCORE PLC	GLEN LN	MATERIALS
KAZ MINERALS PLC	KAZ LN	MATERIALS
LANXESS	LXS GR	MATERIALS
NORSK HYDRO ASA	NHY NO	MATERIALS
OUTOKUMPU OYJ	OUT1V FH	MATERIALS
RIO TINTO PLC	RIO LN	MATERIALS
SSAB	SSABA SS	MATERIALS
THYSENKRUPP	TKA GR	MATERIALS
VOESTALPINE	VOE AV	MATERIALS
E.ON SE	EOAN GY	UTILITIES
RED ELECTRICA CORPORACION SA	REE SM	UTILITIES
SNAM SPA	SRG IM	UTILITIES
ENAGAS SA	ENG SM	UTILITIES
TERNA SPA	TRN IM	UTILITIES
ENGIE	ENGI FP	UTILITIES
RWE AG	RWE GY	UTILITIES

Fiscal support is likely to lead to increased infrastructure spending

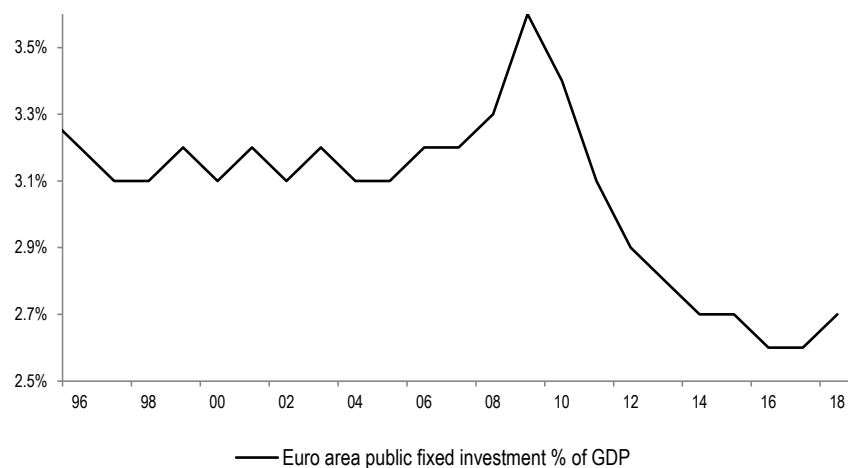
- We may get further fiscal thrust from incremental government spending as we enter 2021. Infrastructure investment could be targeted as a more direct way of supporting the economy.

US government capital spending share of GDP



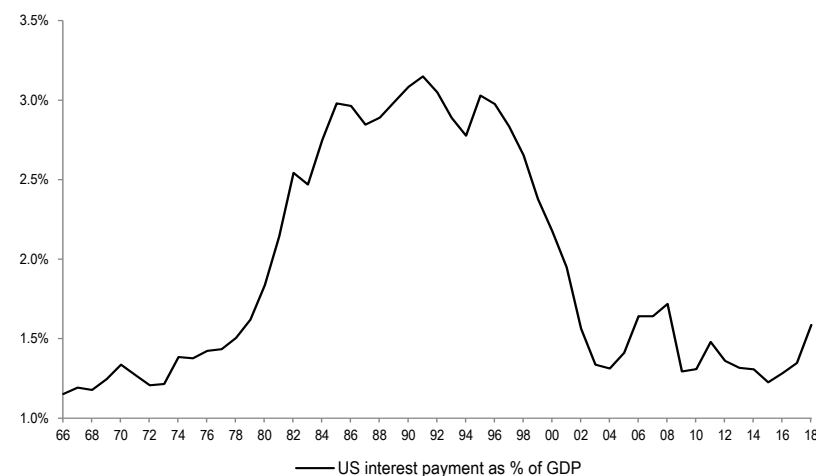
Source: BEA, J.P. Morgan

Eurozone public fixed investment share of GDP



Source: Eurostat

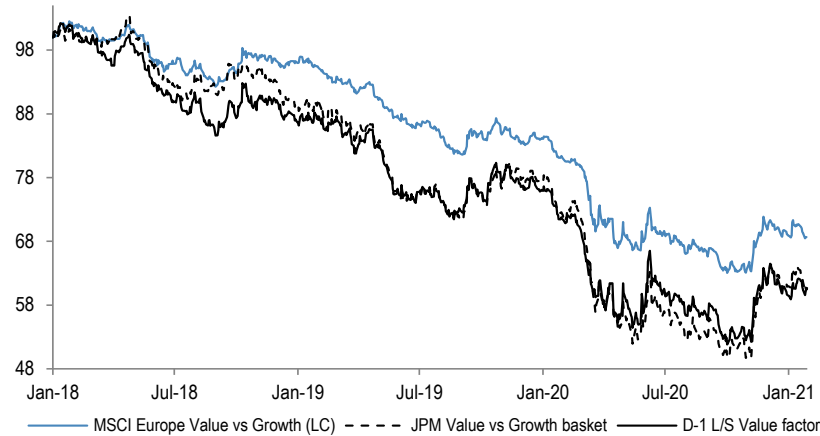
US Federal interest payments as a % of GDP



Source: Federal Reserve

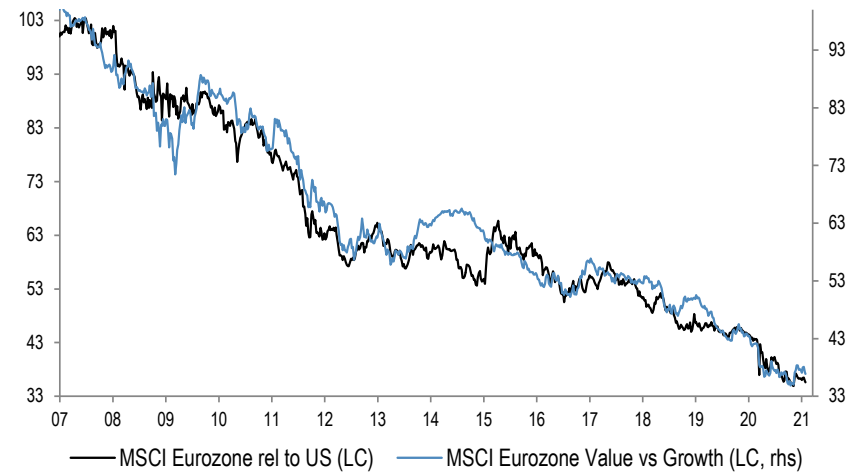
5) European Value vs Growth: Style leadership is closely linked to the direction of bond yields...

Value style performance vs Growth



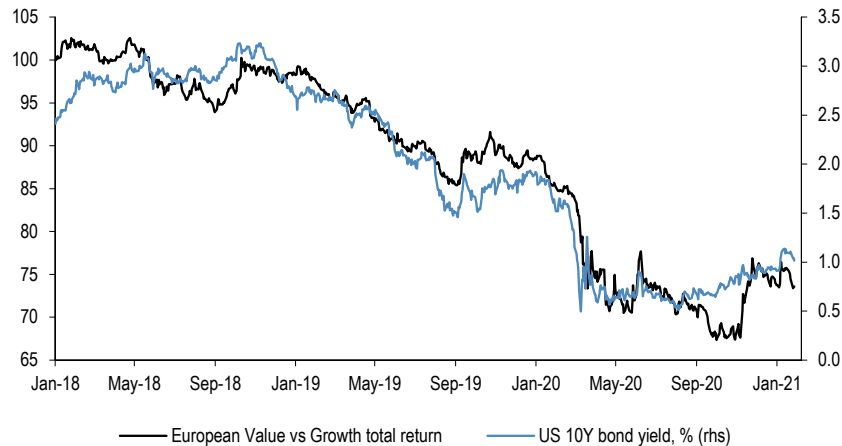
Source: Bloomberg Finance L.P., J.P. Morgan

Eurozone vs US and Value vs Growth



Source: Datastream

MSCI Europe Value vs Growth and US bond yields



Source: Datastream

Eurozone relative to World and US 10Y bond yield



Source: Datastream

...Value valuations appear attractive, the gap could start closing if bond yields move higher

European Value vs Growth trailing P/E



Source: Datastream

MSCI Europe - Value and Growth sectoral composition

	Sector Weights			
	MSCI Europe	Value	Growth	Value vs Growth
Financials	15.1%	24.9%	5.0%	19.9%
Utilities	5.0%	9.1%	0.6%	8.5%
Energy	4.7%	8.6%	0.6%	8.0%
Real Estate	7.6%	9.1%	6.1%	3.0%
Com. Services	4.2%	5.6%	2.8%	2.8%
Materials	1.4%	1.9%	0.8%	1.1%
IT	13.4%	12.8%	14.1%	-1.4%
Discretionary	9.9%	7.3%	12.5%	-5.3%
Industrials	16.5%	12.4%	20.8%	-8.3%
Healthcare	7.4%	0.8%	14.3%	-13.6%
Staples	14.8%	7.5%	22.3%	-14.8%

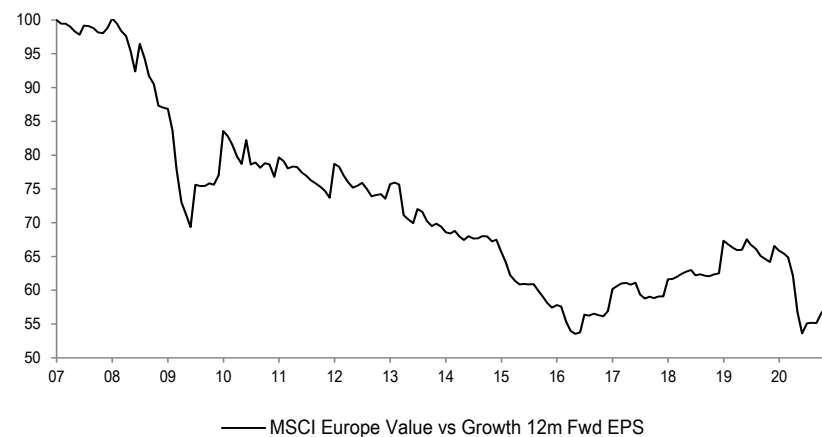
Source: Datastream

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



Source: Datastream

MSCI Europe Value vs Growth EPS momentum



Source: Datastream

a) European Value and Growth baskets

JPM European Value - JPDEVALU

Name	Ticker	Sector	Price/ Book
COMMERZBANK (XET)	CBK GR	FINANCIALS	0.2
STANDARD CHARTERED	STAN LN	FINANCIALS	0.2
SOCIETE GENERALE	GLE FP	FINANCIALS	0.3
RENAULT	RNO FP	DISCRETIONARY	0.3
THYSSENKRUPP (XET)	TKA GR	MATERIALS	0.3
AEGON	AGN NA	FINANCIALS	0.3
DEUTSCHE BANK (XET)	DBK GR	FINANCIALS	0.3
UNICREDIT	UCG IM	FINANCIALS	0.3
TELECOM ITALIA	TIT IM	COM. SERVICES	0.4
VODAFONE GROUP	VOD LN	COM. SERVICES	0.4
ARCELORMITTAL	MT NA	MATERIALS	0.4
DEUTSCHE LUFTHANSA (XET)	LHA GR	INDUSTRIALS	0.5
BP	BP/ LN	ENERGY	0.5
PORSCHE AML.HLDG. (XET) PREF.	PAH3 GR	DISCRETIONARY	0.5
AERCAP HOLDINGS N V	R1D GR	INDUSTRIALS	0.5
KLEPIERRE REIT	LI FP	REAL ESTATE	0.5
GLENCORE	GLEN LN	MATERIALS	0.5
BMW PREF. (XET)	BMW GR	DISCRETIONARY	0.6
LEONARDO	LDO IM	INDUSTRIALS	0.6
SAINSBURY J	SBRY LN	STAPLES	0.7
EDF	EDF FP	UTILITIES	0.8
UNIPER SE (XET)	UN01 GR	UTILITIES	0.9
FRAPORT (XET)	FRA GR	INDUSTRIALS	1.0
DAIMLER (XET)	DAI GR	DISCRETIONARY	1.0
BAYER (XET)	BAYN GR	HEALTH CARE	1.0
MORRISON(WM)SPMKTS.	MRW LN	STAPLES	1.0
BRITISH AMERICAN TOBACCO	BATS LN	STAPLES	1.0
MELROSE INDUSTRIES	MRO LN	INDUSTRIALS	1.0
SAINT GOBAIN	SGO FP	INDUSTRIALS	1.1
ATOS	ATO FP	IT	1.1
CARREFOUR	CA FP	STAPLES	1.1
NOKIA	NOKIA FH	IT	1.2
FRESENIUS (XET)	FRE GR	HEALTH CARE	1.3
SMITH & NEPHEW	SN/ LN	HEALTH CARE	1.3
ALCON (SWX) ORD SHS	ALC SW	HEALTH CARE	1.5
ANHEUSER-BUSCH INBEV	ABI BB	STAPLES	1.6
ASSOCIATED BRIT.FOODS	ABF LN	STAPLES	1.7
FRESENIUS MED.CARE (XET)	FME GR	HEALTH CARE	1.8
SANOFI	SAN FP	HEALTH CARE	1.8
CAPGEMINI	CAP FP	IT	2.4

JPM European Growth - JPDEGROW

Name	Ticker	Sector	Price/ Book
TEAMVIEWER (XET)	TMV GR	IT	86.0
EVRAZ	EVR LN	MATERIALS	55.9
ADYEN	ADYEN NA	IT	55.7
UNILEVER (UK)	ULVR LN	STAPLES	45.5
EVOLUTION GAMING GROUP	EVO SS	DISCRETIONARY	40.7
FERRARI (MIL)	RACE IM	DISCRETIONARY	32.4
COLOPLAST B	COLOB DC	HEALTH CARE	27.1
SARTORIUS STEDIM BIOTECH	DIM FP	HEALTH CARE	24.0
NEMETSCHEK (XET)	NEM GR	IT	21.6
AMBU B	AMBUB DC	HEALTH CARE	21.2
NEXT	NXT LN	DISCRETIONARY	20.1
NOVO NORDISK 'B'	NOVOB DC	HEALTH CARE	17.4
EQT	EQT SS	FINANCIALS	16.2
OCADO GROUP	OCDO LN	DISCRETIONARY	15.3
RELX	REL LN	INDUSTRIALS	15.0
SGS 'N'	SGSN SW	INDUSTRIALS	13.3
CHRISTIAN HANSEN HOLDING	CHR DC	MATERIALS	12.8
HARGREAVES LANSDOWN	HL/ LN	FINANCIALS	12.7
GN STORE NORD	GN DC	HEALTH CARE	12.6
STRAUMANN HLDG.	STMN SW	HEALTH CARE	12.2
AIRBUS	AIR FP	INDUSTRIALS	11.6
EMS-CHEMIE 'N'	EMSN SW	MATERIALS	11.6
KONE 'B'	KNEBV FH	INDUSTRIALS	11.5
PARTNERS GROUP HOLDING	PGHN SW	FINANCIALS	10.9
GEBERIT 'R'	GEBN SW	INDUSTRIALS	10.6
INTERTEK GROUP	ITRK LN	INDUSTRIALS	10.4
DIAGEO	DGE LN	STAPLES	10.2
UNILEVER	UNA NA	STAPLES	9.9
ADMIRAL GROUP	ADM LN	FINANCIALS	9.5
UBISOFT ENTERTAINMENT CAT A	UBI FP	COM. SERVICES	7.2
NESTE	NESTE FH	ENERGY	7.1
SCHIBSTED B	SCHA NO	COM. SERVICES	7.0
ORSTED	ORSTED DC	UTILITIES	6.5
ST.JAMES'S PLACE ORD	STJ LN	FINANCIALS	6.1
L'OREAL	OR FP	STAPLES	5.9
NESTLE 'N'	NESN SW	STAPLES	5.7
FINECOBANK SPA	FBK IM	FINANCIALS	5.5
REMY COINTREAU	RCO FP	STAPLES	5.4
SEVERN TRENT	SVT LN	UTILITIES	4.7
VONOVIA (XET)	VNA GR	REAL ESTATE	1.6

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

b) Beneficiaries vs Losers of rising bond yields

JPM Rising bond yield beneficiaries - JPDERBYB

Name	Ticker	Sector	10Y Correlation to BY
BNP PARIBAS	BNP FP	FINANCIALS	34%
SOCIETE GENERALE	GLE FP	FINANCIALS	32%
CREDIT AGRICOLE	ACA FP	FINANCIALS	31%
RENAULT	RNO FP	DISCRETIONARY	29%
UNICREDIT	UCG IM	FINANCIALS	29%
ARCELOMITTAL	MT NA	MATERIALS	29%
CNH INDUSTRIAL	CNHI IM	INDUSTRIALS	29%
COMMERZBANK (XET)	CBK GR	FINANCIALS	28%
CREDIT SUISSE GROUP	CSGN SW	FINANCIALS	27%
AXA	CS FP	FINANCIALS	27%
AEGON	AGN NA	FINANCIALS	27%
VOESTALPINE	VOE AV	MATERIALS	27%
DEUTSCHE BANK (XET)	DBK GR	FINANCIALS	27%
BANCO SANTANDER	SAN SM	FINANCIALS	26%
ING GROEP	INGA NA	FINANCIALS	26%
JULIUS BAER GRUPPE	BAER SW	FINANCIALS	25%
ERSTE GROUP BANK	EBS AV	FINANCIALS	25%
ADECCO GROUP	ADEN SW	INDUSTRIALS	25%
RANDSTAD	RAND NA	INDUSTRIALS	25%
KBC GROUP	KBC BB	FINANCIALS	24%
EVRAZ	EVR LN	MATERIALS	23%
NN GROUP	NN NA	FINANCIALS	23%
PORSCHE AML.HLDG. (XET) PREF.	PAH3 GR	DISCRETIONARY	23%
UBS GROUP	UBSG SW	FINANCIALS	22%
INTESA SANPAOLO	ISP IM	FINANCIALS	22%
FAURECIA	EO FP	DISCRETIONARY	22%
RAIFFEISEN BANK INTL.	RBI AV	FINANCIALS	21%
EXOR ORD	EXO IM	FINANCIALS	21%
BASF (XET)	BAS GR	MATERIALS	20%
NATIXIS	KN FP	FINANCIALS	20%
BARCLAYS	BARC LN	FINANCIALS	20%
ABB LTD N	ABBN SW	INDUSTRIALS	19%
STMICROELECTRONICS	STM FP	IT	19%
DNB	DNB NO	FINANCIALS	19%
SIEMENS (XET)	SIE GR	INDUSTRIALS	19%
DAIMLER (XET)	DAI GR	DISCRETIONARY	19%
TENARIS	TEN IM	ENERGY	19%
HSBC HOLDINGS	HSBA LN	FINANCIALS	19%
RIO TINTO	RIO LN	MATERIALS	19%
ARKEMA	AKE FP	MATERIALS	19%

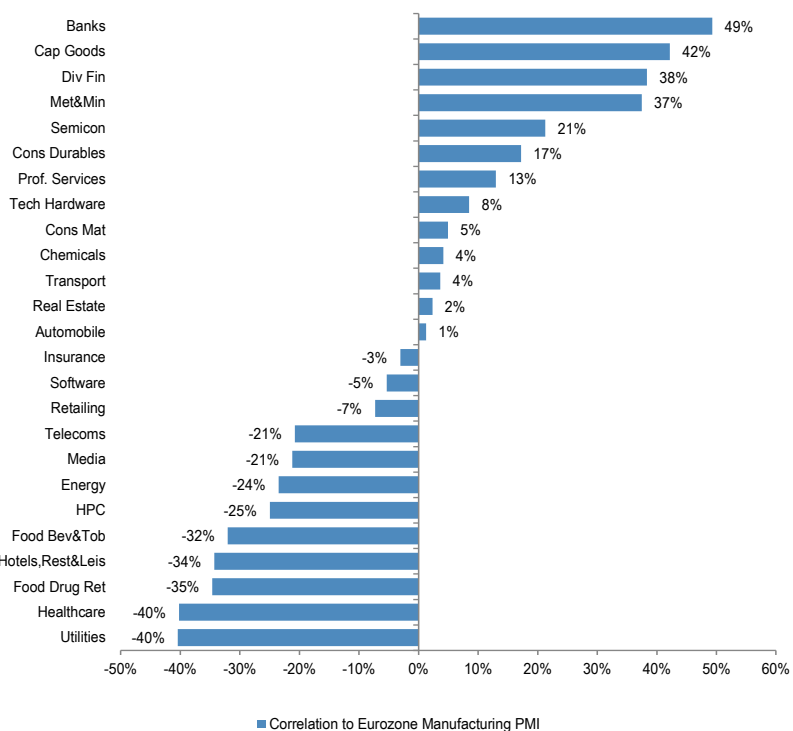
JPM Rising bond yield losers - JPDERBYL

Name	Ticker	Sector	10Y Correlation to BY
ELIA GROUP	ELI BB	UTILITIES	-38%
NATIONAL GRID	NG/ LN	UTILITIES	-36%
SWISS PRIME SITE	SPSN SW	REAL ESTATE	-35%
LEG IMMOBILIEN (XET)	LEG GR	REAL ESTATE	-35%
UNILEVER (UK)	ULVR LN	STAPLES	-35%
NESTLE 'N'	NESN SW	STAPLES	-34%
VONOVIA (XET)	VNA GR	REAL ESTATE	-34%
UNITED UTILITIES GROUP	UU/ LN	UTILITIES	-30%
GLAXOSMITHKLINE	GSK LN	HEALTH CARE	-30%
RECKITT BENCKISER GROUP	RB/ LN	STAPLES	-29%
SSE	SSE LN	UTILITIES	-29%
UNILEVER	UNA NA	STAPLES	-29%
DIAGEO	DGE LN	STAPLES	-29%
SWEDISH MATCH	SWMA SS	STAPLES	-28%
SWISSCOM 'R'	SCMN SW	COM. SERVICES	-28%
SNAM	SRG IM	UTILITIES	-28%
BEIERSDORF (XET)	BEI GR	STAPLES	-27%
BARRY CALLEBAUT	BARN SW	STAPLES	-27%
ASTRAZENECA	AZN LN	HEALTH CARE	-27%
TERNA RETE ELETTRICA NAZ	TRN IM	UTILITIES	-26%
CHRISTIAN HANSEN HOLDING	CHR DC	MATERIALS	-26%
SEVERN TRENT	SVT LN	UTILITIES	-25%
BRITISH AMERICAN TOBACCO	BATS LN	STAPLES	-25%
IMPERIAL BRANDS	IMB LN	STAPLES	-24%
GIVAUDAN 'N'	GIVN SW	MATERIALS	-24%
RELX	REL LN	INDUSTRIALS	-24%
NOVO NORDISK 'B'	NOVOB DC	HEALTH CARE	-24%
KERRY GROUP 'A'	KYG ID	STAPLES	-24%
ROCHE HOLDING	ROG SW	HEALTH CARE	-23%
TELENOR	TEL NO	COM. SERVICES	-23%
COLRUYT	COLR BB	STAPLES	-23%
RECORDATI INDUA.CHIMICA	REC IM	HEALTH CARE	-22%
L'OREAL	OR FP	STAPLES	-22%
ESSILORLUXOTTICA	EL FP	DISCRETIONARY	-22%
DANONE	BN FP	STAPLES	-22%
KONINKLIJKE AHOLD DELHAIZE	AD NA	STAPLES	-22%
RED ELECTRICA	REE SM	UTILITIES	-21%
PROXIMUS	PROX BB	COM. SERVICES	-21%
BUNZL	BNZL LN	INDUSTRIALS	-21%
ICA GRUPPEN	ICA SS	STAPLES	-21%

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

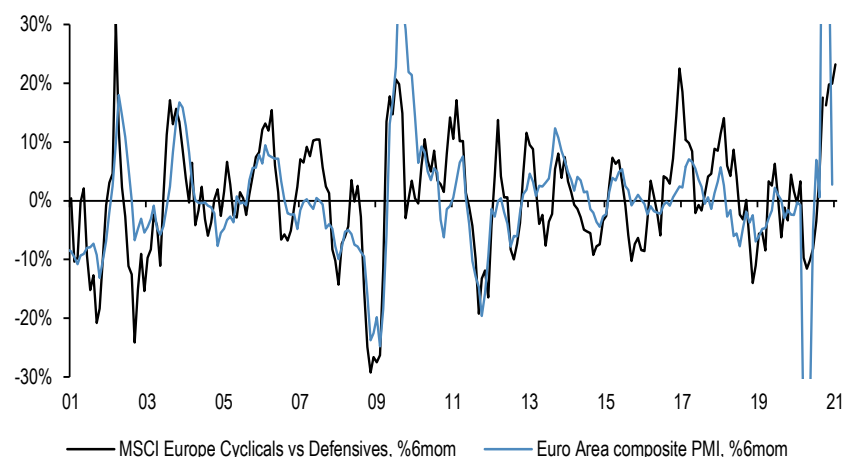
- Cyclical vs Defensives relative performance is strongly linked to PMI direction.
- At a sector level, Industrials & Financials display the highest positive correlation to PMIs.
- Positioning in most Cyclical sectors remains subdued. Within Cyclical only the Tech sector has attracted meaningful inflows.

European sectors correlation to Eurozone composite PMI



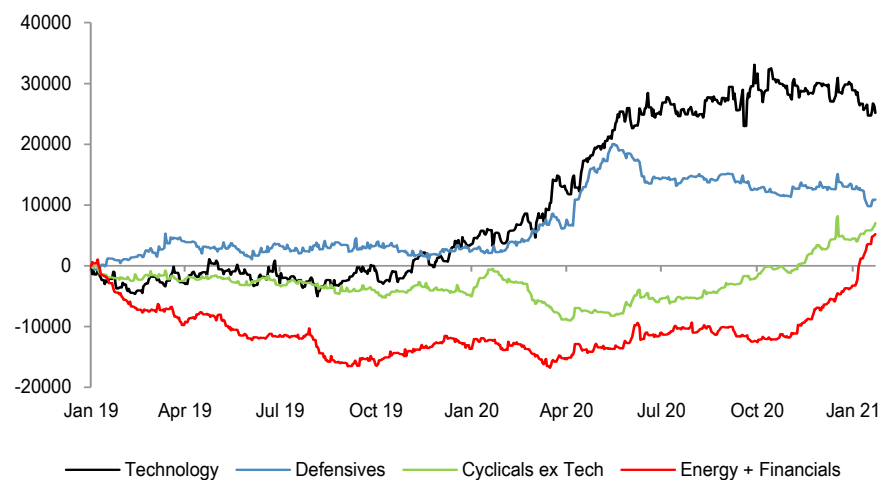
Source: Markit, Datastream

European Cyclical vs Defensives and PMI



Source: Datastream

Flows: US Cyclical vs Defensives



Source: Bloomberg Finance L.P.

Baskets of European Cyclical and Defensive

JPM European Cyclical - JPDEECYC

Name	Ticker	Sector
DAIMLER (XET)	DAI GR	DISCRETIONARY
ESSILORLUXOTTICA	EL FP	DISCRETIONARY
RICHEMONT N	CFR SW	DISCRETIONARY
ZALANDO (XET)	ZAL GR	DISCRETIONARY
TAYLOR WIMPEY	TW/ LN	DISCRETIONARY
OCADO GROUP	OCDO LN	DISCRETIONARY
HUSQVARNA B	HUSQB SS	DISCRETIONARY
NEXT	NXT LN	DISCRETIONARY
PERSIMMON	PSN LN	DISCRETIONARY
PUMA (XET)	PUM GR	DISCRETIONARY
PORSCHE AML.HLDG. (XET) PREF.	PAH3 GR	DISCRETIONARY
PANDORA	PNDORA DC	DISCRETIONARY
KINGFISHER	KGF LN	DISCRETIONARY
VALEO	FR FP	DISCRETIONARY
BARRATT DEVELOPMENTS	BDEV LN	DISCRETIONARY
WHITBREAD	WTB LN	DISCRETIONARY
ELECTROLUX B	ELUXB SS	DISCRETIONARY
RENAULT	RNO FP	DISCRETIONARY
SIEMENS (XET)	SIE GR	INDUSTRIALS
ABB LTD N	ABBN SW	INDUSTRIALS
AIRBUS	AIR FP	INDUSTRIALS
VINCI	DG FP	INDUSTRIALS
DSV PANALPINA	DSV DC	INDUSTRIALS
EXPERIAN	EXPN LN	INDUSTRIALS
VOLVO B	VOLVB SS	INDUSTRIALS
KONE 'B'	KNEBV FH	INDUSTRIALS
INFINEON TECHS. (XET)	IFX GR	IT
HEXAGON B	HEXAB SS	IT
STMICROELECTRONICS	STM IM	IT
NOKIA	NOKIA FH	IT
CAPGEMINI	CAP FP	IT
WORLDLINE	WLN FP	IT
LOGITECH 'R'	LOGN SW	IT
SAGE GROUP	SGE LN	IT
TEMENOS N	TEMN SW	IT
RIO TINTO	RIO LN	MATERIALS
BASF (XET)	BAS GR	MATERIALS
BHP GROUP	BHP LN	MATERIALS
SIKA	SIKA SW	MATERIALS
ANGLO AMERICAN	AAL LN	MATERIALS

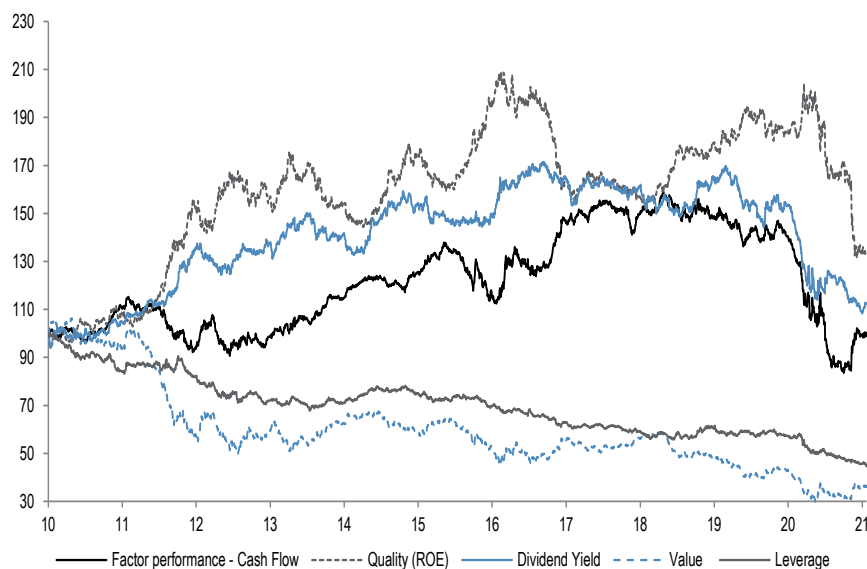
JPM European Defensive - JPDEDEF

Name	Ticker	Sector
VIVENDI	VIV FP	COM. SERVICES
ORANGE	ORA FP	COM. SERVICES
CELLNEX TELECOM	CLNX SM	COM. SERVICES
SWISSCOM 'R'	SCMN SW	COM. SERVICES
BT GROUP	BT/A LN	COM. SERVICES
TELENOR	TEL NO	COM. SERVICES
TELIA COMPANY	TELIA SS	COM. SERVICES
INFORMA	INF LN	COM. SERVICES
UBISOFT ENTERTAINMENT CAT A	UBI FP	COM. SERVICES
ELISA	ELISA FH	COM. SERVICES
TELE2 B	TEL2B SS	COM. SERVICES
PEARSON	PSN LN	COM. SERVICES
SES FDR (PAR)	SESG FP	COM. SERVICES
PROXIMUS	PROX BB	COM. SERVICES
INFRASTRUTTURE WIRELESS ITALIANE	INW IM	COM. SERVICES
TELENET GROUP HOLDING	TNET BB	COM. SERVICES
ROCHE HOLDING	ROG SW	HEALTH CARE
NOVARTIS 'R'	NOVN SW	HEALTH CARE
ASTRAZENECA	AZN LN	HEALTH CARE
NOVO NORDISK 'B'	NOVOB DC	HEALTH CARE
SANOFI	SAN FP	HEALTH CARE
GLAXOSMITHKLINE	GSK LN	HEALTH CARE
NESTLE 'N'	NESN SW	STAPLES
UNILEVER	UNA NA	STAPLES
L'OREAL	OR FP	STAPLES
UNILEVER (UK)	ULVR LN	STAPLES
PERNOD-RICARD	RI FP	STAPLES
DANONE	BN FP	STAPLES
KONINKLIJKE AHOLD DELHAIZE	AD NA	STAPLES
IMPERIAL BRANDS	IMB LN	STAPLES
IBERDROLA	IBE SM	UTILITIES
NATIONAL GRID	NG/ LN	UTILITIES
SSE	SSE LN	UTILITIES
ENDESA	ELE SM	UTILITIES
FORTUM	FORTUM FH	UTILITIES
RED ELECTRICA	REE SM	UTILITIES
UNITED UTILITIES GROUP	UU/ LN	UTILITIES
SEVERN TRENT	SVT LN	UTILITIES
VERBUND	VER AV	UTILITIES
ELIA GROUP	ELI BB	UTILITIES

7) Shareholder return: a) Dividend strategies

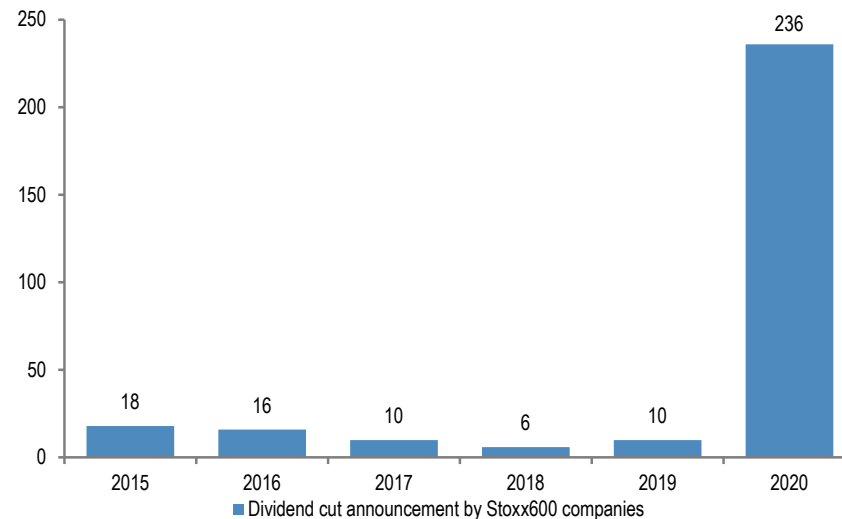
- Dividend strategies have had a poor run since Jan'20 despite lower bond yields. Unprecedented dividend cuts in an effort to conserve cash last year have resulted in significant outflows, especially from income funds.
- However, Dividend futures and credit spreads have stabilized, suggesting that dividend strategies could make a comeback.

Performance of various factors in MSCI Europe universe



Source: J.P. Morgan Quant Research

Dividend cut announcements by Stoxx600 companies



Source: Bloomberg Finance L.P.

Dividend reintroduction and sustainable yield baskets

JPM European Dividend reintroduction basket - JPDESDDR

Name	Ticker	Sector
RTL GROUP	RTL LX	COM. SERVICES
ADIDAS AG	ADS GR	DISCRETIONARY
BAYERISCHE MOTOREN WERKE AG	BMW GR	DISCRETIONARY
CIE FINANCIERE RICHEMONT-REG	CFR SW	DISCRETIONARY
DAIMLER AG-REGISTERED SHARES	DAI GR	DISCRETIONARY
KINGFISHER	KGF LN	DISCRETIONARY
MONCLER SPA	MONC IM	DISCRETIONARY
PERSIMMON PLC	PSN LN	DISCRETIONARY
RENAULT SA	RNO FP	DISCRETIONARY
VOLKSWAGEN AG-PREF	VOW GR	DISCRETIONARY
EQUINOR ASA	EQNR NO	ENERGY
ROYAL DUTCH SHELL-A SHS	RDSA LN	ENERGY
AMUNDI SA	AMUN FP	FINANCIALS
ASSICURAZIONI GENERALI	G IM	FINANCIALS
AXA SA	CS FP	FINANCIALS
ING GROEP NV	INGA NA	FINANCIALS
INTESA SANPAOLO	ISP IM	FINANCIALS
KBC GROUP NV	KBC BB	FINANCIALS
NORDEA BANK ABP	NDA SS	FINANCIALS
DNB ASA	DNB NO	FINANCIALS
BAE SYSTEMS PLC	BA/ LN	INDUSTRIALS
BUREAU VERITAS	BVI FP	INDUSTRIALS
COMPAGNIE DE SAINT GOBAIN	SGO FP	INDUSTRIALS
MTU AERO ENGINES AG	MTX GR	INDUSTRIALS
RANDSTAD NV	RAND NA	INDUSTRIALS
RENTOKIL INITIAL	RTO LN	INDUSTRIALS
SAFRAN SA	SAF FP	INDUSTRIALS
VINCI SA	DG FP	INDUSTRIALS
MICRO FOCUS INTERNATIONAL	MCRO LN	IT
ARCELORMITTAL	MT NA	MATERIALS
GLENCORE PLC	GLEN LN	MATERIALS
SYNTHOMER PLC	SYNT LN	MATERIALS
ANHEUSER-BUSCH INBEV SA/NV	ABI BB	STAPLES
BRITVIC	BVIC LN	STAPLES
SAINSBURY (J)	SBRY LN	STAPLES
WM MORRISON SUPERMARKETS	MRW LN	STAPLES
CENTRICA PLC	CNA LN	UTILITIES
EDF	EDF FP	UTILITIES
ENGIE	ENGI FP	UTILITIES

Source: J.P. Morgan

JPM European Sustainable yield basket - JPDESIV

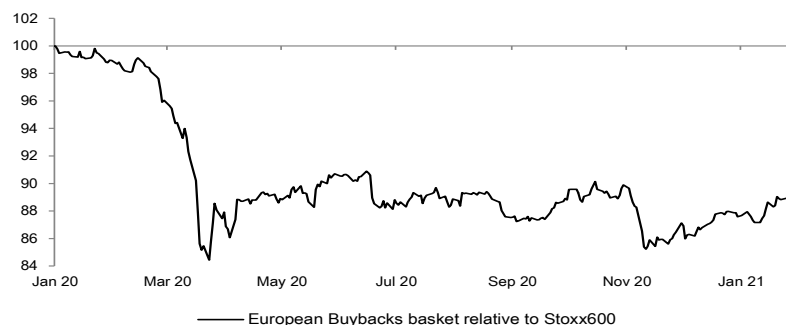
Name	Ticker	Sector	DY
IMPERIAL BRANDS PLC	IMB LN	STAPLES	9.5%
M&G PLC	MNG LN	FINANCIALS	8.9%
RTL GROUP	RTL LX	COM. SERVICES	8.5%
BRITISH AMERICAN TOBACCO PLC	BATS LN	STAPLES	8.3%
DIRECT LINE INSURANCE GROUP	DLG LN	FINANCIALS	8.1%
PERSIMMON PLC	PSN LN	DISCRETIONARY	7.9%
TELEFONICA DEUTSCHLAND HOLDI	O2D GR	COM. SERVICES	7.5%
PROXIMUS	PROX BB	COM. SERVICES	7.1%
SWISS RE AG	SREN SW	FINANCIALS	7.0%
NN GROUP NV	NN NA	FINANCIALS	6.8%
LEGAL & GENERAL GROUP PLC	LGEN LN	FINANCIALS	6.8%
TOTAL SE	FP FP	ENERGY	6.8%
ASR NEDERLAND NV	ASRNL NA	FINANCIALS	6.5%
RIO TINTO PLC	RIO LN	MATERIALS	6.3%
AGEAS	AGS BB	FINANCIALS	6.3%
BHP GROUP PLC	BHP LN	MATERIALS	6.0%
POSTE ITALIANE SPA	PST IM	FINANCIALS	6.0%
OMV AG	OMV AV	ENERGY	5.8%
GLAXOSMITHKLINE PLC	GSK LN	HEALTH CARE	5.8%
SNAM SPA	SRG IM	UTILITIES	5.5%
E.ON SE	EON BB	UTILITIES	5.5%
ALLIANZ SE-REG	ALV GR	FINANCIALS	5.4%
YARA INTERNATIONAL ASA	YAR NO	MATERIALS	5.2%
WPP PLC	WPP LN	COM. SERVICES	5.1%
PUBLICIS GROUPE	PUB FP	COM. SERVICES	4.9%
BAE SYSTEMS PLC	BA/ LN	INDUSTRIALS	4.7%
EVONIK INDUSTRIES AG	EVK GR	MATERIALS	4.6%
ENEL SPA	ENEL IM	UTILITIES	4.5%
BAYER AG-REG	BAYN GR	HEALTH CARE	4.4%
ADECCO GROUP AG-REG	ADEN SW	INDUSTRIALS	4.4%
EDP-ENERGIAS DE PORTUGAL SA	EDP PL	UTILITIES	4.4%
LAFARGEHOLCIM LTD-REG	LHN SW	MATERIALS	4.2%
SANOFI	SAN FP	HEALTH CARE	4.0%
BERKELEY GROUP HOLDINGS/THE	BKG LN	DISCRETIONARY	4.0%
SOLVAY SA	SOLB BB	MATERIALS	3.9%
IBERDROLA SA	IBE SM	UTILITIES	3.8%
NOVARTIS AG-REG	NOVN SW	HEALTH CARE	3.7%
UNILEVER NV	UNA NA	STAPLES	3.5%
LEG IMMOBILIEN AG	LEG GR	REAL ESTATE	3.5%
DEUTSCHE POST AG-REG	DPW GR	INDUSTRIALS	3.4%
VONOVIA SE	VNA GR	REAL ESTATE	3.2%
COCA-COLA EUROPEAN PARTNERS	CCEP LN	STAPLES	3.1%
VINCI SA	DG FP	INDUSTRIALS	2.8%
INCHCAPE PLC	INCH LN	DISCRETIONARY	2.7%
KOJAMO OYJ	KOJAMO FH	REAL ESTATE	2.3%

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

b) European buybacks basket

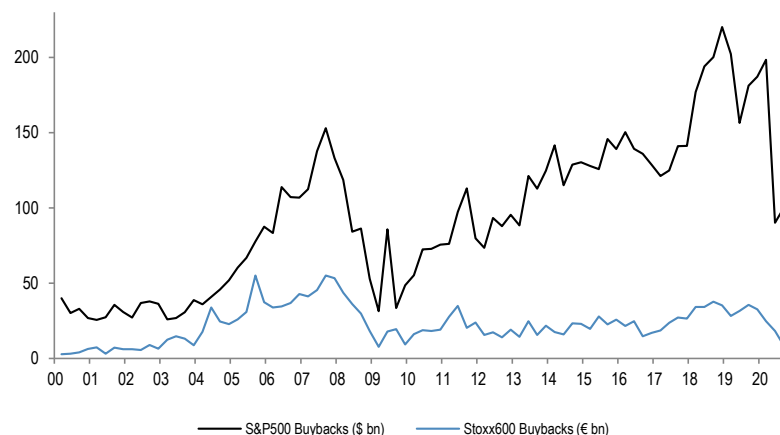
- Our Buyback basket has performed poorly last year, down 12% vs the benchmark.
- We believe that buyback candidates should also start performing better. We compile a list of stocks that are currently doing a buyback/are expected to do one in 2021.

European buybacks price relative



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

European and US buybacks volumes



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

JPM European Buybacks basket - JPDEEUBB

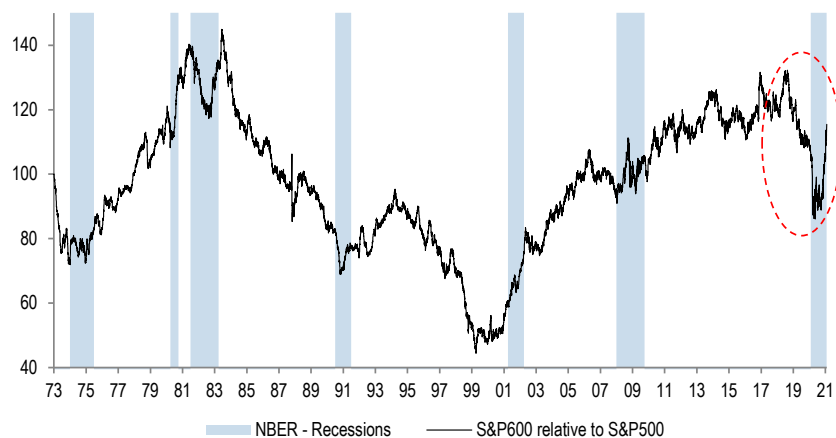
Name	Ticker	Sector	Buyback yield
VIVENDI	VIV FP	COM. SERVICES	10.0%
QUILTER PLC	QLT LN	FINANCIALS	9.0%
SCOUT24 AG	G24 GR	COM. SERVICES	6.0%
PEARSON PLC	PERSON LN	COM. SERVICES	5.0%
WPP PLC	WPP LN	COM. SERVICES	5.0%
INCHCAPE PLC	INCH LN	DISCRETIONARY	4.0%
AP MOLLER-MAERSK A/S-B	MAERSKB DC	INDUSTRIALS	4.0%
BUZZI UNICEM SPA	BZU IM	MATERIALS	4.0%
KONINKLIJKE AHOLD DELHAIZE N	AD NA	STAPLES	3.9%
ABB LTD-REG	ABBN SW	INDUSTRIALS	3.4%
CARLSBERG AS-B	CARLB DC	STAPLES	2.9%
YARA INTERNATIONAL ASA	YAR NO	MATERIALS	2.5%
DIALOG SEMICONDUCTOR PLC	DLG GR	IT	2.3%
STANDARD LIFE ABERDEEN PLC	SLA LN	FINANCIALS	2.0%
WOLTERS KLUWER	WKL NA	INDUSTRIALS	2.0%
AKZO NOBEL N.V.	AKZA NA	MATERIALS	1.8%
NESTLE SA-REG	NESN SW	STAPLES	1.7%
ASM INTERNATIONAL NV	ASM NA	IT	1.5%
SNAM SPA	SRG IM	UTILITIES	1.5%
NOVO NORDISK A/S-B	NOVOB DC	HEALTH CARE	1.3%
ROYAL UNIBREW	RBREW DC	STAPLES	1.2%
MICHELIN (CGDE)	ML FP	DISCRETIONARY	<1%

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

8) Opportunity in US small caps? Valuations still look cheap, despite the recent rally...

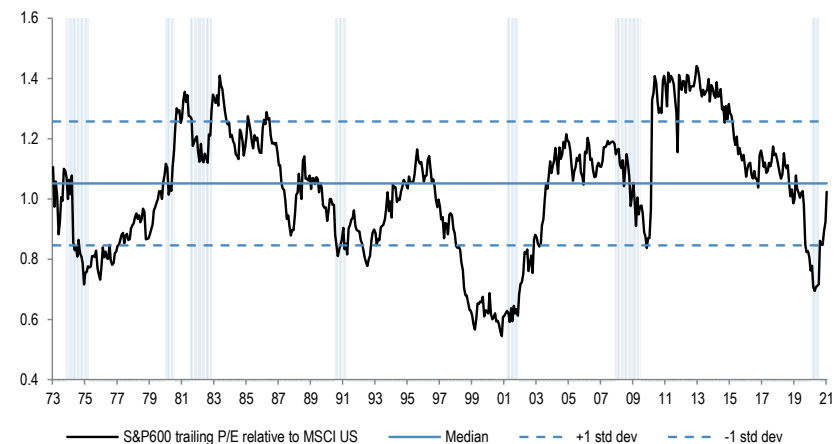
- Even accounting for the recent bounce, US small caps are trading near 10-year price relative lows.
- US small-cap valuations are trading on the cheap side of fair value relative to large caps.

S&P600 relative to S&P500



Source: Datastream

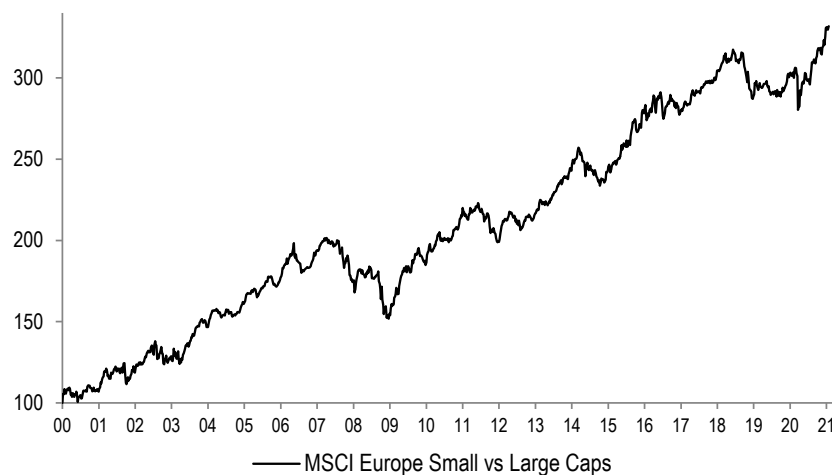
S&P600 small caps trailing P/E relative to MSCI US



Source: Datastream, shaded bars denote recession

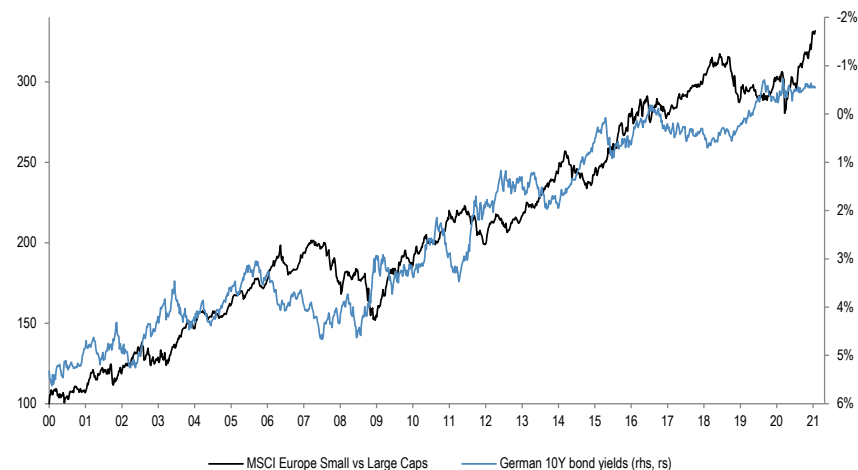
...Eurozone small caps valuations have rerated, though

Europe small vs large caps



Source: Datastream

Europe small vs large caps vs German 10Y bond yields



Source: Datastream

European small-cap 12m Fwd P/E relative to large caps



Source: Datastream, IBES

European small-cap Price to Book relative to large caps

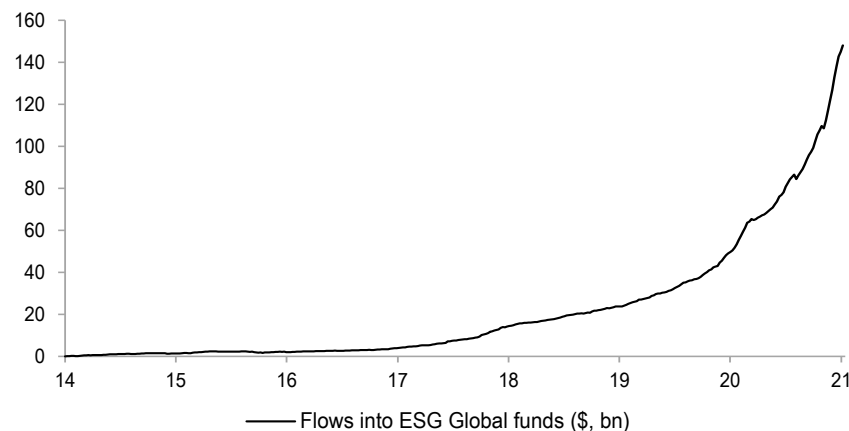


Source: Datastream

9a) ESG Investing

- Our ESG basket comprises of a list of stocks by J.P. Morgan analysts that they believe to be most appealing to an ESG investor.
- ESG Definition: Environmental criteria studies how a company performs as an agent of nature. The Social criteria focuses on management's relationships with its employees, suppliers, customers, and other communities they interact with. Finally, Governance deals with their corporate leadership, compensations, audits, internal controls and shareholder rights.

Flows into ESG Global Funds



Source: EPFR

JPM European ESG basket - JPDEUESG

Name	Ticker	Sector
CELLNEX TELECOM SA	CLNX SM	COM. SERVICES
KONINKLIJKE KPN NV	KPN NA	COM. SERVICES
PEARSON PLC	PERSON LN	COM. SERVICES
TELENOR ASA	TEL NO	COM. SERVICES
ADIDAS AG	ADS GR	DISCRETIONARY
ASOS PLC	ASC LN	DISCRETIONARY
HELLOFRESH SE	HFG GR	DISCRETIONARY
HENNES & MAURITZ AB-B SHS	HMB SS	DISCRETIONARY
KERING	KER FP	DISCRETIONARY
MONCLER SPA	MONC IM	DISCRETIONARY
EQUINOR ASA	EQNR NO	ENERGY
REPSOL SA	REP SM	ENERGY
AMUNDI SA	AMUN FP	FINANCIALS
BANKIA SA	BKIA SM	FINANCIALS
INTESA SANPAOLO	ISP IM	FINANCIALS
MUENCHENER RUECKVER	MUV2 GR	FINANCIALS
SCHRODERS PLC	SDR LN	FINANCIALS
STANDARD LIFE ABERDEEN PLC	SLA LN	FINANCIALS
SWISS RE AG	SREN SW	FINANCIALS
HANNOVER RUECK SE	HNR1 GR	FINANCIALS
GRIFOLS SA	GRF SM	HEALTH CARE
NOVO NORDISK A/S-B	NOVOB DC	HEALTH CARE
ALSTOM	ALO FP	INDUSTRIALS
ANDRITZ AG	ANDR AV	INDUSTRIALS
COMPAGNIE DE SAINT GOBAIN	SGO FP	INDUSTRIALS
KINGSPAN GROUP PLC	KSP ID	INDUSTRIALS
LEGRAND SA	LR FP	INDUSTRIALS
PRYSMIAN	PRY IM	INDUSTRIALS
RELX PLC	REL LN	INDUSTRIALS
RENTOKIL INITIAL PLC	RTO LN	INDUSTRIALS
REXEL SA	RXL FP	INDUSTRIALS
SIEMENS	SIE GR	INDUSTRIALS
SIEMENS GAMESA RENEWABLE ENE	SGRE SM	INDUSTRIALS
SIGNIFY NV	LIGHT NA	INDUSTRIALS
SPIRAX-SARCO ENGINEERING PLC	SPX LN	INDUSTRIALS
VESTAS WIND SYSTEMS A/S	VWS DC	INDUSTRIALS
ATOS SE	ATO FP	IT
CAPGEMINI SE	CAP FP	IT
HALMA PLC	HLMA LN	IT
SAP SE	SAP GR	IT
JOHNSON MATTHEY PLC	JMAT LN	MATERIALS
NORSK HYDRO ASA	NHY NO	MATERIALS
SSAB	SSABA SS	MATERIALS
UMICORE	UMI BB	MATERIALS
ENEL SPA	ENEL IM	UTILITIES
IBERDROLA SA	IBE SM	UTILITIES
NATIONAL GRID PLC	NG/ LN	UTILITIES
NEOEN SA	NEOEN FP	UTILITIES
ORSTED A/S	ORSTED DC	UTILITIES
SSE PLC	SSE LN	UTILITIES

b) Clean Energy transition theme

- Within this, we also highlight a list of beneficiaries from the "Clean Energy transition" theme.

JPM European Clean Energy transition basket - JPDEURCE		
Name	Ticker	Sector
BAYERISCHE MOTOREN WERKE AG	BMW GR	DISCRETIONARY
VALEO SA	FR FP	DISCRETIONARY
COMPAGNIE DE SAINT GOBAIN	SGO FP	INDUSTRIALS
EIFFAGE	FGR FP	INDUSTRIALS
KINGSPAN GROUP PLC	KSP ID	INDUSTRIALS
VINCI	DG FP	INDUSTRIALS
INFINEON TECHNOLOGIES AG	IFX GR	IT
NORSK HYDRO ASA	NHY NO	MATERIALS
SOLVAY SA	SOLB BB	MATERIALS
SSAB	SSABA SS	MATERIALS
E.ON SE	EOAN GY	UTILITIES
EDP RENOVAVEIS SA	EDPR PL	UTILITIES
EDP-ENERGIAS DE PORTUGAL SA	EDP PL	UTILITIES
ENEL	ENEL IM	UTILITIES
IBERDROLA SA	IBE SM	UTILITIES
NATIONAL GRID PLC	NG/ LN	UTILITIES
NEOEN SA	NEOEN FP	UTILITIES
ORSTED A/S	ORSTED DC	UTILITIES
RED ELECTRICA CORPORACION SA	REE SM	UTILITIES
SSE PLC	SSE LN	UTILITIES
TERNA SPA	TRN IM	UTILITIES
ENGIE	ENGI FP	UTILITIES
RWE AG	RWE GY	UTILITIES

Source: J.P. Morgan

European Sector Allocation

European sector allocation					
		MSCI Europe Weights	J.P. Morgan Allocation	Deviation From MSCI	J.P. Morgan Recommendation
Energy		4.5%	4.0%	-0.5%	Neutral
Materials		8.3%	8.0%	-0.3%	Neutral
	Chemicals				N
	Construction Materials				OW
	Metals & Mining				N
Industrials		14.5%	14.0%	-0.5%	Neutral
	Capital Goods				N
	Transport				N
	Business Services				N
Consumer Discretionary		10.0%	10.0%	0.0%	Neutral
	Automobile				N
	Consumer Durables				N
	Retailing				N
Consumer Staples		13.3%	11.0%	-2.3%	Underweight
	Food & Drug Retailing				UW
	Food Beverage & Tobacco				UW
	Household Products				UW
Healthcare		14.7%	14.0%	-0.7%	Neutral
Financials		15.3%	19.0%	3.7%	Overweight
	Banks				OW
	Insurance				OW
Real Estate		1.4%	0.0%	-1.4%	Underweight
Information Technology		7.8%	7.0%	-0.8%	Neutral
	Software and Services				UW
	Technology Hardware				N
	Semicon & Semicon Equip				OW
Communication Services		5.2%	6.0%	0.8%	Overweight
	Telecommunication Services				OW
	Media				N
Utilities		5.0%	7.0%	2.0%	Overweight
		100.0%	100.0%	0.0%	Balanced

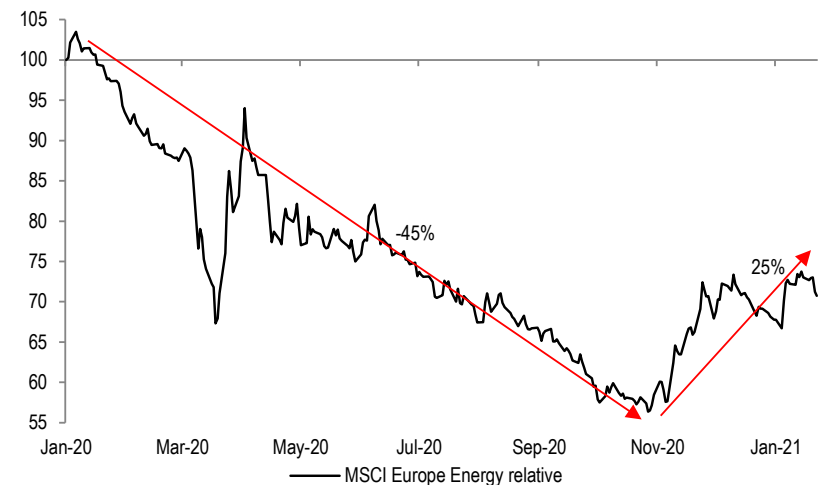
Source: MSCI, J.P. Morgan, Datastream

ENERGY: NEUTRAL

The sector was a terrible performer last year, and is trading record cheap...

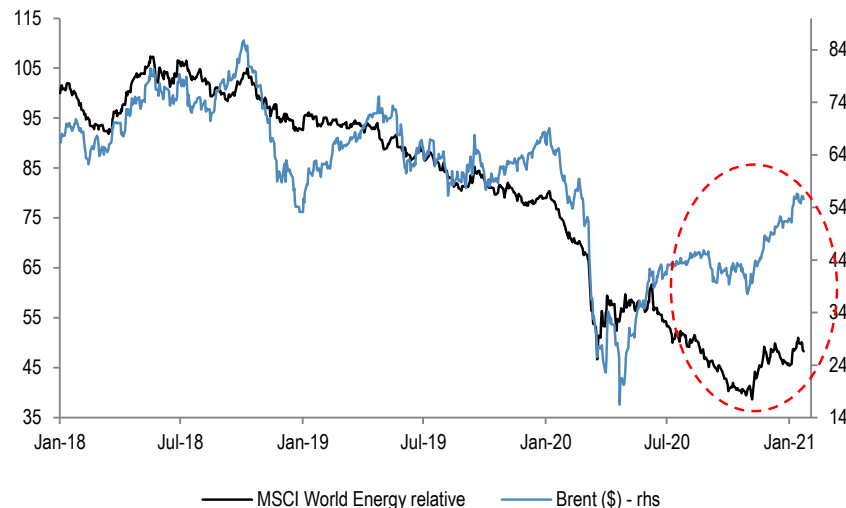
- After a dismal 2020, Energy stocks are up since November.
- Despite the stronger recent run, Energy stocks are still trading record cheap.
- Typically, a more reflationary backdrop tends to favour Energy stocks and the sector could continue to do well if the reflation comes through. At the same time, the sector suffers from a number of structural headwinds.

MSCI Europe Energy price relative



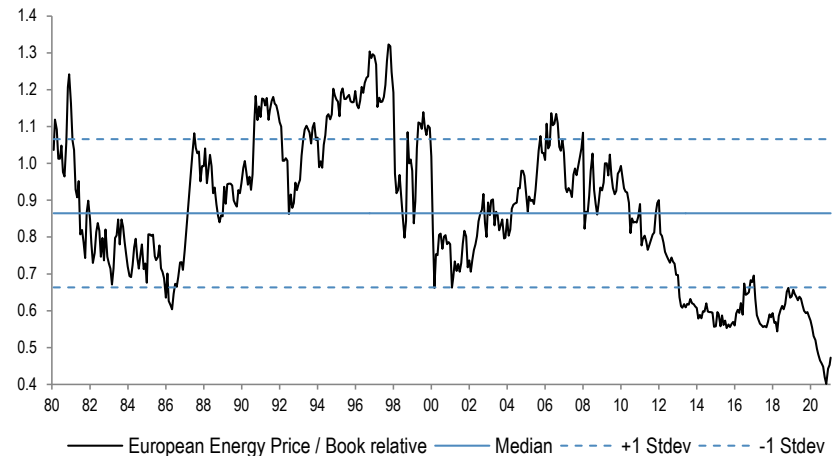
Source: Datastream

Energy sector relative performance vs oil price



Source: Datastream

European Energy P/Book relative

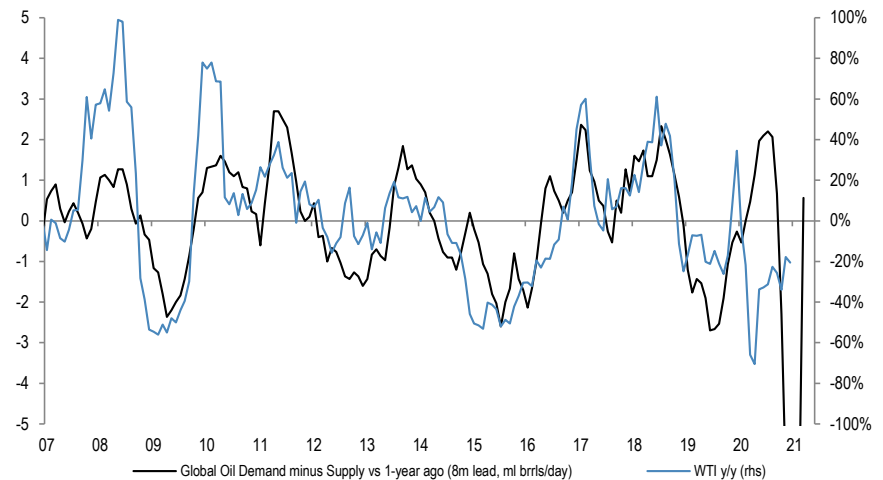


Source: IBES

...but, the demand-supply balance remains unattractive...

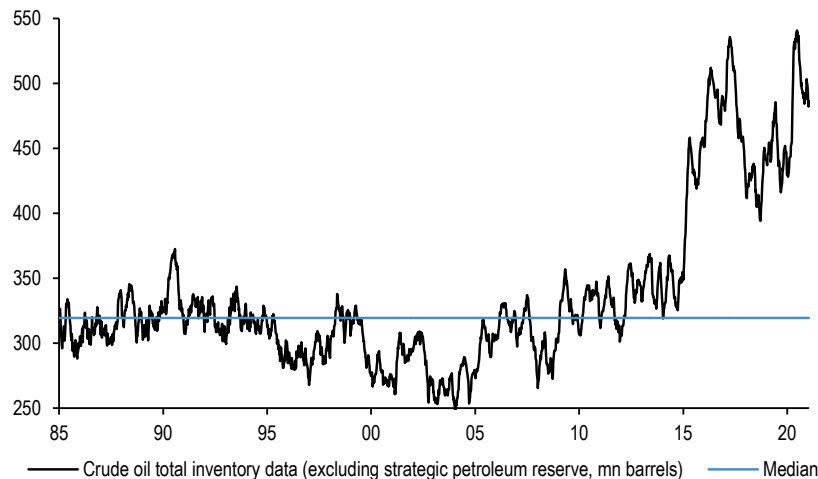
- Concerns around 3rd lockdowns and new strains should weigh on demand in the near term, and if the recovery is protracted, demand for crude could continue to lag supply for longer. Inventory levels remain elevated. Further, there is also a possibility of countries such as Iran adding to the supply glut as geopolitical tensions ease under the Biden administration. Our commodities team is looking for Brent to average \$50 in 2021.
- Longer term, we expect that the demand for fossil fuel driven power will keep trending lower, as more countries set aggressive green energy targets. Increasing penetration of EVs remains a issue for the sector.

Global oil demand-supply balance and WTI



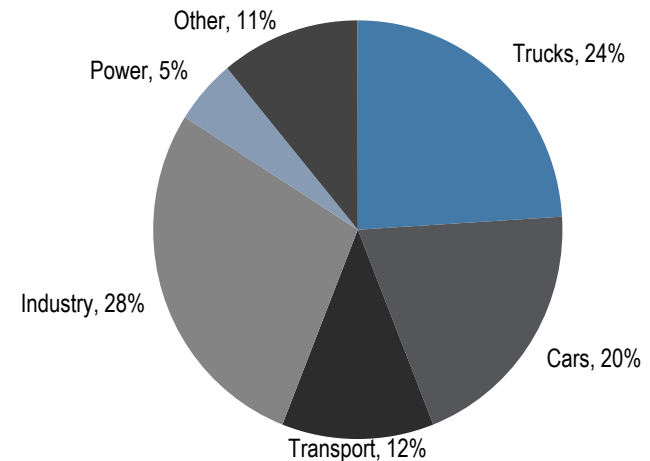
Source: IBES

Crude oil inventory



Source: EIA, Bloomberg Finance L.P.

Global oil demand



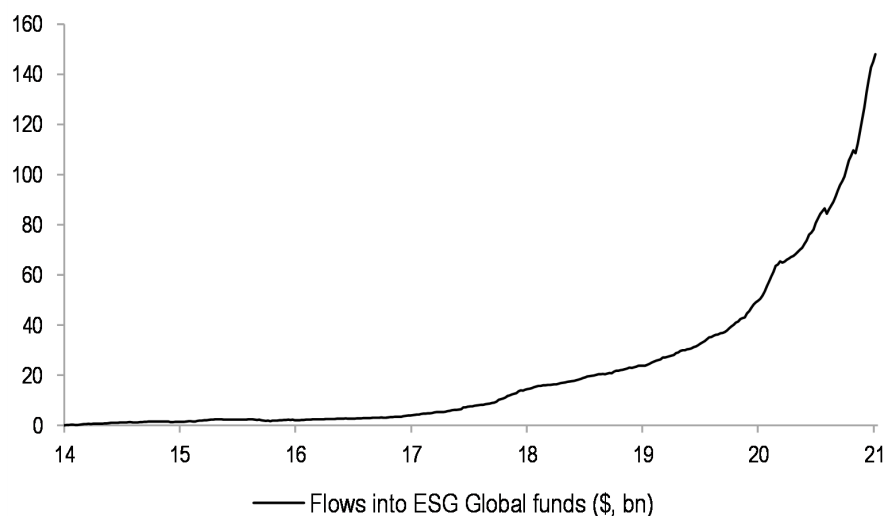
J.P.Morgan CAZENOVE

Source: BP, J.P. Morgan

...ESG overhang remains a medium-term headwind, despite improving FCF generation

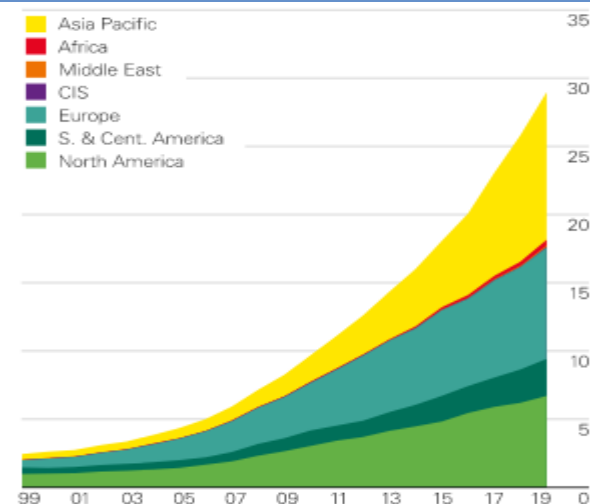
- Flows into ESG funds have increased at a rapid pace in the past few years.
- Energy continues to score unfavourably on most ESG metrics. This has weighed on the sector's performance, as a shift to renewables is becoming an increasingly important theme, and will likely continue.

Flows into ESG Global Funds



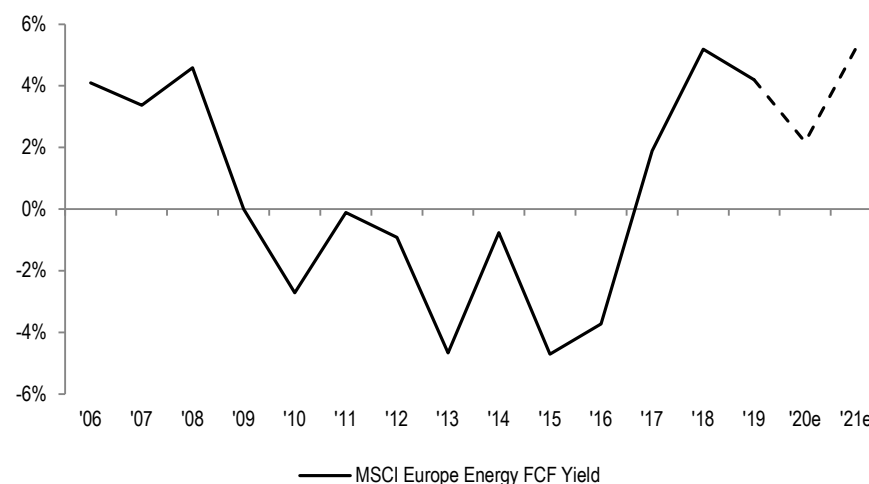
Source: EFIG

Penetration of renewables since 1999



Source: BP

European Energy FCF yield



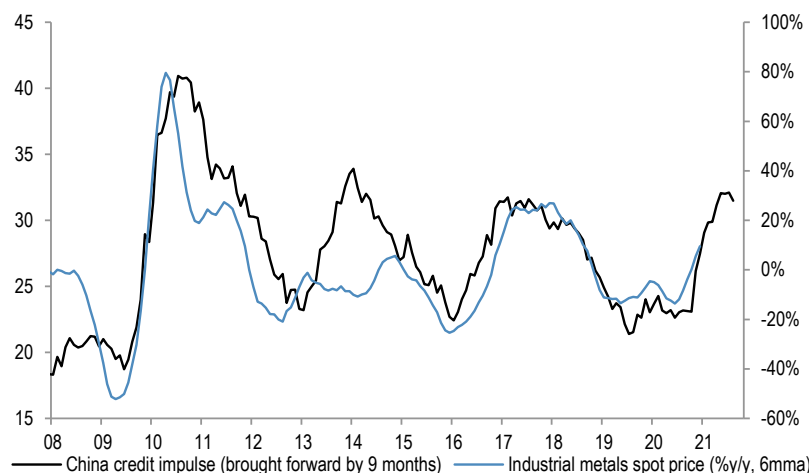
Source: IBES

MATERIALS: NEUTRAL

N Mining – Taking profits post a strong run...

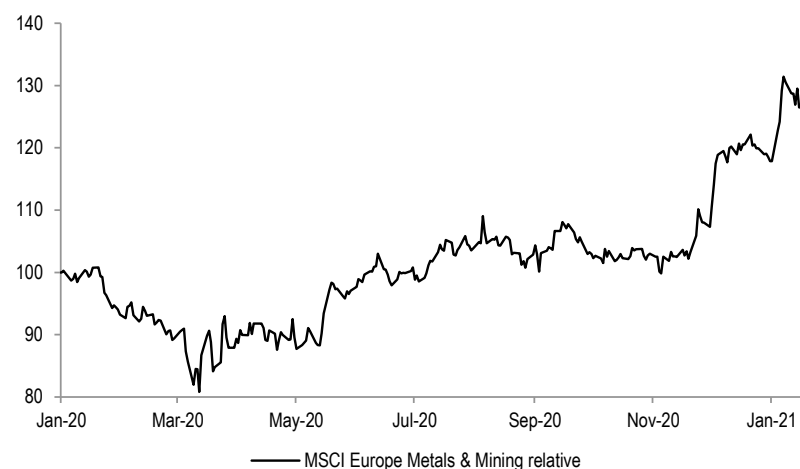
- European Miners performed very strongly over the past 12 months, and are 3rd best sector ytd.
- While the sector benefits from a number of macro themes: stronger global activity, rising PMIs, higher bond yields, potentially weaker USD, rising metal prices, a potential pickup in reflation, as well as easing trade uncertainty, we take profits, given the potential for China credit impulse to soften.
- Mining stocks are big dividend plays and our sector analysts are looking for large capital returns, specifically from BHP (OW) and Rio Tinto (OW).

China credit impulse and industrial metals spot price



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

MSCI Europe mining relative



Source: Datastream

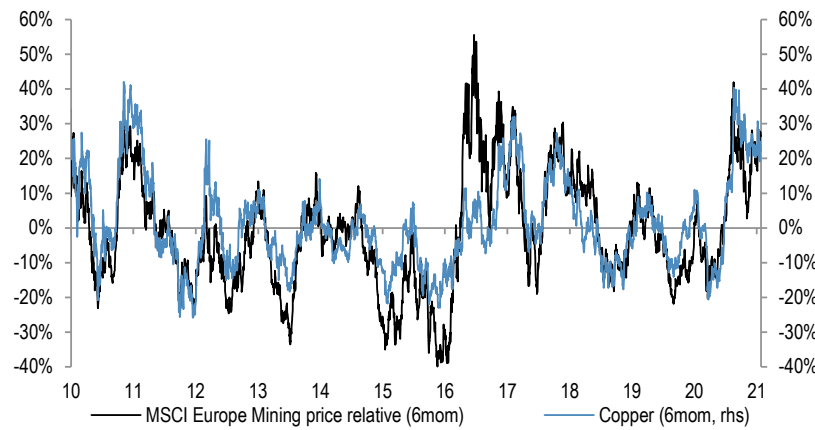
2021e DY of key big miners

Name	Ticker	21e DY
Evraz	EVR LN	9.1%
Rio Tinto	RIO LN	7.2%
BHP Group	BHP LN	6.2%
Glencore	GLEN LN	4.1%
Anglo American	AAL LN	4.7%
Boliden Ord Shs	BOL SS	4.0%
Norsk Hydro	NHY NO	3.4%
Antofagasta	ANTO LN	2.8%
ArcelorMittal	MT NA	2.5%
Voestalpine	VOE AV	1.7%
ThyssenKrupp	TKA GR	0.7%

Source: Datastream

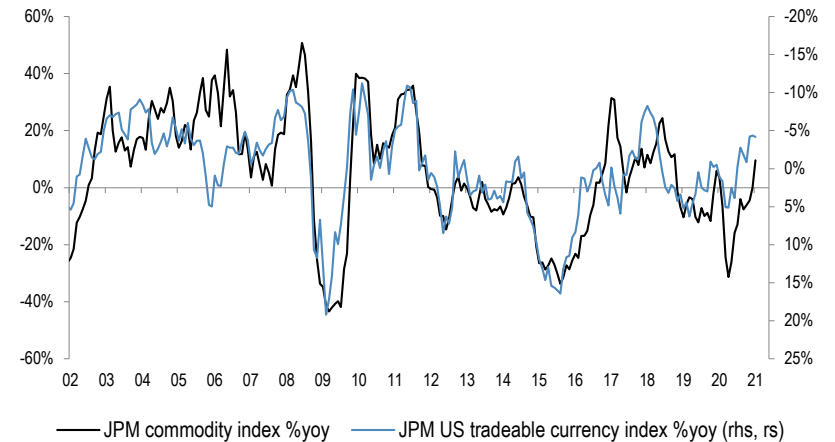
...slowing China credit growth is a concern, as is firmer USD...

European mining relative and copper prices



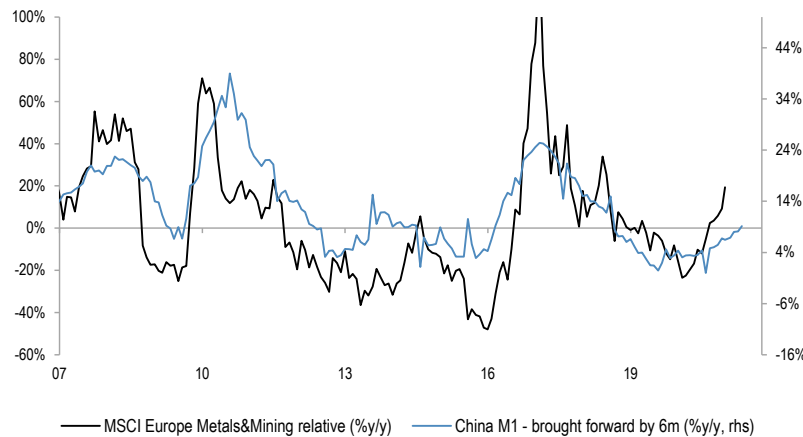
Source: Datastream, Bloomberg Finance L.P.

JPM tradeable USD and Commodity prices



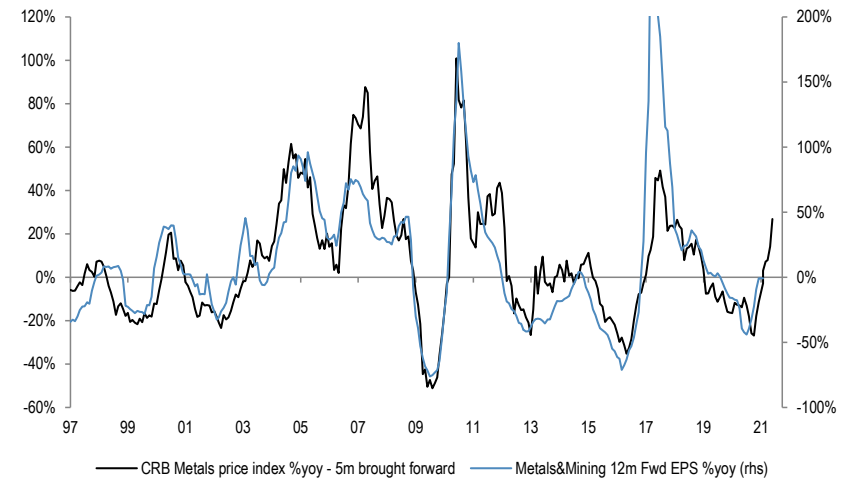
Source: J.P. Morgan, Bloomberg Finance L.P.

MSCI Europe Mining relative and China M1



Source: Datastream, Bloomberg Finance L.P.

Metal prices and Mining EPS

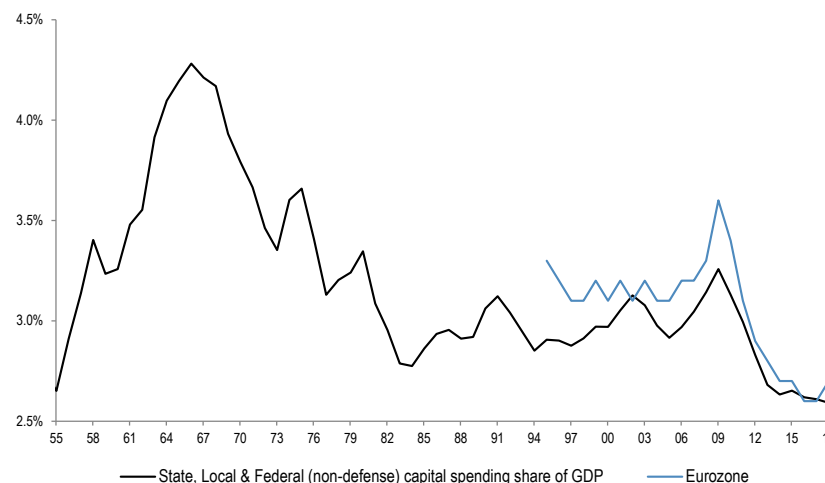


Source: Datastream

OW Construction Materials – they could benefit from cyclical recovery and infrastructure spending

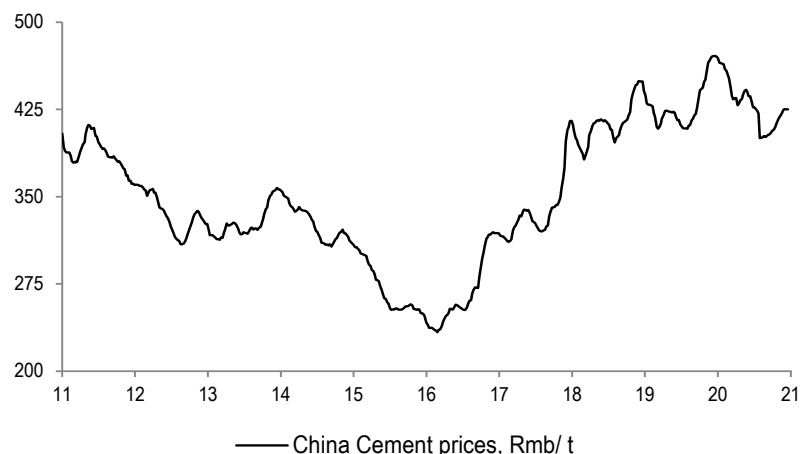
- The sector stands to benefit from any pickup in infrastructure spend. CRH, Buzzi and Heidelberg Cement have high US revenue exposure. On the European side, our sector analysts highlight residential stocks, particularly Saint-Gobain, as likely beneficiaries.
- We think EM leveraged (cement) names could start to trade better if the outlook for the region stabilizes. China cement prices have been rising since 2016.
- Valuations look supportive. However, margins could peak, driven by cost/raw material inflation eating into profits, and given structural headwinds from CO2 taxes.

US and Eurozone public fixed investment share of GDP



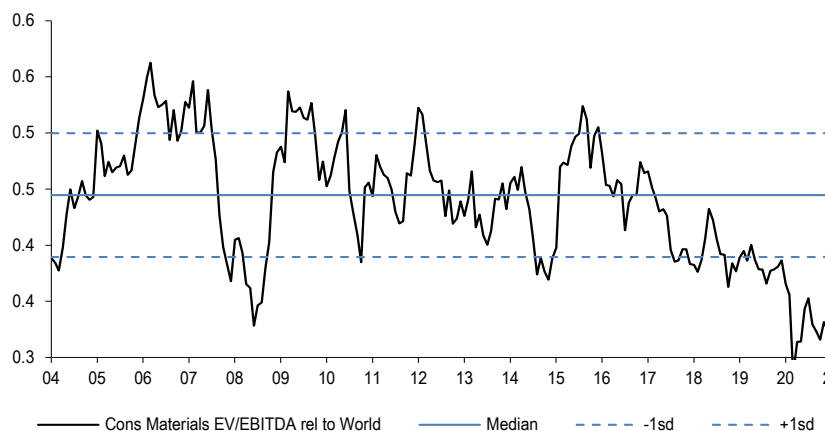
Source: BEA, Eurostat

China cement prices



Source: J.P.Morgan

Construction Materials EV / EBITDA relative

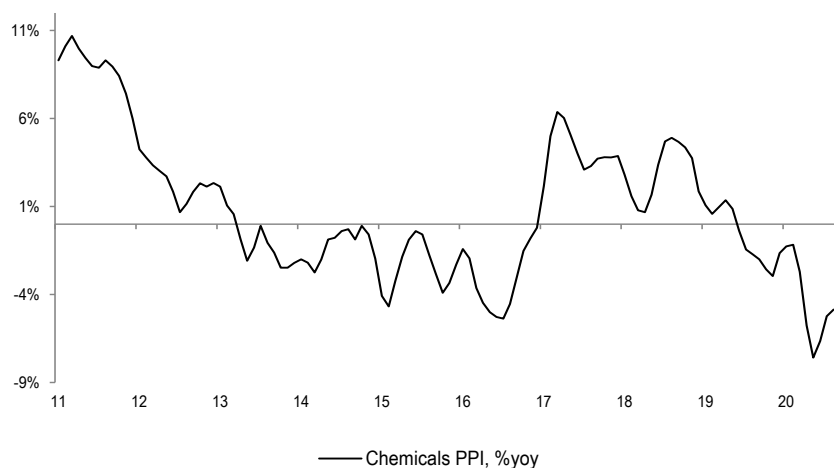


Source: Worldscope, Bloomberg Finance L.P.

N Chemicals – The sector has a large Defensive bias and is trading expensive

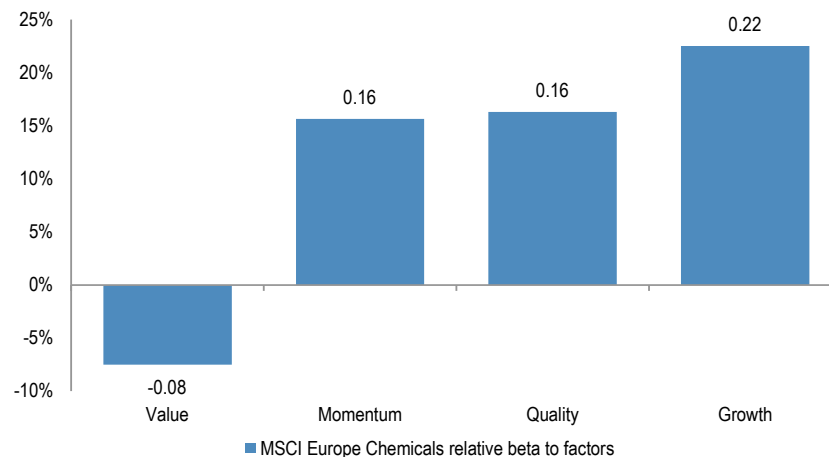
- The sector clearly exhibits a bias towards Growth and Quality styles, as the more Defensive names, such as AIR, dominate the sector weight now. As a result, Chemicals outperformed by roughly 20% until October end, but could struggle if Value style does better this year. Indeed, the sector has underperformed by 5.5% since November.
- Pricing was already weak going into 2020 and COVID-19 has made the situation even worse. That said, our Chemicals analysts believe that this is not a structural concern and pricing could improve in tandem with inventory normalization, as well as demand recovery in the key end markets, such as Autos.

Chemicals PPI %yoy



Source: Bloomberg Finance L.P.

Chemicals relative beta to factor returns in last 3 years



Source: J.P. Morgan, Datastream

Chemicals EV/EBITDA relative



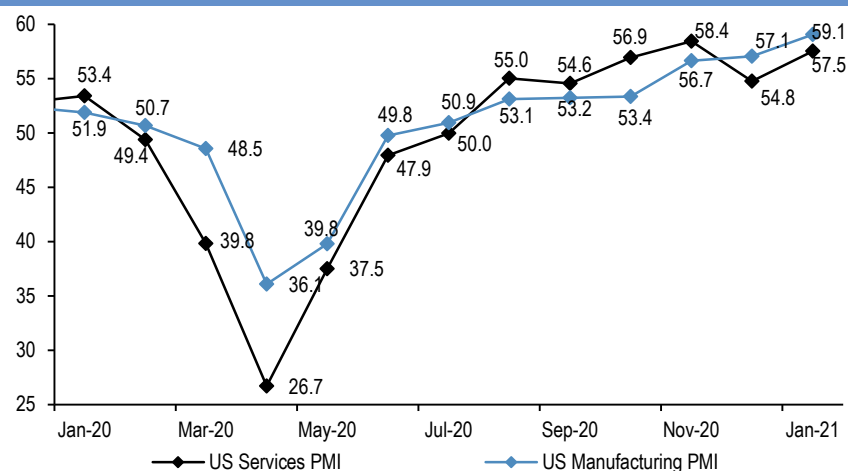
Source: IBES

INDUSTRIALS: NEUTRAL

N Capital Goods – The sector has benefitted from a defensive skew...

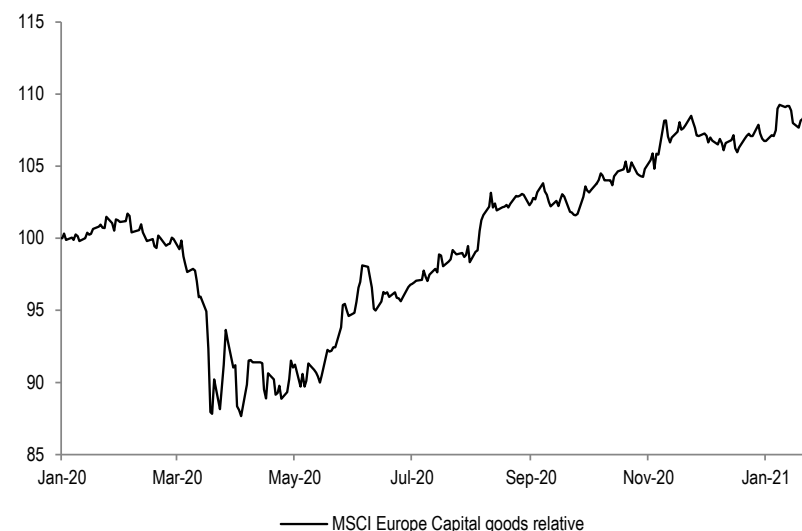
- The sector did well last year, as Quality/Growth names outperformed strongly.
- The relative strength in manufacturing segment of the economy vs services has also aided the sector's relative performance.
- The EU spending package was approved in December. The funds focus on renewable power, building renovation and clean mobility, should benefit the Capital Goods space.
- Our sector analysts expect most companies to be at least in line for Q4, many of them will probably beat consensus. A number of companies have already preannounced better results.

US Manufacturing and services PMI



Source: J.P. Morgan

European Capital Goods relative



Source: Datastream

EU fiscal stimulus announcements as a % of GDP

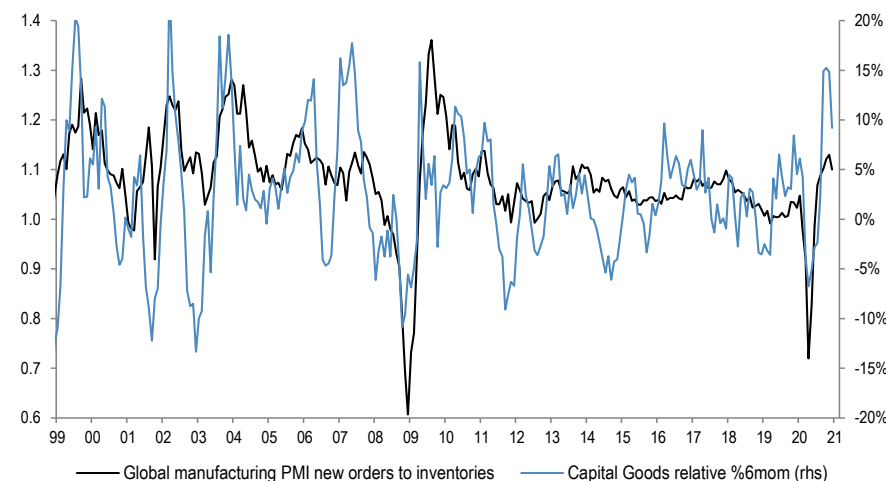
	Announced Fiscal Stimulus	% 2019 GDP	Weight in global GDP	Contribution to global fiscal stimulus % GDP
EU recovery fund	€750 bn	4.4%	-	-
France	€270-300 bn	11.5%	3.1%	0.36%
Germany	€236 bn	6.9%	4.5%	0.31%
Italy	€25 bn	1.4%	2.3%	0.03%
Sweden	SEK300 bn	6.1%	0.5%	0.03%
Spain	€17 bn	1.4%	1.6%	0.02%
Norway	NOK 100 bn	3.4%	0.4%	0.01%
EU	€1.34 tn	8.0%	15.8%	1.25%

Source: J.P. Morgan

...however, Industrial valuations do not look cheap

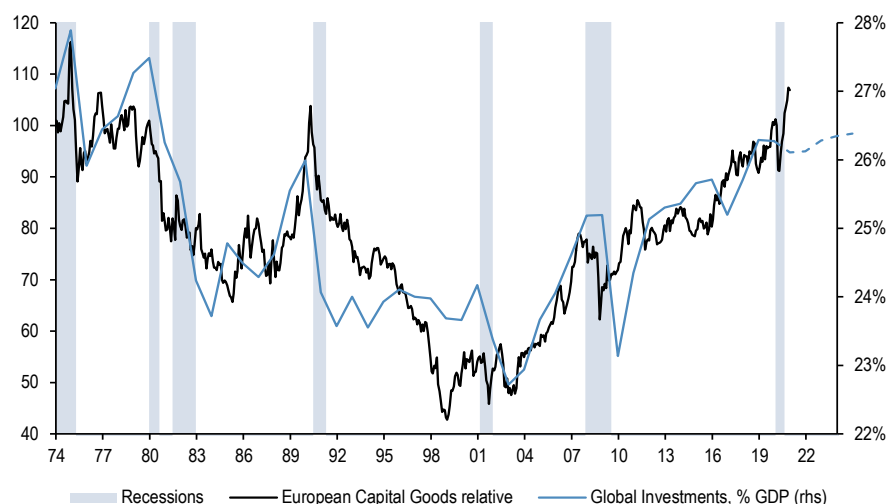
- Capital Goods are a traditional beta play on PMI momentum, but a lot of this appears to be already factored in by the market. Both New orders to inventories ratio and Capital Goods relative are starting to roll over.
- Big picture, the sector has benefitted from the strong Capex spend for years, and is trading outright expensive.

Capital Goods relative vs Manufacturing PMI New orders to inventories



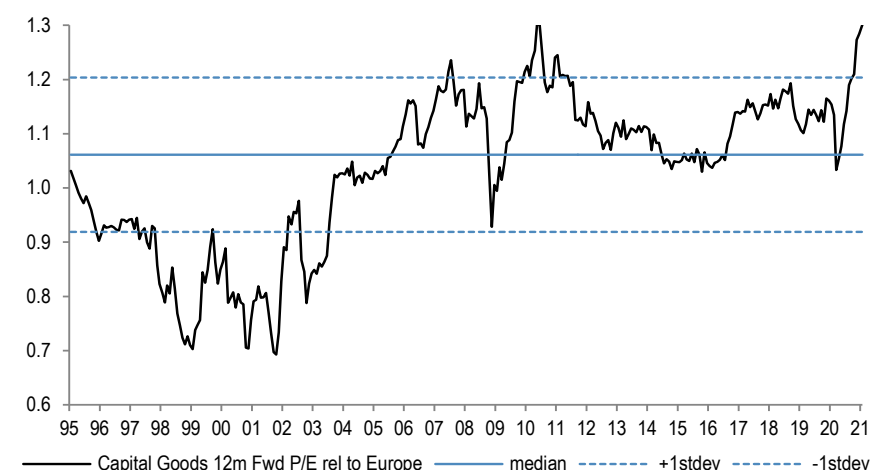
Source: Datastream, J.P. Morgan

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



Source: IMF - WEO 2020, Datastream

Capital Goods 12m forward P/E relative

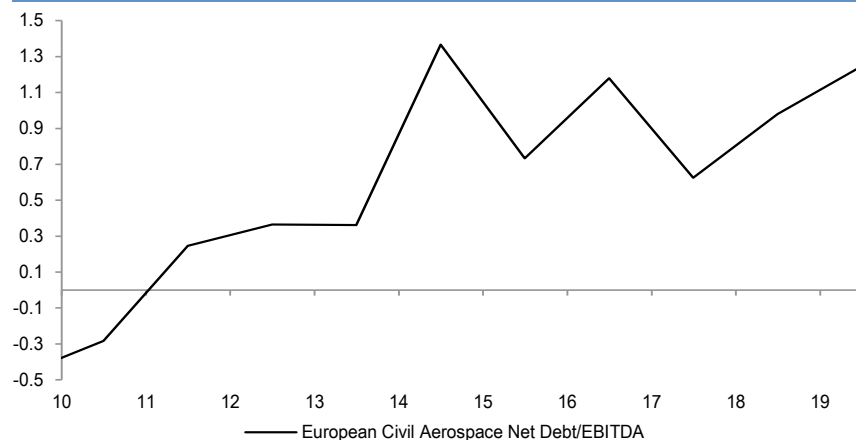


Source: IBES

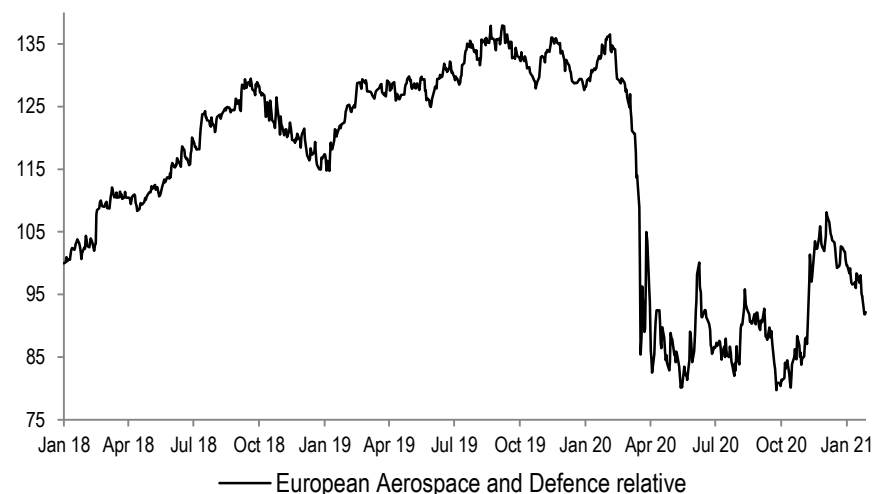
UW Aerospace & Defense

- Aerospace and Defense delivered strong gains in the Value rebound since November, but have reversed some of them off-late. Our analysts caution that the earnings for the subgroup will take a very long time to fully recover.
- Civil aerospace companies have stretched balance sheets, with limited or no capital for shareholder returns. A few of them may even need to issue new capital.
- There are concerns on reduction in Defense spending as ballooning government debts could lead to some rationalization of spending in other areas, at the expense of Defense.

Civil Aerospace Average Net Debt/EBITDA

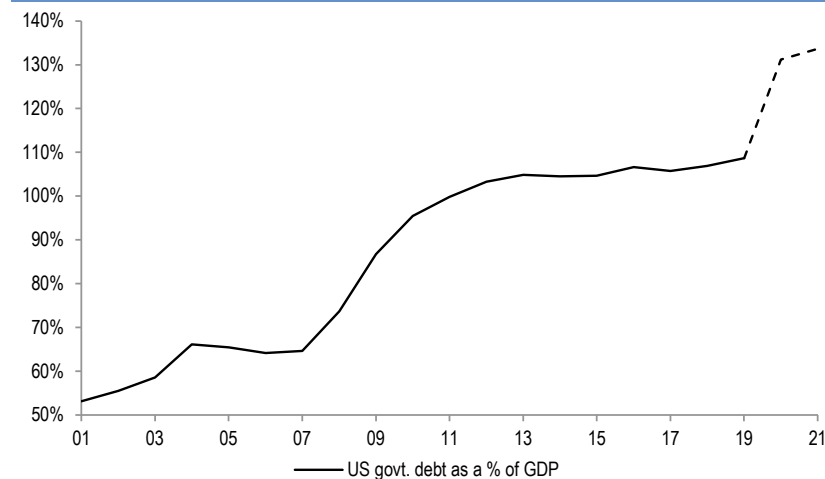


MSCI Europe Aerospace and Defense relative



Source: Datastream

US Government debt as a % of GDP



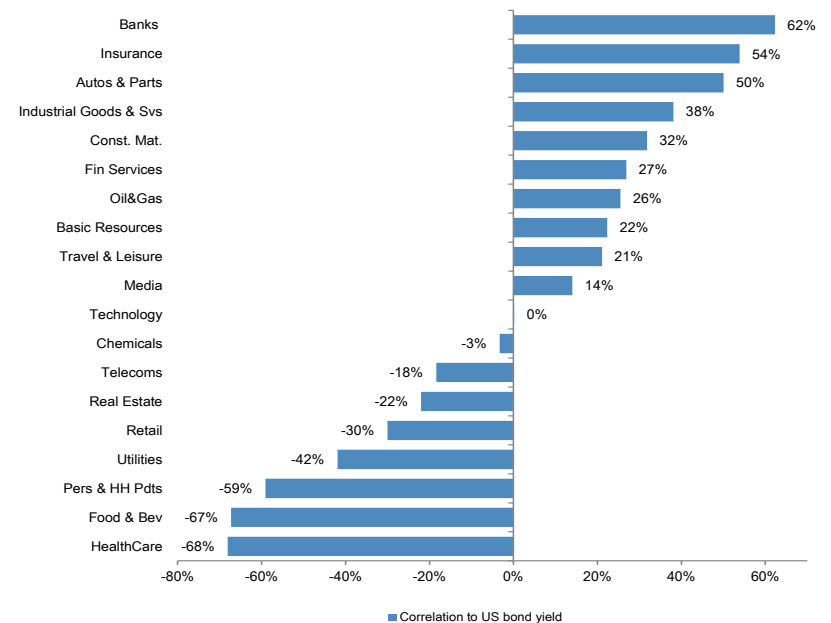
J.P. Morgan CAZENOVE

CONSUMER DISCRETIONARY: NEUTRAL

N Autos – high beta sector and cheap valuations, but structural issues remain

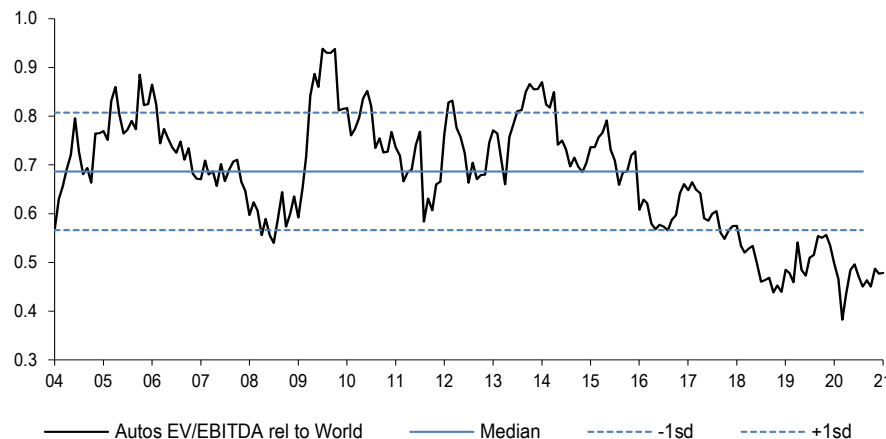
- The sector is a play on consumer normalisation, but it has already rallied strongly in the last few months, and car sales have rebounded.
- Looking further out, structural issues such as increasing penetration of EVs, ride hailing services and automated driving present material challenges for the industry. Loss of secondary revenues, weaker brand values, less demand for cars and higher capex spend are just some of the problems that the industry needs to negotiate in the coming years.

European sectors correlation to bond yields



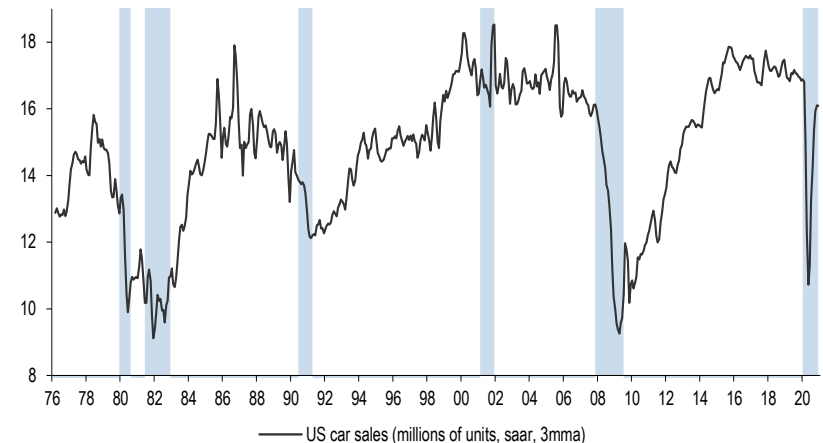
Source: IBES

Autos EV/EBITDA relative



Source: IBES

US Auto sales



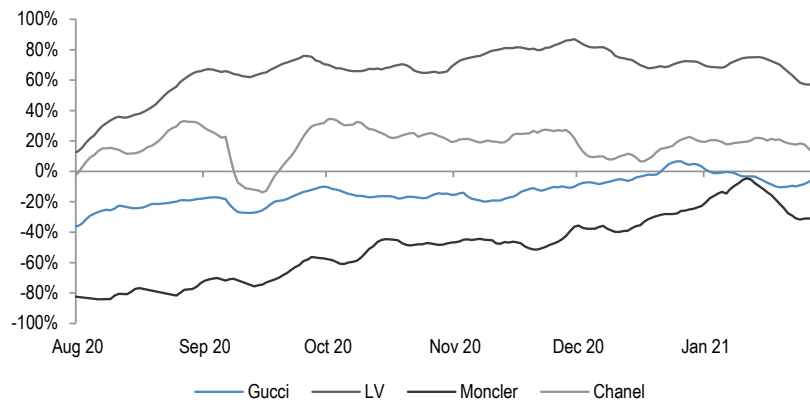
Source: IBES

J.P. MORGAN CAZENOVE

N Consumer Durables – The sector is an expensive Growth play and could be hurt from a Value recovery

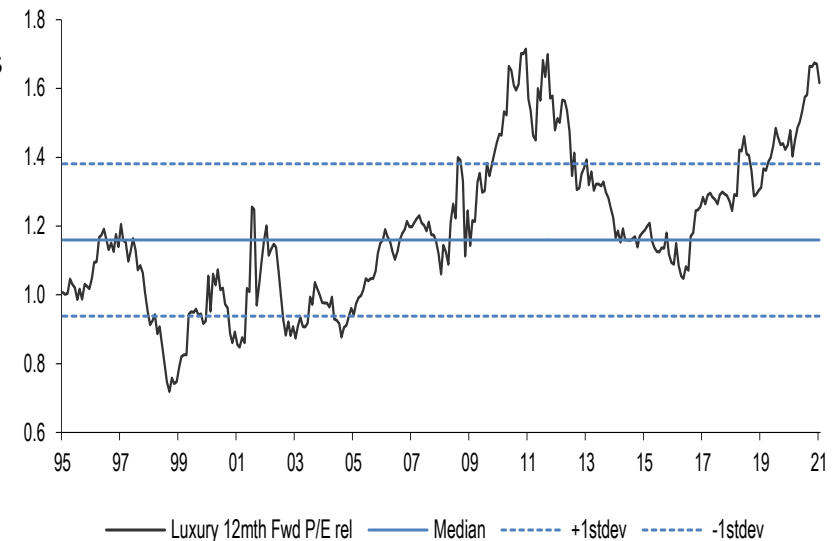
- Robust Chinese consumer demand, and an increase in online traffic given the pandemic, have been the biggest drivers of the Luxury sector earnings. China recovery in 2H '20 also played a big role in the sector's strong performance. While tourism was severely impaired, a reducing pricing gap for luxury products between the Chinese versus European and Hong Kong markets meant that the weakness in tourist purchases was to an extent compensated by higher sales in China.
- The sector benefitted from Quality/Growth outperformance last year, and could be hurt from a potential Value recovery. In addition, valuations look fairly expensive.

China- Daily Active Users, %y/y



Source: JPMorgan Luxury team

Luxury 12m Fwd P/E relative



Source: IBES

HK SAR Jewelry watches sales vs Durables 12m Fwd EPS

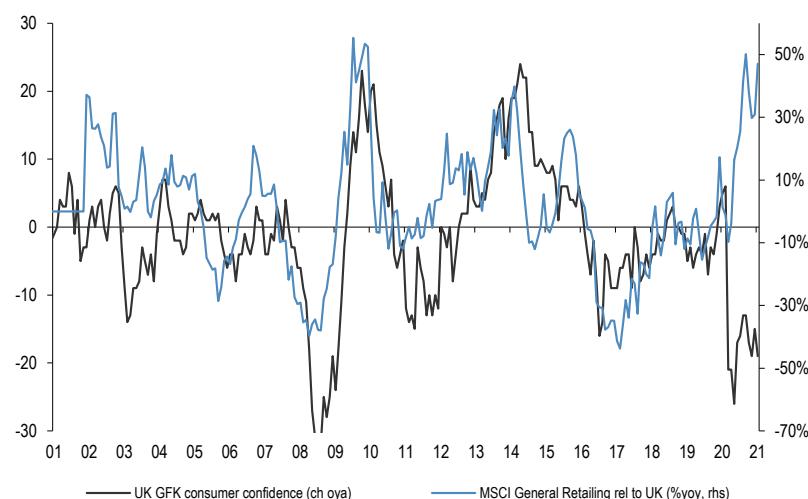


Source: IBES, Bloomberg Finance L.P.

N Retail – sector is seen as a recovery play, but the dominance of structural online winners means that it may not behave like one

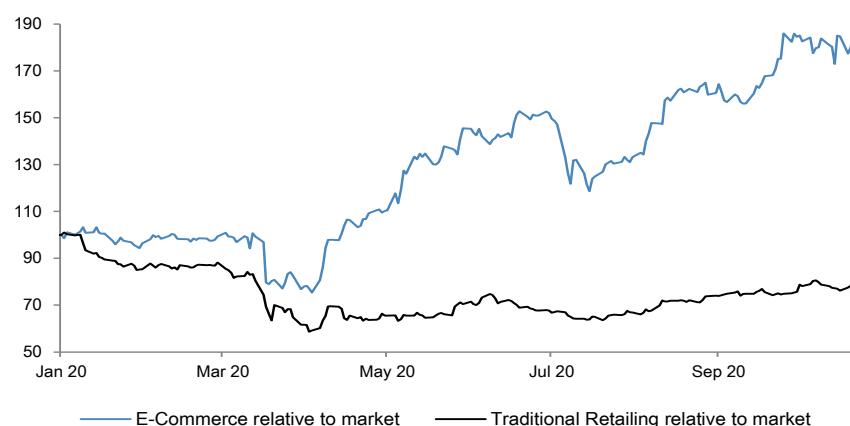
- General retail sector has done well last year as well as ytd, despite a weak consumer backdrop.
- Predominantly online-only retailers represent a growing chunk of the sector weight. The overall index has held up very well due to this, but at the same time there could be some profit taking ahead if the style leadership switches towards more Value plays.
- We note that e-commerce players outperformed traditional brick-&-mortar retailers by almost 100% last year.

UK Retailing relative performance vs consumer confidence



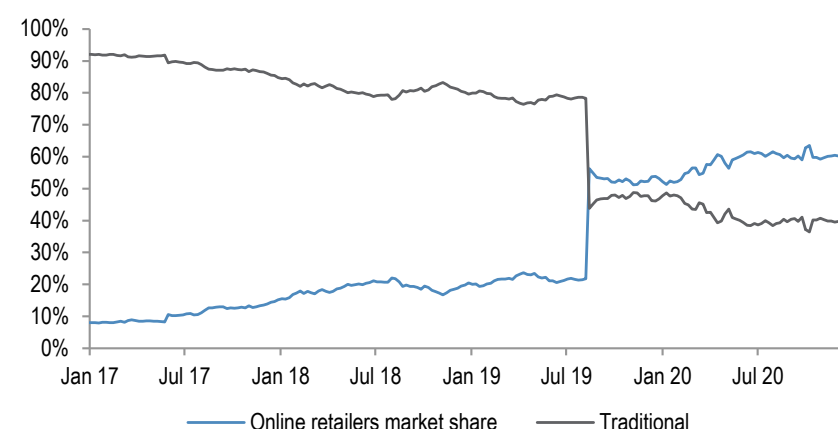
Source: Bloomberg Finance L.P., Datastream

Performance of E-commerce vs Traditional Retail



Source: Bloomberg Finance L.P., E-Commerce plays considered include AO World, ASOS, Boohoo, Zalando. Traditional Retail considered include Ceconomy, Dunelm, GrandVision, Halfords, Hennes & Mauritz 'B', Inditex, Kingfisher, Maisons Du Monde, Marks & Spencer, Next, WH Smith, Superdry, Ted Baker

Sector weight progression of traditional vs online retailers



Source: Datastream. * Prosus, which is 33% of the current index weight, was listed on 13th Sep '19

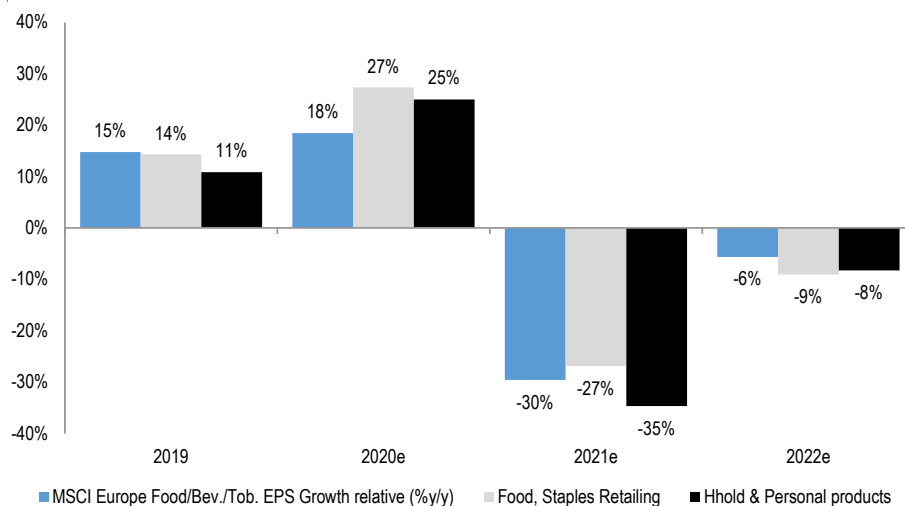
J.P.Morgan CAZENOVE

CONSUMER STAPLES: UNDERWEIGHT

Lacklustre earnings outlook and potentially rising bond yields are an issue...

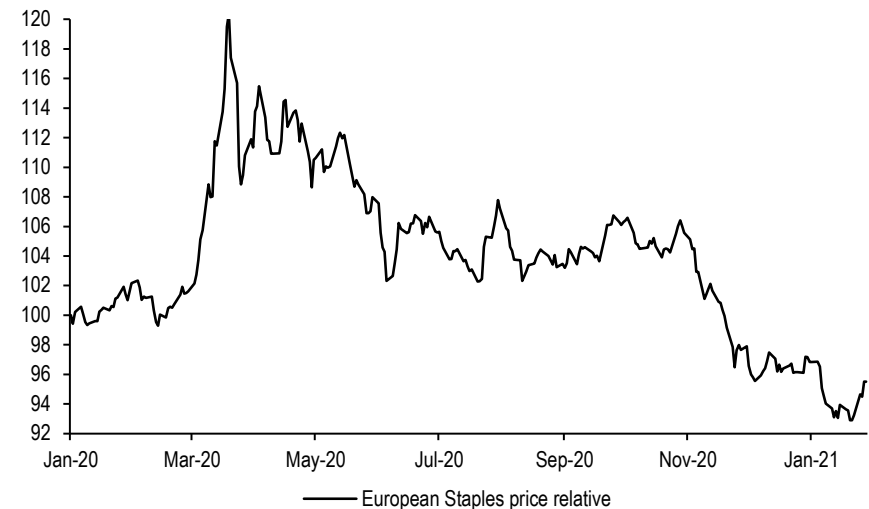
- Staples performed well in the initial phase of the COVID-19 crisis, as higher grocery demand and the Defensive nature of the industry attracted investor interest. However, Staples were sold in the past months as investors rotated into Value plays.
- The earnings outlook for the sector is uninspiring. Staples earnings are likely to significantly undershoot the broader market over the next two years.
- The sector tends to have a low beta to PMIs and inverse correlation to bond yields, as well as to FX. If the activity momentum picks up sustainably, Staples are likely to struggle.

MSCI Europe Staples subsector earnings growth relative



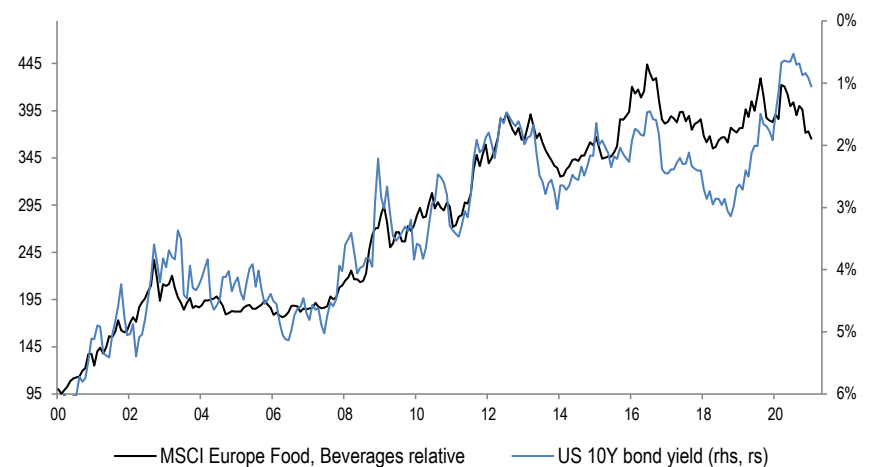
Source: IBES

European Staples relative



Source: Datastream

MSCI Europe Food & Beverages vs US 10Y bond yield

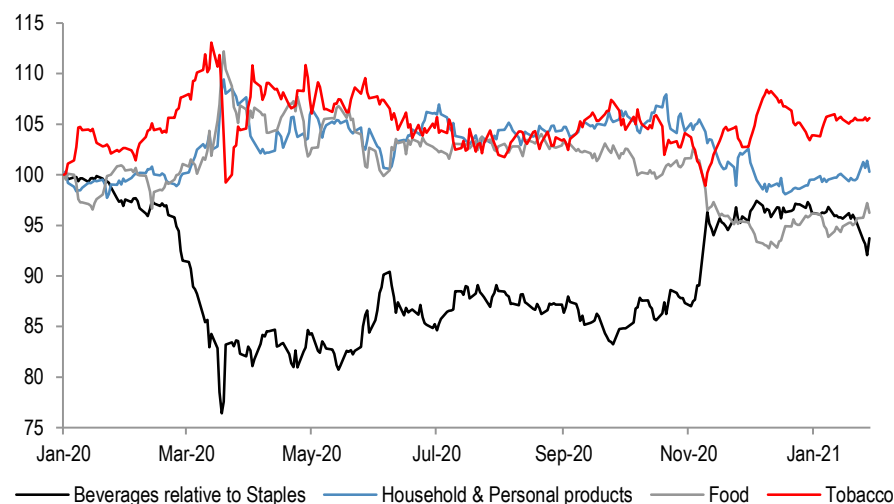


Source: Datastream

...Beverage stocks could benefit from a potential “Re-opening trade”

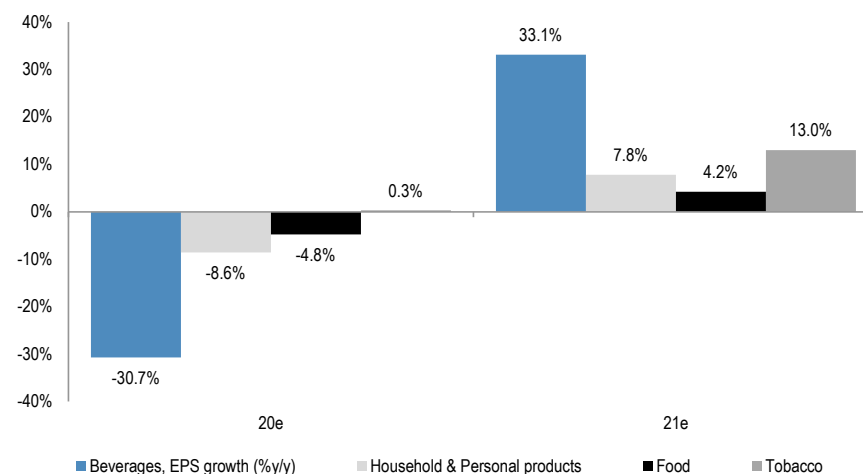
- Within Staples, Beverage stocks have underperformed significantly last year as their demand was severely impacted by COVID-19 related disruptions.
- We believe that Beverage stocks could benefit from a potential “Re-opening trade”. Our Staples analysts expect a strong earnings rebound for Beverage stocks this year.

Staples subsectors performance



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

Staples subsectors EPS Growth



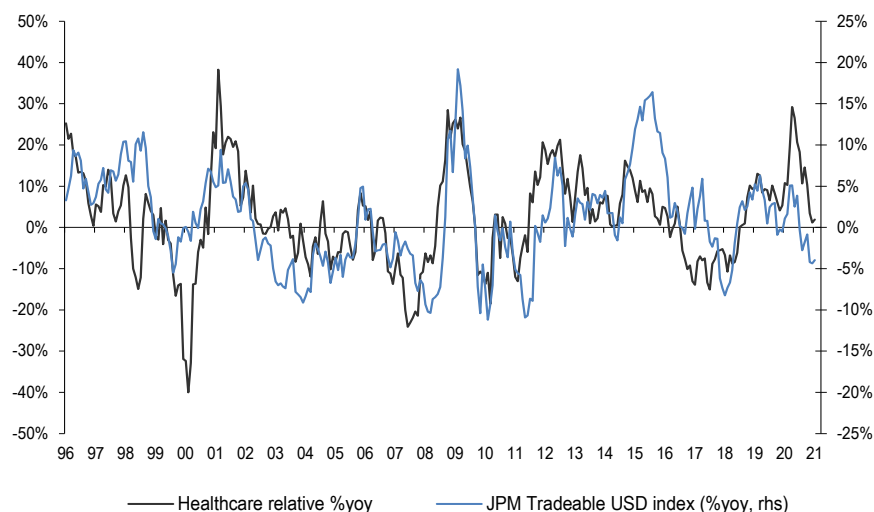
Source: J.P. Morgan European Staples Research

HEALTHCARE: NEUTRAL

Relative earnings have rolled over and the sector could struggle if USD weakens / bond yields bounce

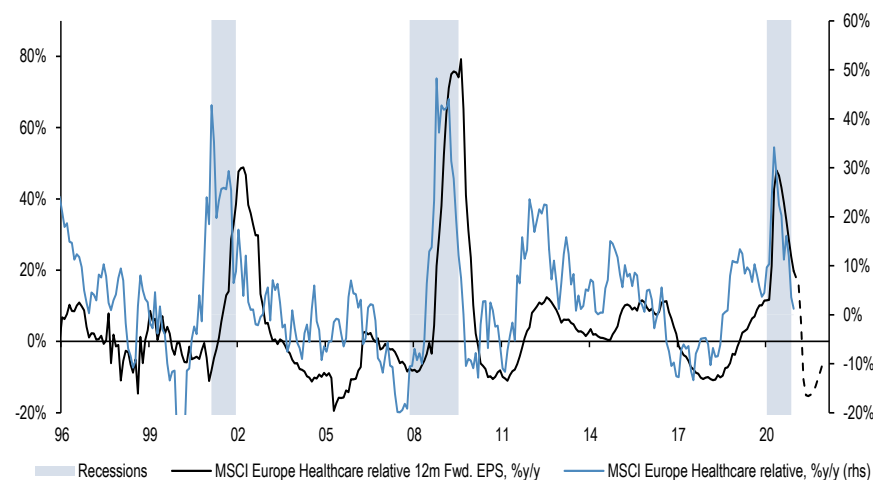
- The sector has done well recently benefitting from a stronger USD. However, our sector analysts are concerned that Q4 estimates might be a bit optimistic mainly due to high FX, but also due to lingering Covid impact and is prone to negative surprises. Longer term, relative earnings trends for the sector have rolled over and is expected to significantly underperform the broader market for the next 2 years.
- Healthcare typically benefits from a stronger dollar and weaker bond yields. The backdrop this year may be challenging for the sector on both of these fronts.
- On the other side, it is trading cheap, pipeline for new drugs looks attractive, and we are still away from a patent expiry cliff in 2022-23.

Pharma relative and tradeable USD



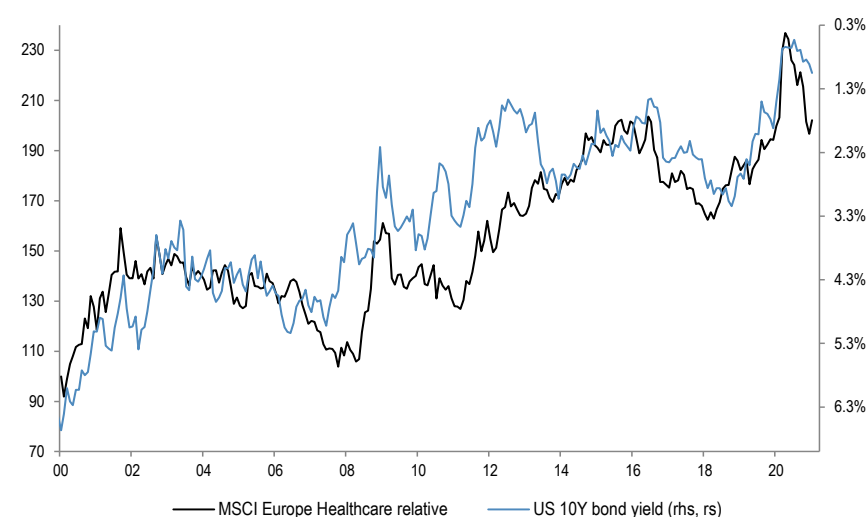
Source: Bloomberg Finance L.P.

European Healthcare EPS relative and price relative



Source: IBES

Healthcare price relative vs bond yields



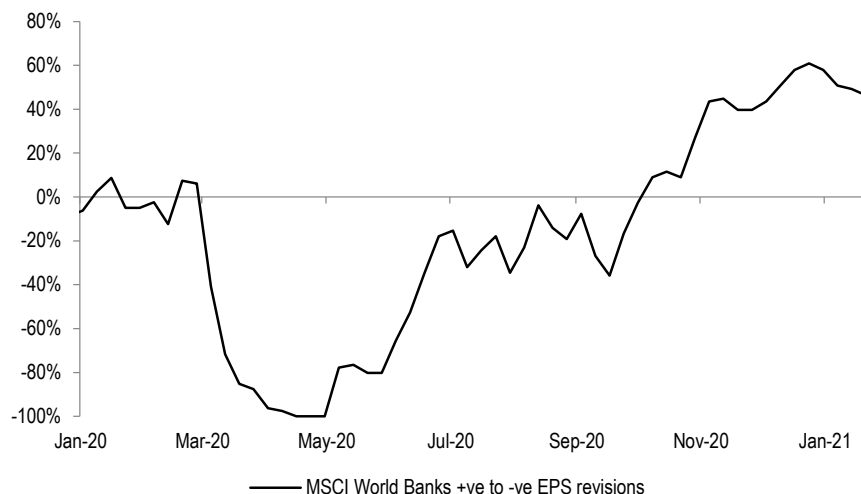
Source: Datastream

FINANCIALS: OVERWEIGHT

OW Banks – big underperformer, earnings momentum stays supportive...

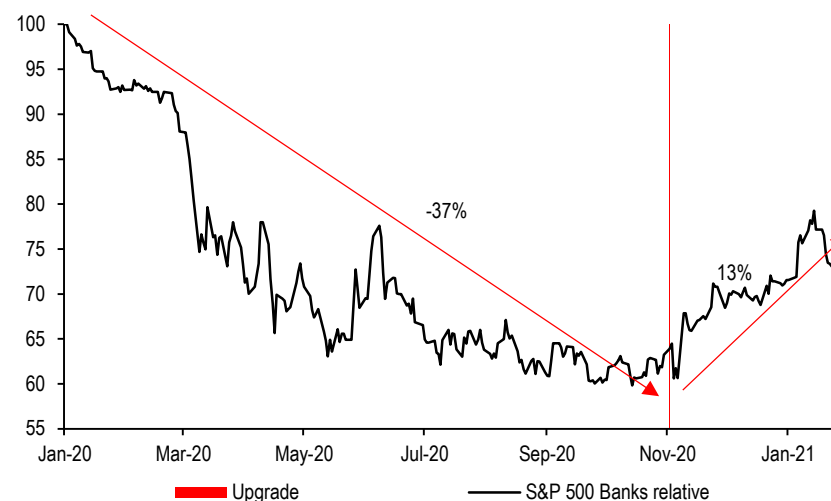
- Despite the recent weakness, Banks are up strongly vs the market since November. The strong upmove needs to be put in perspective of significant and persistent weakness seen beforehand.
- Banks' earnings trends are improving relative to the broader market, and is key in our view. A large gap has opened up over the past year between the relative performance and earnings revisions, and points to further upside for the sector.
- In addition, ECB has taken positive steps in providing more clarity on the acquisition process; consolidation is key to achieve a resilient banking system in Europe.

Global Banks EPS revisions relative



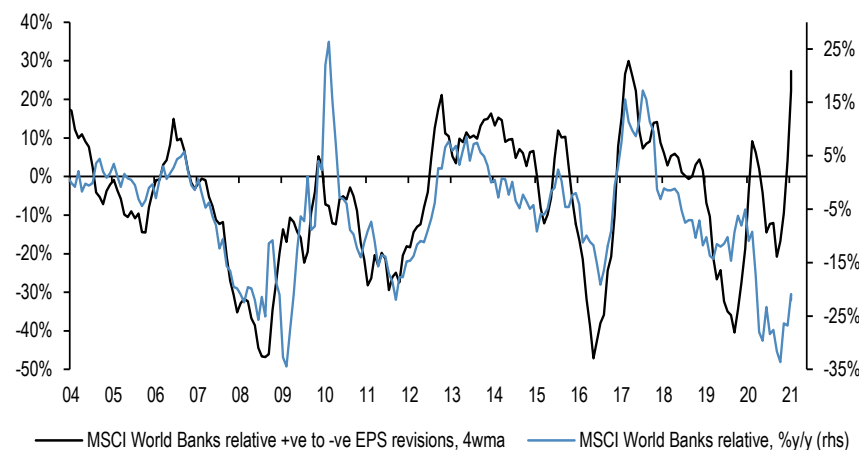
Source: Datastream

S&P500 Banks relative



Source: Datastream

MSCI World Banks EPS revisions and performance relative



Source: Datastream

...Banks P/E relative is at lows... dividends could come back...

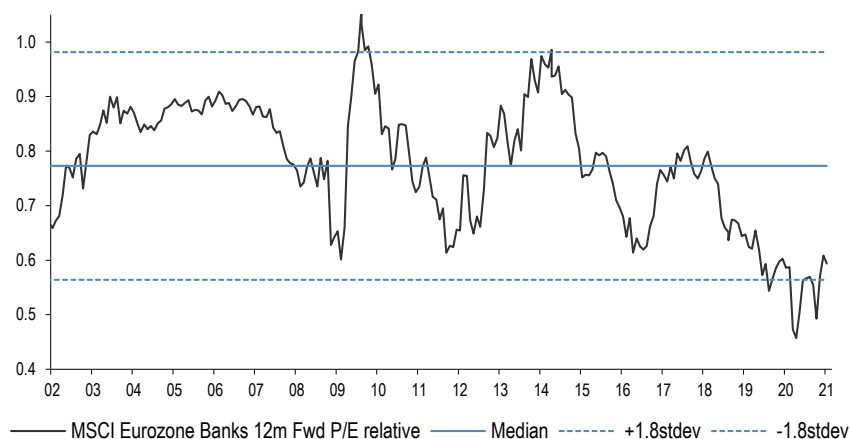
- Eurozone Banks look attractively valued, with relative P/E multiples still at lows.
- The P/E lows of '08, '11 and '16 were followed by very strong returns over the next 12 months.
- Banks' dividends could start to come back.

Eurozone Banks performance after P/E lows

	Eurozone Banks performance after P/E goes below -1.8 Stdev					
	Absolute			Relative		
	+3m	+6m	+12m	+3m	+6m	+12m
24-Nov-08	-31%	15%	55%	-19%	10%	26%
12-Sep-11	8%	20%	20%	-1%	-3%	-4%
02-Feb-16	7%	-14%	22%	3%	-14%	10%
Median	7%	15%	22%	-1%	-3%	10%
Average	-5%	7%	33%	-6%	-2%	10%

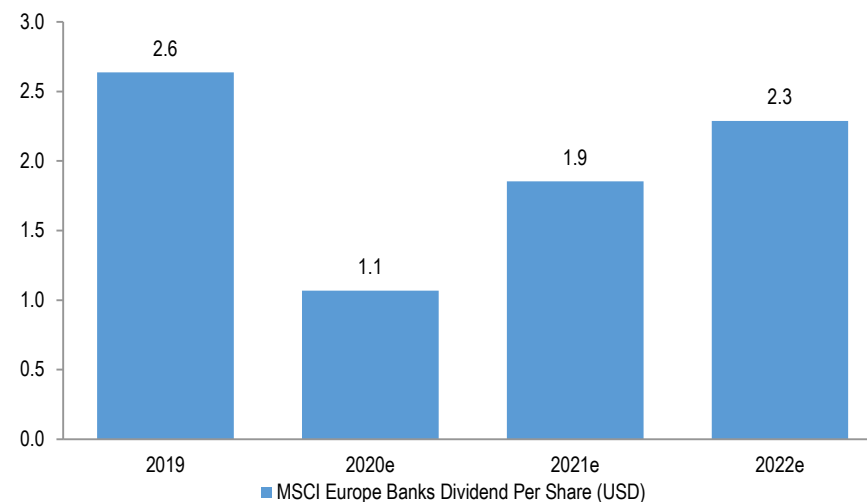
Source: Datastream

Eurozone Banks 12m Fwd P/E relative



Source: IBES

European Banks dividends projections

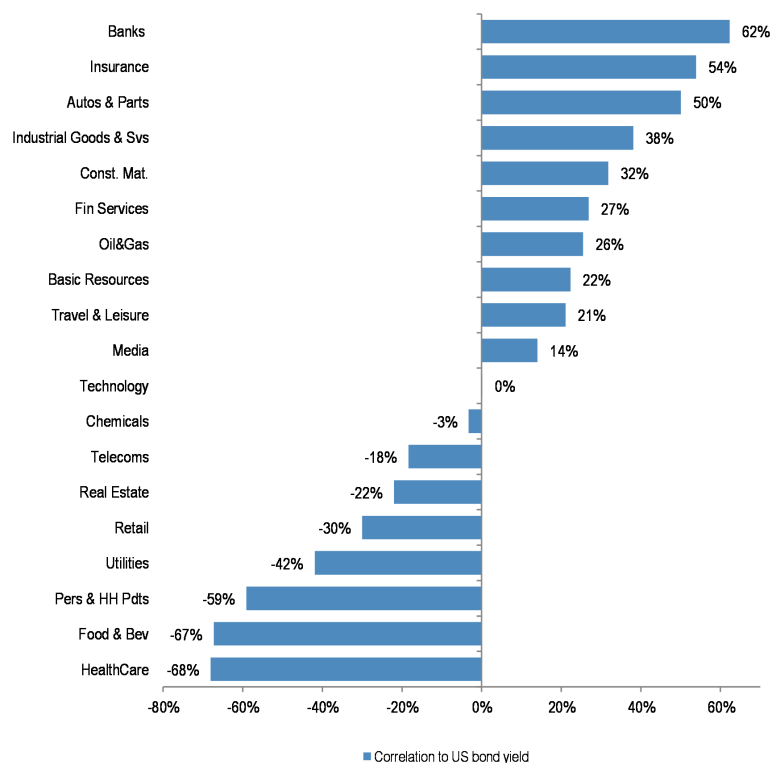


Source: IBES

...bond yields direction is key for the potential P/E re-rating of the sector...
peripheral spreads remain well behaved...

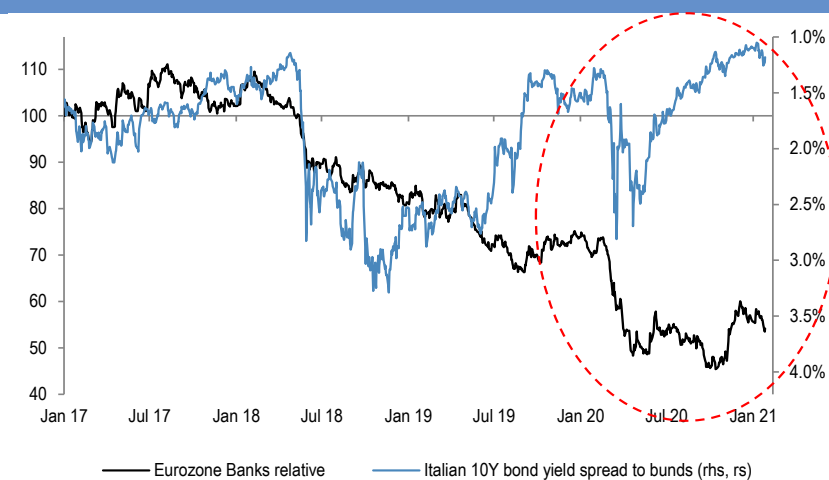
- Banks remain strongly positively correlated to bond yields. We believe that bond yields could grind higher, which would be a big help for the sector.
- Well-behaved peripheral spreads should be a support for Euro Banks.

European sectors correlation to bond yields



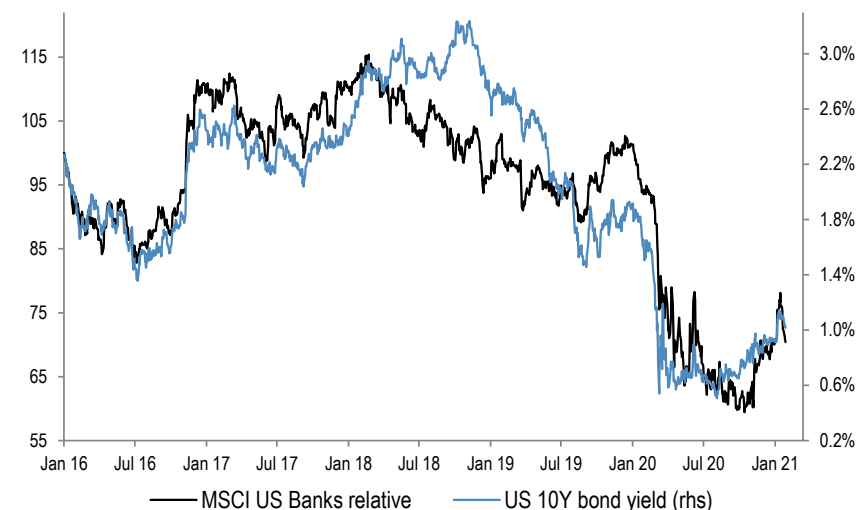
Source: Bloomberg Finance L.P.

Eurozone Banks relative vs peripheral spreads



Source: Bloomberg Finance L.P.

MSCI US Banks relative and US 10Y bond yields

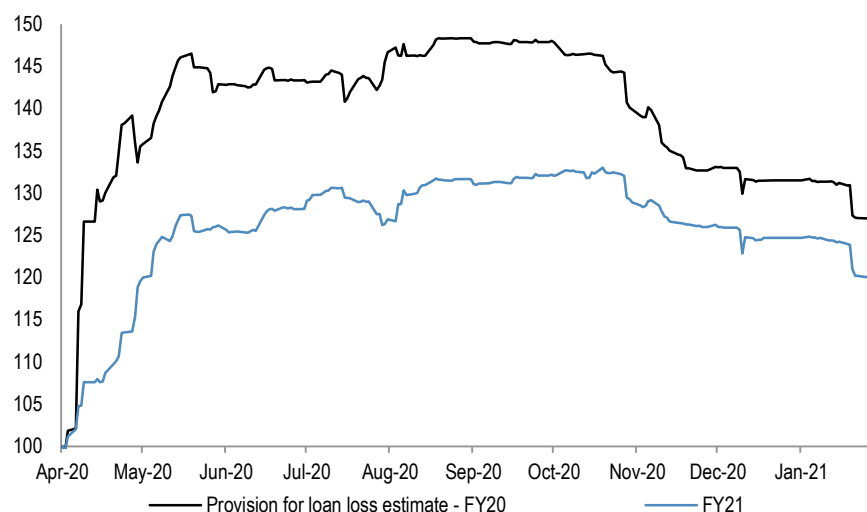


Source: Bloomberg Finance L.P.

...benign credit backdrop, subdued delinquencies and provisioning unlock are helping sector earnings...

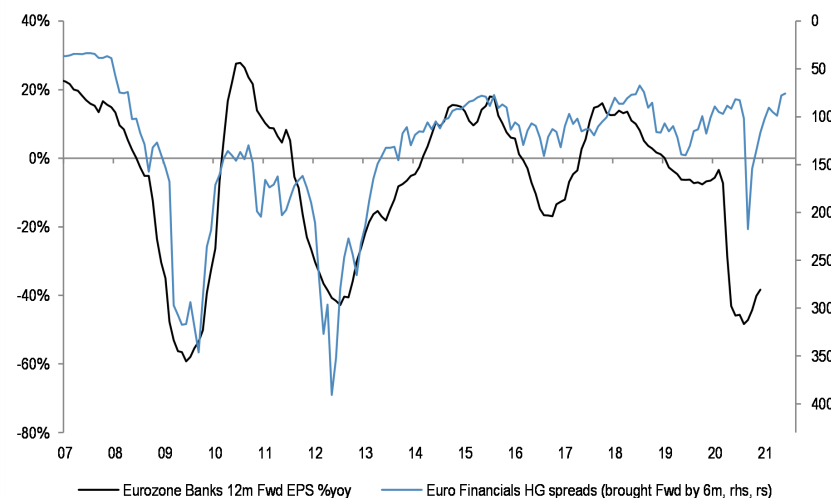
- Credit spreads are well behaved, and delinquency rates are significantly better vs GFC. This has helped unlock provisioning reserves, further aiding the earnings outlook for Banks.
- Unlike in past recoveries, we do not think that Banks will have to dilute the equity shareholder this time around.

MSCI Europe Banks provisions for loan losses - consensus estimates progression



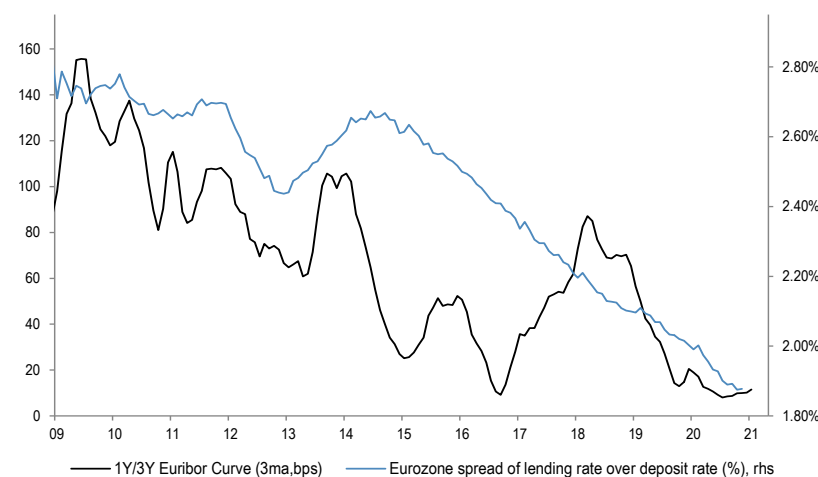
Source: Bloomberg Finance L.P.

Eurozone Banks EPS and Financial HG credit spreads



Source: J.P.Morgan

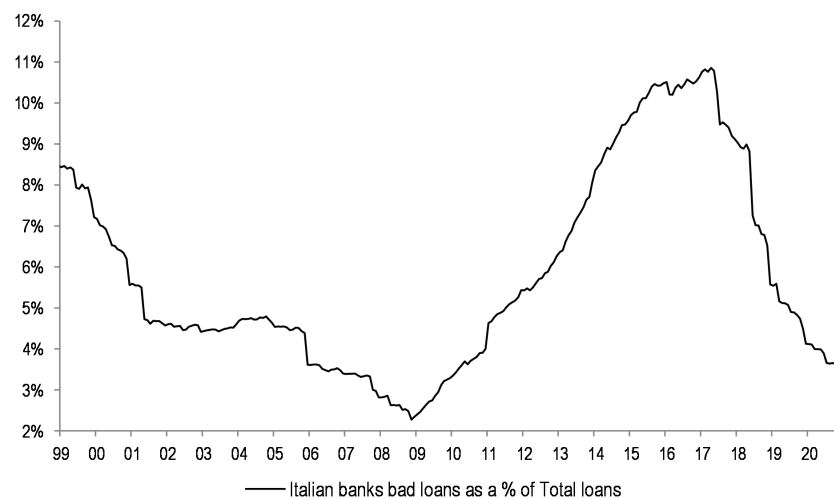
1Y/ 3Y Euribor curve and Eurozone Bank NIMs



Source: J.P.Morgan

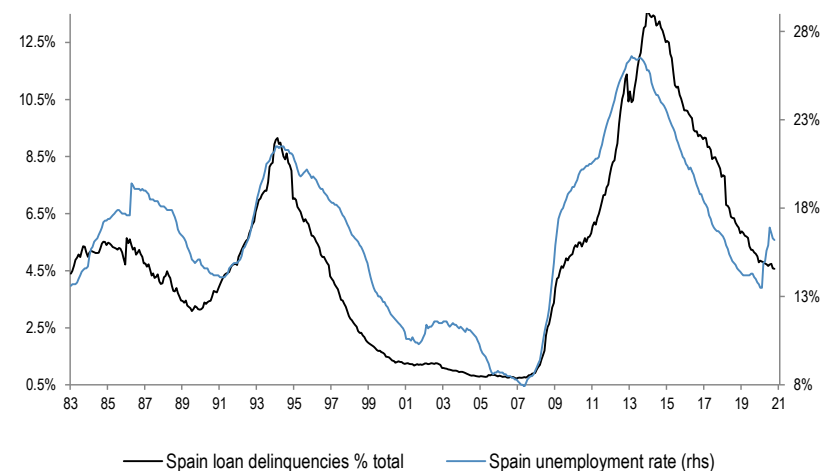
...balance sheet picture is better this time around...

Italian bad loans as a % of total loans



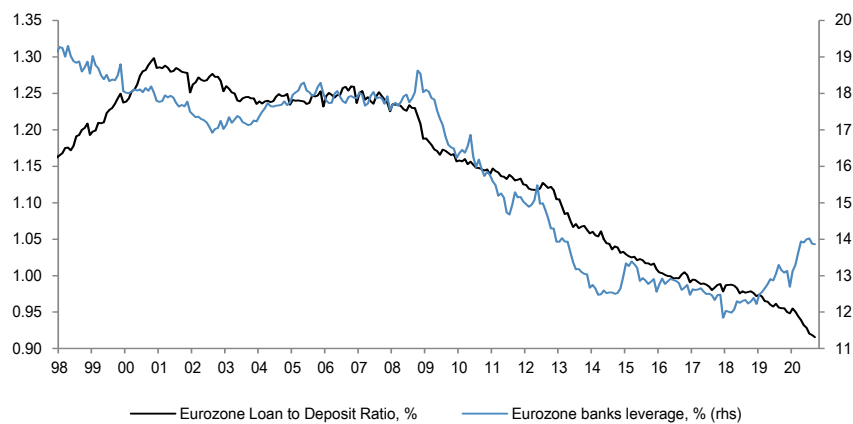
Source: Banca d'Italia

Spanish loan delinquencies vs unemployment rate



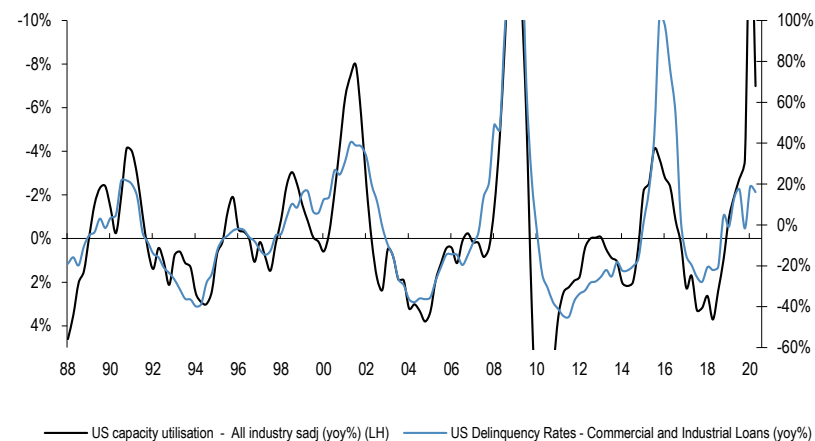
Source: Bloomberg Finance L.P.

Euro area bank leverage and loan/ deposit ratio



Source: J.P. Morgan, ECB

US C&I loan delinquencies vs capacity utilization

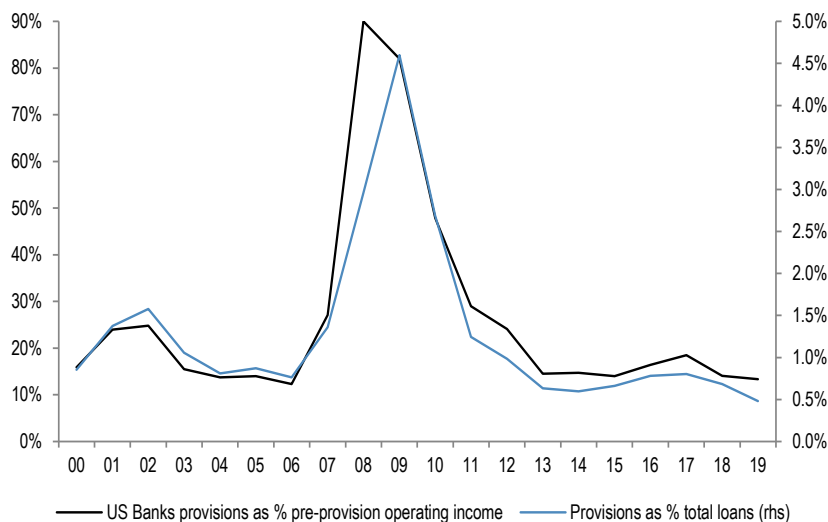


Source: Datastream

...provisioning may not move significantly higher from here...

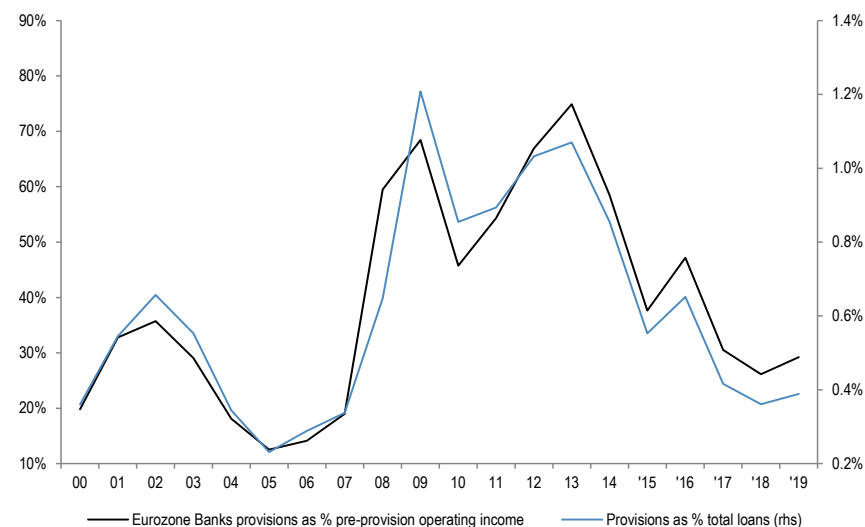
- We do not anticipate a material worsening in Banks NPLs.

US Banks provisioning



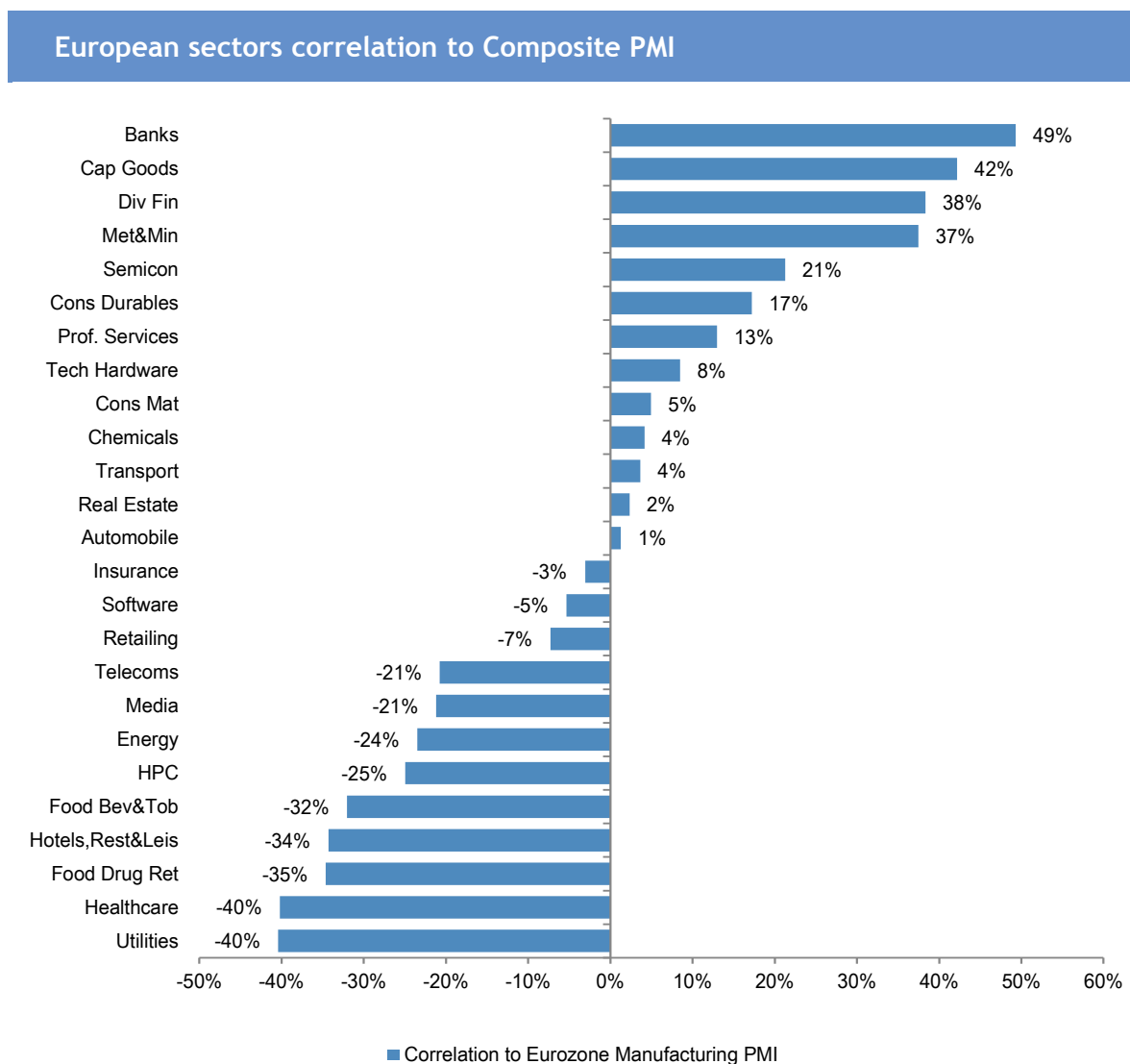
Source: Datastream, Worldscope

Eurozone Banks provisioning



Source: Worldscope

...Banks are among the most sensitive sectors to any improvement in activity



Source: Bloomberg Finance L.P., Markit

Banks' correlation to macro factors

Banks' correlation to macro factors, ranked by aggregate score

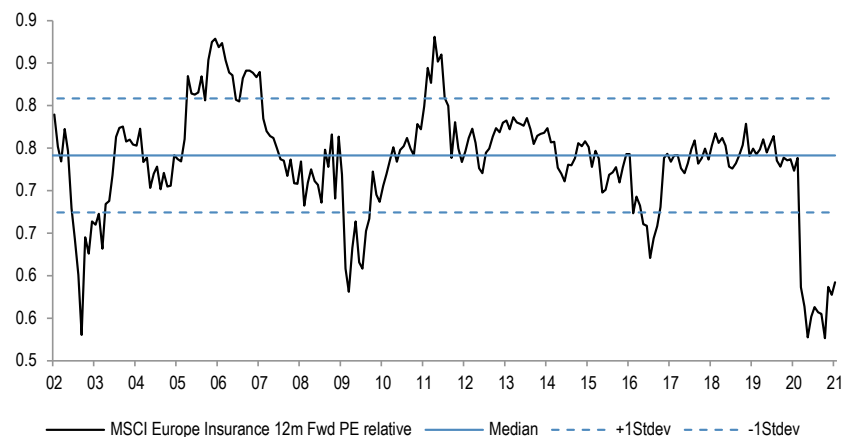
Company	BBG Ticker	PMIs	Correlation to:		
			Inflation expectations	10Y German bunds	Italian - German 10Y spread
RAIFFEISEN BANK INTL.	RBI AV	38%	51%	58%	-7%
PKO BANK	PKO PW	36%	47%	46%	11%
DEUTSCHE BANK (XET)	DBK GR	36%	33%	27%	-20%
CAIXABANK	CABK SM	31%	45%	46%	-7%
COMMERZBANK (XET)	CBK GR	41%	21%	36%	-24%
BANCO SANTANDER	SAN SM	40%	46%	24%	-27%
DNB	DNB NO	55%	20%	18%	-24%
ERSTE GROUP BANK	EBS AV	50%	19%	31%	-32%
BNP PARIBAS	BNP FP	39%	36%	43%	-47%
SOCIETE GENERALE	GLE FP	40%	29%	42%	-50%
STANDARD CHARTERED	STAN LN	25%	41%	6%	14%
BBV.ARGENTARIA	BBVA SM	35%	43%	26%	-34%
ING GROEP	INGA NA	49%	15%	33%	-34%
UNICREDIT	UCG IM	44%	19%	39%	-58%
NORDEA BANK (OME)	NDA SS	29%	37%	18%	-21%
NATIXIS	KN FP	68%	11%	20%	-39%
SWEDBANK A	SWEDA SS	54%	5%	8%	-4%
SKANDINAVISKA ENSKILDA BANKEN A	SEBA SS	49%	6%	24%	-34%
CREDIT AGRICOLE	ACA FP	40%	18%	39%	-61%
BARCLAYS	BARC LN	35%	26%	14%	-27%
HSBC HOLDINGS	HSBA LN	-2%	43%	-2%	9%
BANCO DE SABADELL	SAB SM	11%	31%	13%	-13%
KBC GROUP	KBC BB	55%	2%	21%	-52%
DANSKE BANK	DANSKE DC	44%	11%	5%	-30%
BANK POLSKA KASA OPIEKI	PEO PW	18%	22%	9%	-3%
CLOSE BROTHERS GROUP	CBG LN	17%	20%	1%	-9%
BANK OF IRELAND GROUP	BIRG ID	38%	9%	20%	-46%
SVENSKA HANDELSBANKEN A	SHBA SS	7%	12%	-26%	-3%
BANCO BPM	BAMI IM	19%	9%	19%	-46%
BANKINTER 'R'	BKT SM	8%	15%	16%	-29%
BANQUE CANTONALE VAUDOISE	BCVN SW	2%	-14%	-6%	12%
LLOYDS BANKING GROUP	LLOY LN	22%	0%	28%	-51%
INTESA SANPAOLO	ISP IM	23%	6%	18%	-53%
NATWEST GROUP	NWG LN	11%	8%	14%	-27%

Source: Bloomberg Finance L.P., Datastream, Markit

OW Insurance – another big underperformer in 2020; is trading cheap and credit is holding up well

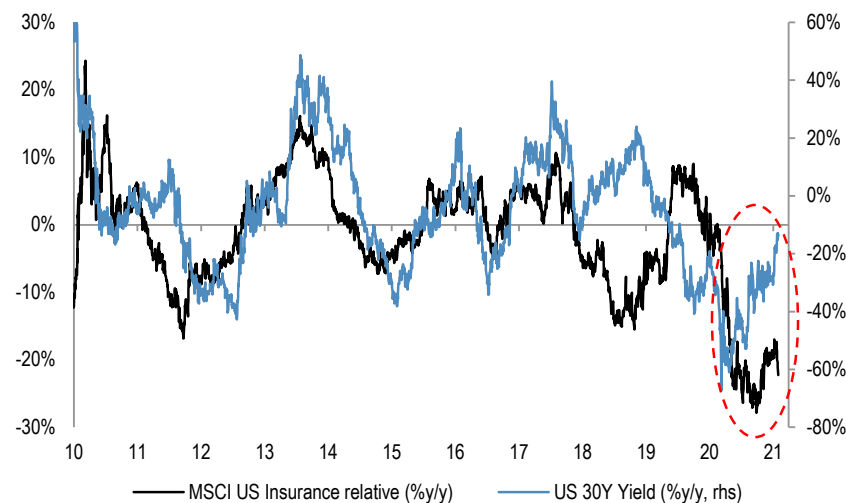
- In spite of the recent weakness, Insurance is up 11% vs market since November. We upgraded the sector, along with Banks, ahead of US elections.
- The sector is positively correlated to bond yields and could benefit from any pickup there.
- Credit spreads are holding up well, which should be a support for Insurance.
- Our sector analysts are looking for Q4 results season as a re-rating catalyst given their expectations for: 1) Dividend reintroduction, with the sector yielding higher (5.7%) vs market (3.2%), 2) Strong capital position, 3) Minimum Covid related losses in 2021.

European Insurance 12m Fwd P/E relative



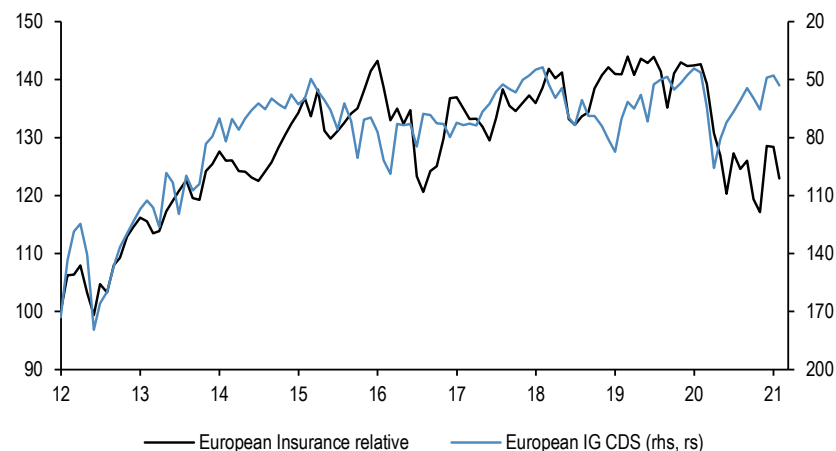
Source: IBES

MSCI US Insurance relative and US 30Y bond yield



Source: Datastream

European Insurance relative and credit spreads



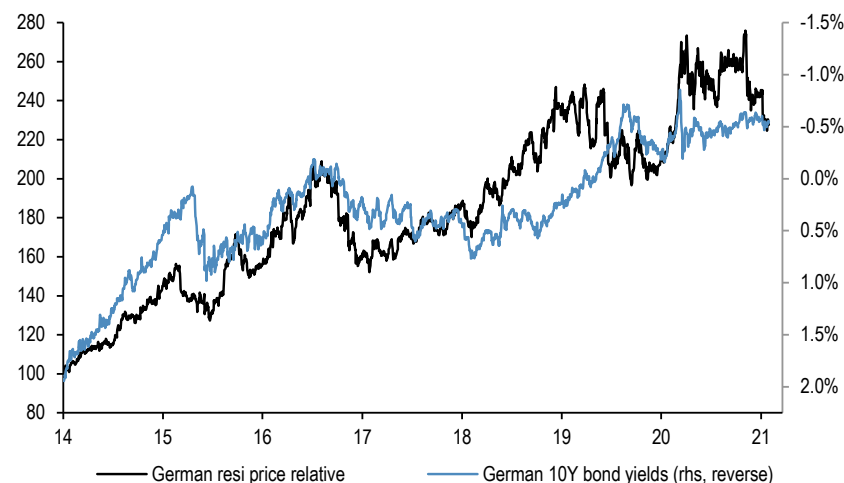
Source: Datastream

REAL ESTATE: UNDERWEIGHT

NAVs, rents and occupancy are all still under pressure

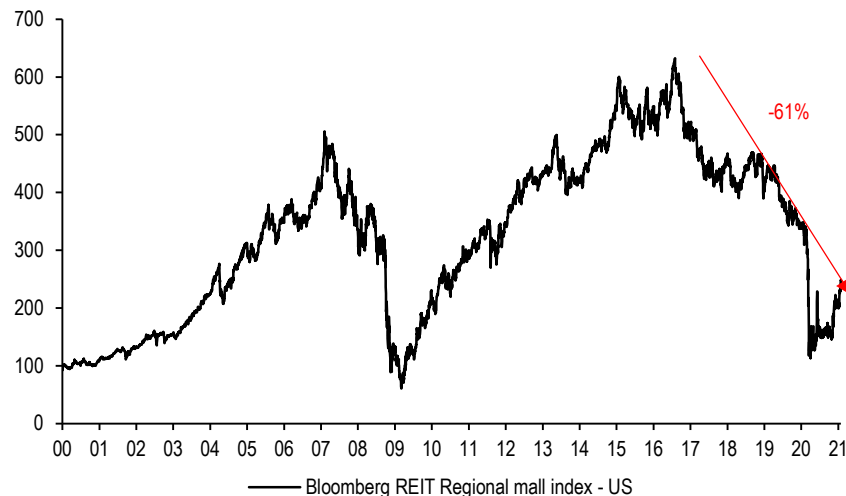
- Real Estate is continuing its poor run from 2020, and is one of the worst performing sectors year to date. The sector continues to suffer as rents, capital, occupancy are all coming under pressure.
- Within Real Estate, German residential was the bright spot, but the risk is that it underperforms this year if bond yields move up.
- Shopping mall stocks in particular are facing continued structural headwinds, such as increasing online penetration. In the US, these stocks have lost almost 2/3rds of their market value since the 2016 peak.

German residential price relative and German bond yields

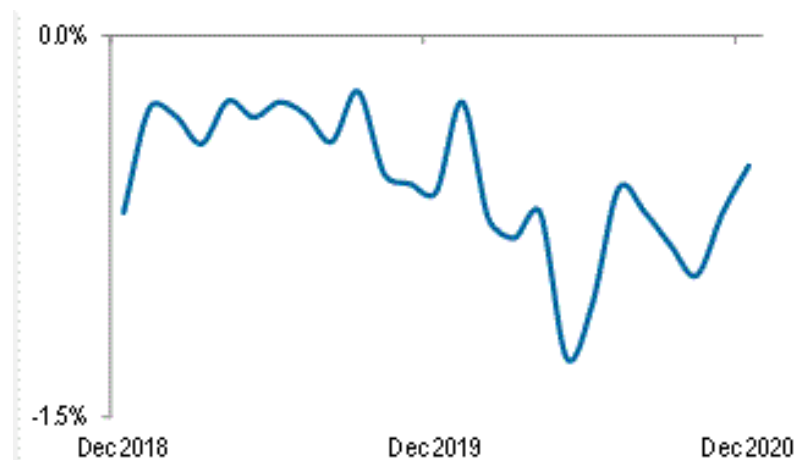


Source: Datastream

Bloomberg REIT Regional mall index - US



All Retail monthly market rent value growth



Source: Bloomberg Finance L.P. Finance L.P.

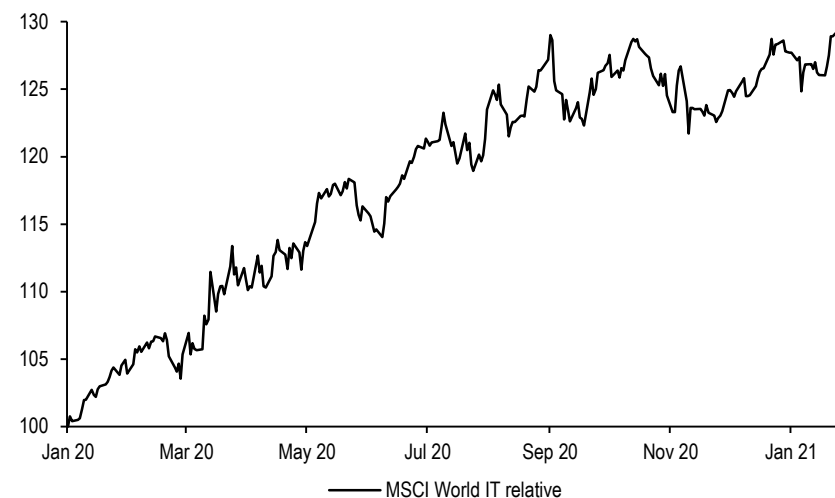
Source: J.P. Morgan Real Estate research

TECHNOLOGY: NEUTRAL

After multi-year outperformance, the sector is prone to profit taking; earnings support is starting to fade...

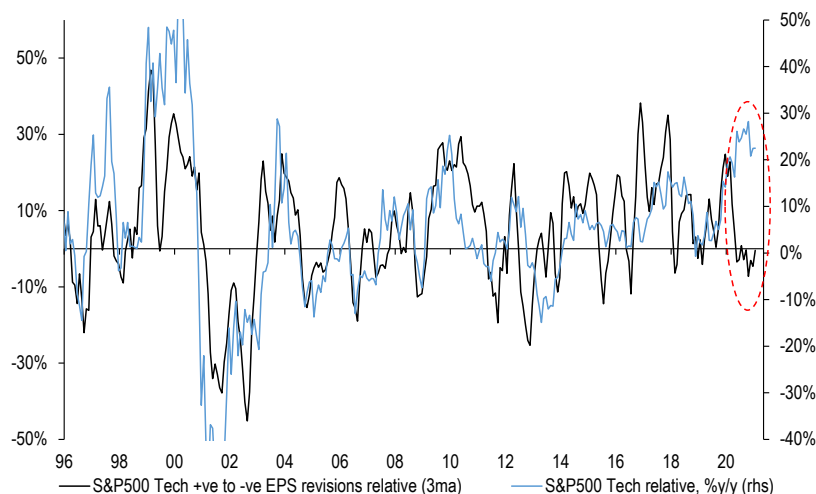
- We have been OW Tech for the better part of the last couple of years, but took profits on the sector right before US election. Tech sector has done very well as it benefitted from two cyclical forces, in addition to longstanding structural supports: cyclical collapse in bond yields and a relative earnings surge due to COVID-19.
- A large gap has opened up between Tech price and EPS relative, and it is likely to widen further in 2021. We believe the sector will be a source of funds as investors position for more reflationary trades.

MSCI World Tech relative



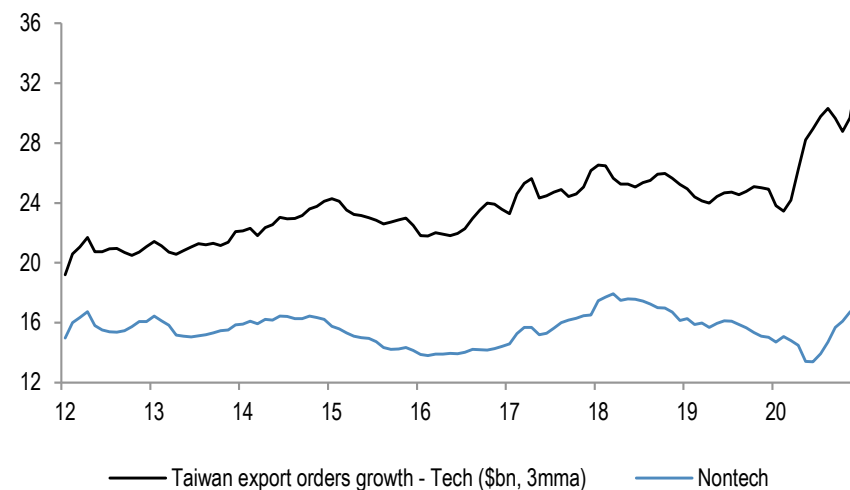
Source: Bloomberg Finance L.P.

US Tech +ve to -ve EPS revisions and performance



Source: IBES

Taiwan Tech and non-Tech export orders



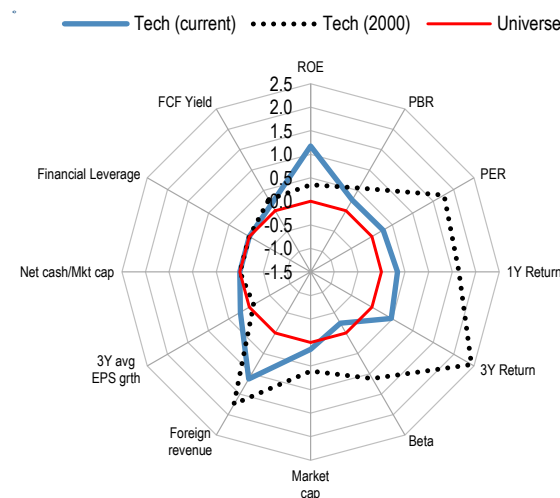
Source: J.P.Morgan

J.P.Morgan CAZENOVE

...while we do not find IT to be anywhere as stretched as it was during the 2000 bubble, it has been re-rating...

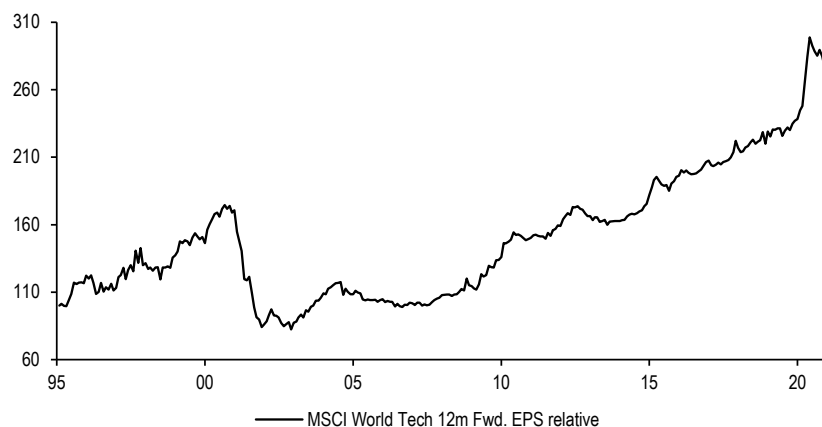
- Tech stocks score higher on both ROE and earnings growth vs the overall market, and have a much lower beta now vs in the run up to the Tech bubble in 2000.
- Tech earnings relative to the broader market are much stronger than what was seen in 2000. Given resilient earnings, Tech P/E relative to the market is nowhere nearly as stretched as it was in 2000. Then, MSCI World Tech was trading at a 120% forward P/E premium to the market, compared to current 30% premium. However, rerating over the past few years is clear.

US Tech characteristics: current vs 2000



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

MSCI World Tech EPS relative



Source: IBES

MSCI World Tech 12m Fwd. P/E relative

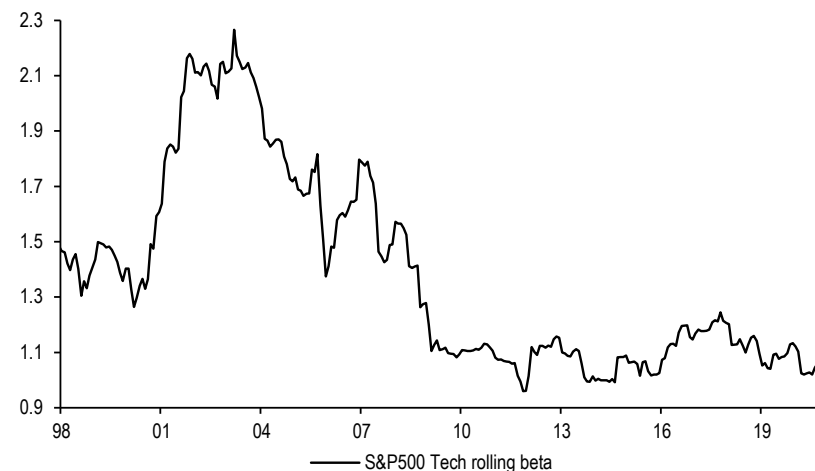


Source: IBES

...Tech benefitted from low level of bond yields... this could change...

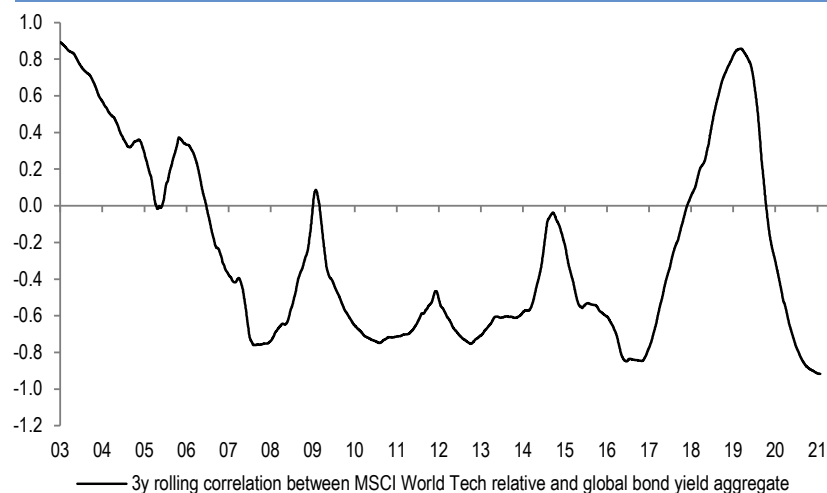
- Tech stocks have benefitted from the significant influx of central bank driven liquidity in this cycle. Tech outperformance could stall if bond yields bottom out.

US Tech rolling beta



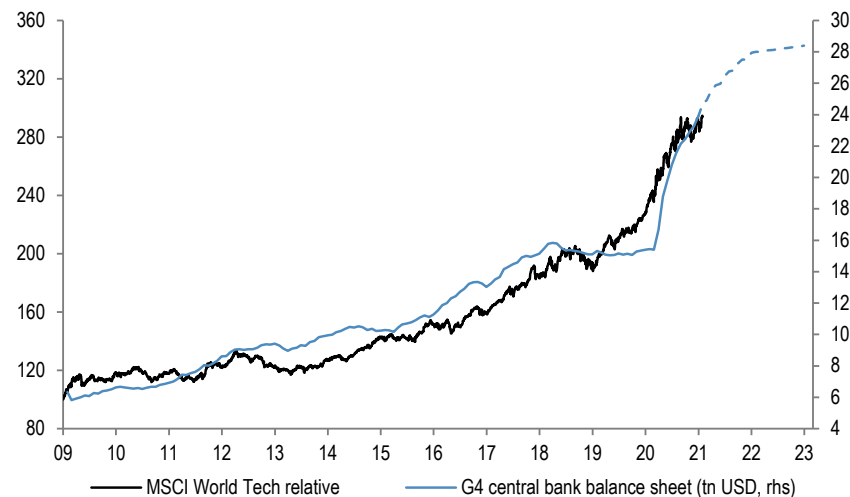
Source: Datastream

Rolling correlation of MSCI World Tech relative and government bond yields



Source: Datastream

MSCI World Tech relative and G4 CB balance sheet



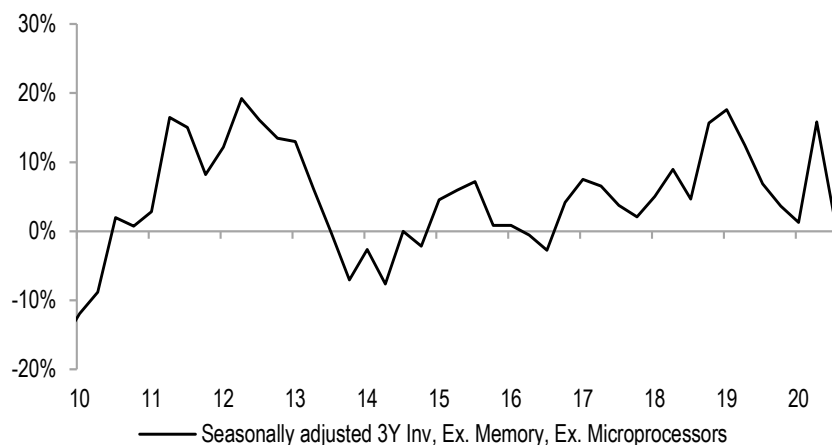
Source: J.P.Morgan, Datastream

J.P.Morgan CAZENOVE

...within Tech, we remain positive on Semiconductors, as they are cyclically more leveraged than Software and Hardware are

- Semiconductors earnings continue to outpace the market. The inventory situation is not problematic, which is usually a good setup for semiconductor stocks. From a supply-demand perspective, the near-term outlook for semis is likely to benefit from higher replacement demand for smartphones, driven by 5G handsets. Looking further out, we expect other end markets, such as Autos and novel technologies such as Internet of Things (IOTs) to drive continued demand for Semiconductors.
- Bottoming out in DRAM/NAND prices and TSMC's massive capex upgrade are additional support for Semis.
- Software is the most Defensive part of Technology and has benefitted from falling bond yields. Any move up in bond yields could be a problem for the sector.

Global semiconductor inventory



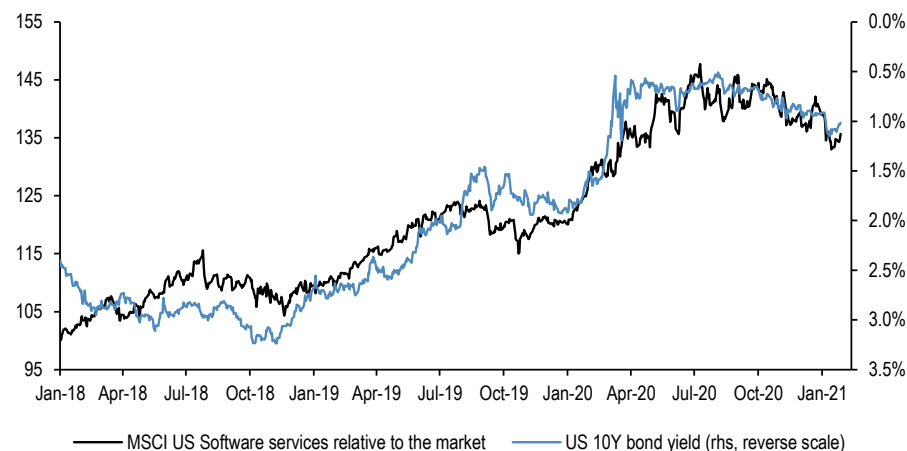
Source: European Technology Research

MSCI Europe Semis 12m Fwd. EPS relative



Source: IBES

MSCI US Software relative and US 10Y bond yield



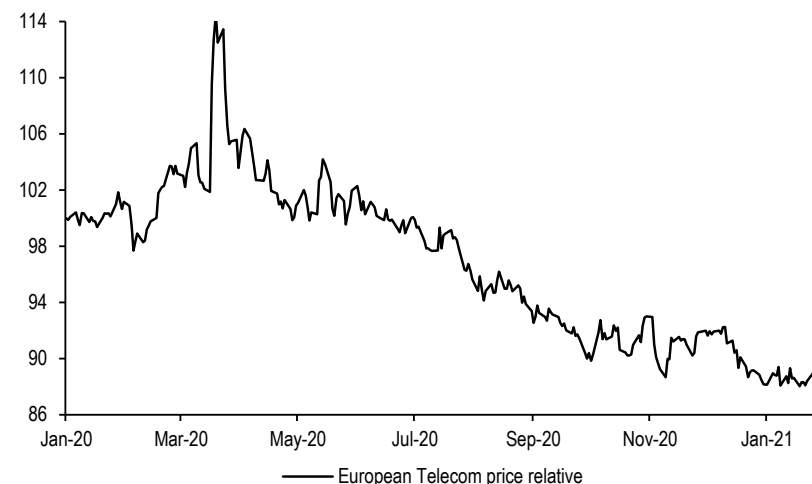
Source: Datastream

COMMUNICATION SERVICES: OVERWEIGHT

OW Telecoms – tactically add post poor run; N Media

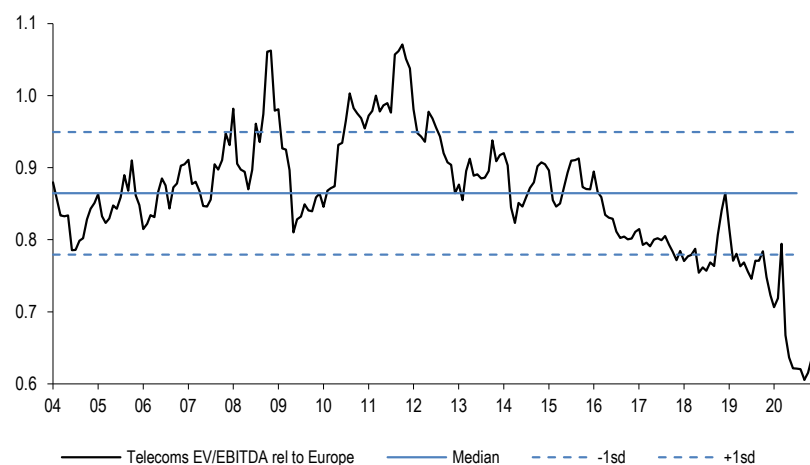
- We tactically upgrade the sector to OW given: 1) sharp underperformance and attractive valuations, 2) potential value unlocking through divestment, 3) M&A announcements. Our sector analysts also hold a favorable stance on the sector.
- The sector trades at record low valuations. This is driving a surge in PE interest, minority buy-outs and infrastructure deals.

European Telecoms price relative



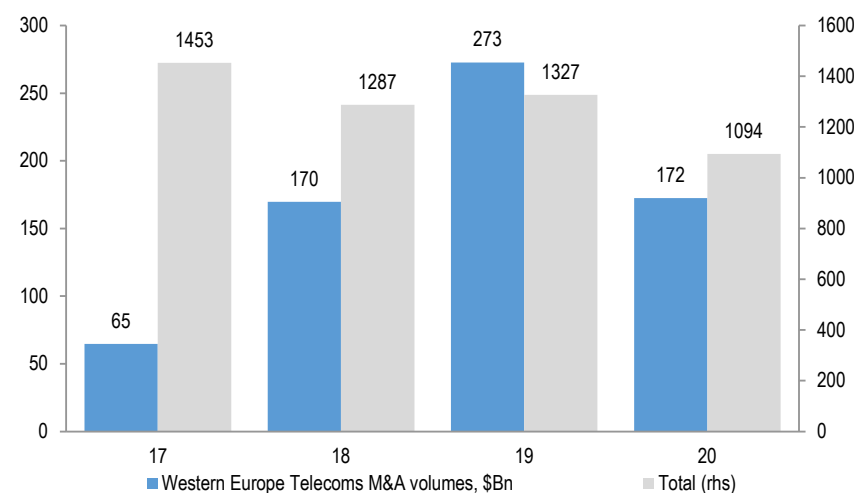
Source: Bloomberg Finance L.P.

European Telecoms EV/EBITDA relative



Source: Datastream

Western Europe M&A volumes - Total vs Telecoms

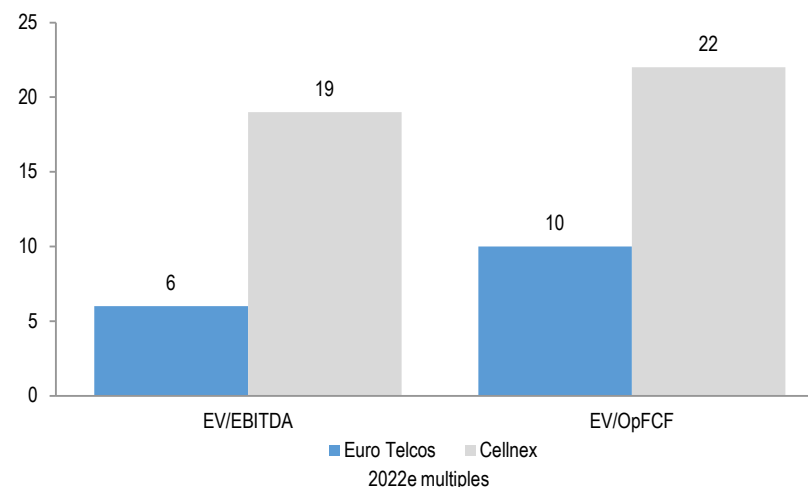


Source: Bloomberg Finance L.P.

Asset divestments and better pricing could be tailwinds for the sector

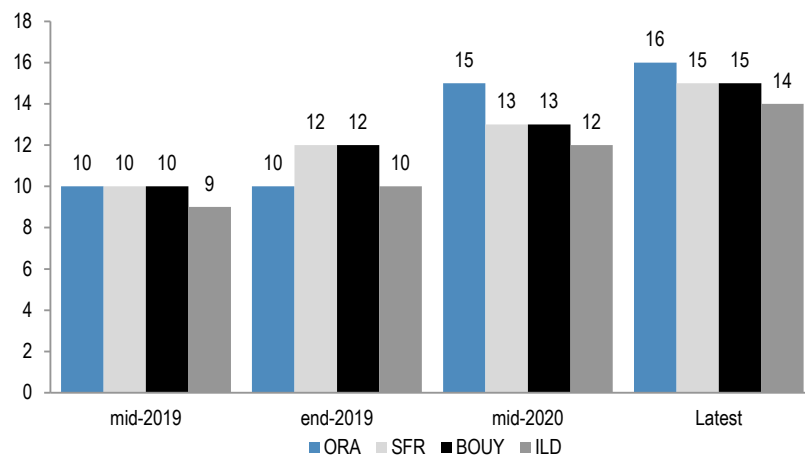
- Telecom operators have been monetizing assets by selling to pure tower plays like Cellnex or PE funds. We note that tower plays trade at a significant premium versus traditional Telecoms names. Divestments aid the cashflow, allowing extra capital to be deployed in fiber related capex and shareholder distributions.
- On pricing, markets such as UK, France and Germany are seeing some improvement. On the other hand, Spain and Italy are still under pressure. The sector is also a reopening play and could find support from potentially higher roaming revenues.

Valuations for Telecoms and pure tower plays



Source: J.P. Morgan Telecoms Research
Note: Cellnex pro-forma for run rate M&A. Excludes BTS capex

French Telecoms - mainstream price points



Mainstream price points, €/month

Source: J.P. Morgan Telecoms Research

Fixed infrastructure monetization deals

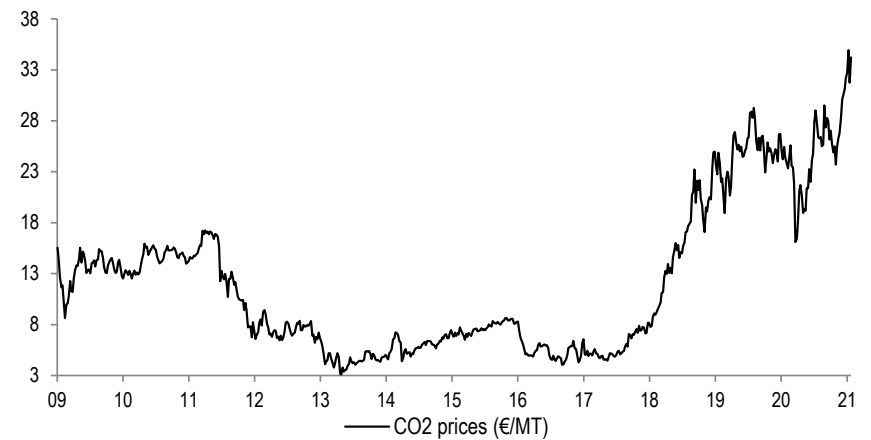
	Company	Comments
Deals announced	Masmovil	Sale of 940k business units
	Talk Talk	Sale of Fibre Nation
	Telecom Italia	Sale of stake in FiberCop
	Masmovil	Sale of 1m business units
Deals speculated	BT	Openreach minority sale
	Euskaltel	Potential partial network spinoff
	Tele Columbus	Potential NetCo. Spinoff
	Telefonica	Subsea cable unit
	Telecom Italia	Potential Open Fiber merger
	Orange Polska	Review underway to seek FttH partners
	Liberty Global	Potential Project Lightning monetisation

UTILITIES: OVERWEIGHT

Increasing focus on decarbonisation continues to underpin the structural positive story for the sector

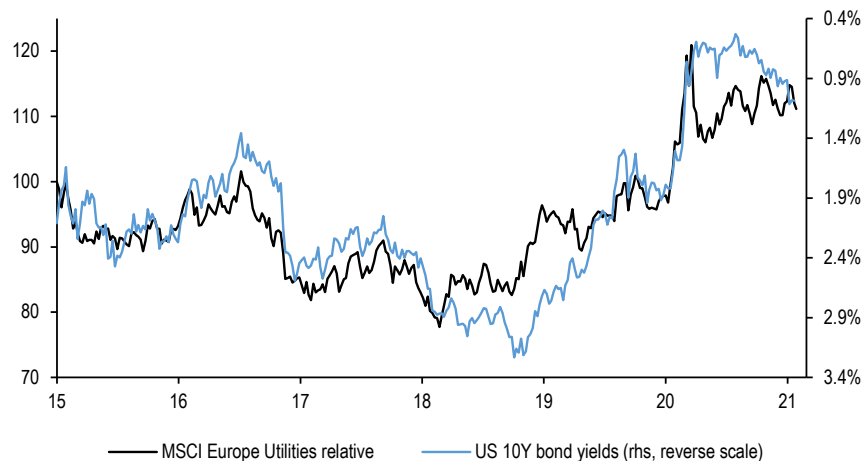
- Utilities have been prone to some profit booking in the last month given the strong performance in 2020, rise in bond yields, and concerns over some weakness in Q4 earnings primarily from the LATAM and US businesses.
- We remain OW on the space, though. Elevated carbon prices make switching out of fossil fuels and into renewables attractive. The green deal and US re-joining the Paris climate accord under Biden administration are also helpful, at the margin.

Eurozone CO2 prices



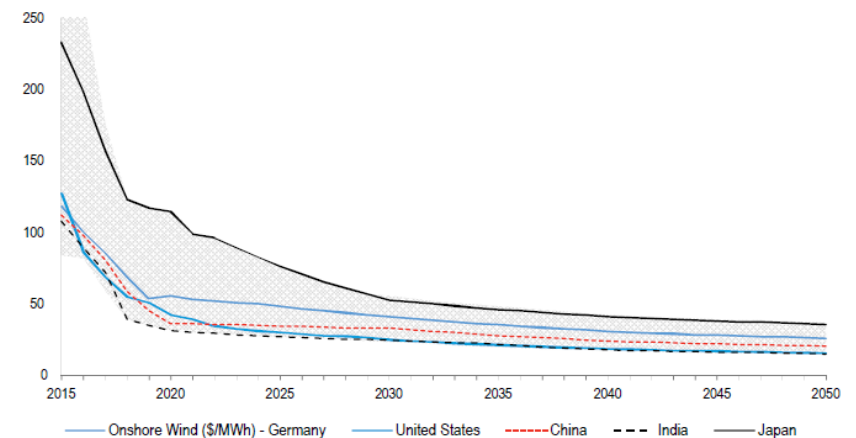
Source: Bloomberg Finance L.P.

Utilities price relative vs bond yields



Source: Bloomberg Finance L.P.

Cost of onshore wind (\$/MWh)



Source: Bloomberg Finance L.P., NEF

Top European picks

Top European picks by JPM sector analysts

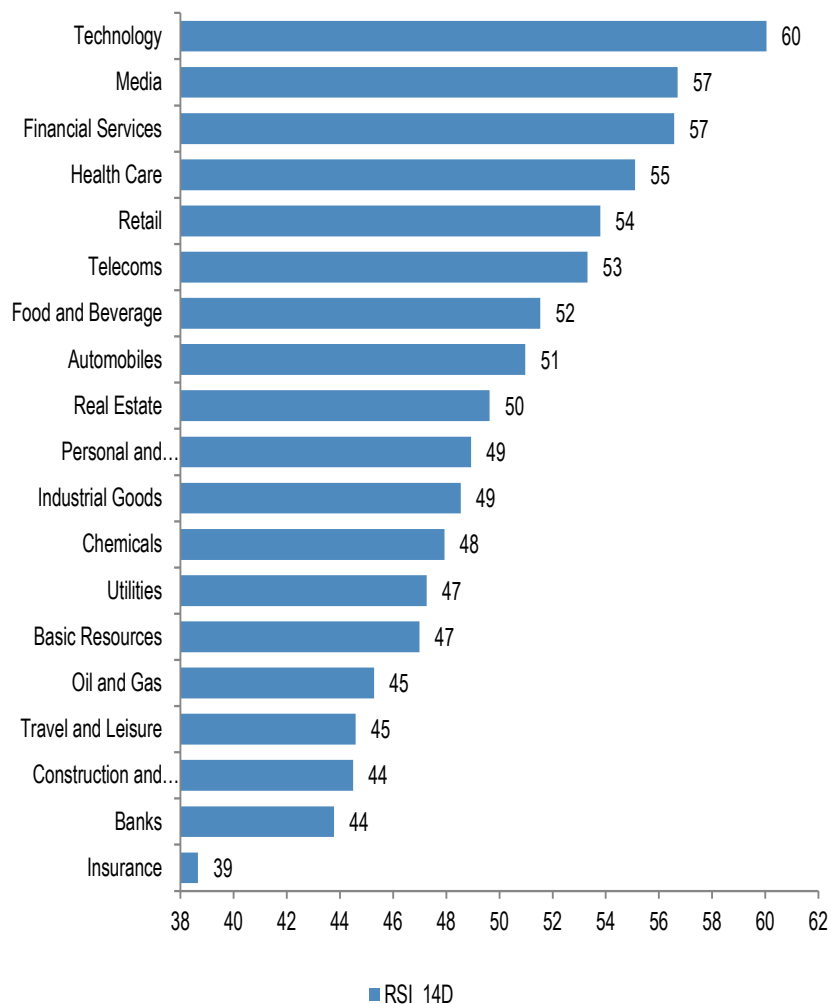
Name	Ticker	Sector	Price	Currency	JPM Rating	EPS Growth			Dividend Yield	12m Fwd P/E			Performance
						20e	21e	22e		Current	10Y Median	% Premium	
BP	BP/ LN	Energy	272	GBp	OW	-142%	-	55%	5.60%	12.5	11.7	7%	43%
SOLVAY	SOLB BB	Materials	94	EUR	OW	-43%	10%	16%	3.90%	14.3	12.6	13%	36%
ANGLO AMERICAN	AAL LN	Materials	2414	GBp	N	-20%	98%	-16%	5.10%	8	9.9	-19%	36%
BHP GROUP	BHP LN	Materials	2012	GBp	OW	-2%	52%	-9%	6.40%	11.1	11.7	-6%	38%
ARCELORMITTAL	MT NA	Materials	18	EUR	OW	-	-	14%	2.00%	9.1	11.1	-18%	59%
SAINT GOBAIN	SGO FP	Industrials	41	EUR	OW	-28%	37%	12%	3.30%	11.9	12.7	-6%	31%
ANDRITZ	ANDR AV	Industrials	39	EUR	OW	63%	27%	8%	3.30%	14.9	15.3	-3%	32%
SIGNIFY	LIGHT NA	Industrials	39	EUR	N	12%	7%	8%	3.60%	11.7	9.6	22%	32%
REXEL	RXL FP	Industrials	13	EUR	OW	-37%	47%	17%	3.50%	12.1	11.5	6%	35%
EASYJET	EZJ LN	Industrials	728	GBp	N	-300%	-	-	0.00%	-19.6	11.2	-	53%
VOLVO	VOLVB SS	Industrials	207	SEK	OW	-50%	56%	17%	2.90%	15.4	12.8	20%	24%
BMW	BMW GR	Discretionary	70	EUR	N	-26%	50%	18%	3.80%	8.4	8.4	0%	23%
KERING	KER FP	Discretionary	542	EUR	OW	-38%	46%	15%	1.70%	23.8	15.7	51%	7%
BARRATT DEVELOPMENTS	BDEV LN	Discretionary	639	GBp	OW	-45%	48%	10%	3.60%	10.5	10.1	5%	36%
MARKS & SPENCER	MKS LN	Discretionary	142	GBp	N	-32%	-80%	271%	0.00%	13.7	11.3	21%	61%
CARREFOUR	CA FP	Staples	14	EUR	OW	10%	8%	10%	3.70%	10.5	13.7	-23%	5%
CARLSBERG	CARLB DC	Staples	900	DKK	OW	-4%	13%	13%	2.40%	20.4	17.6	16%	11%
COCA-COLA HBC	CCH LN	Staples	2163	GBp	OW	-22%	20%	13%	2.40%	18.3	19.9	-8%	21%
DANONE	BN FP	Staples	55	EUR	N	-15%	3%	10%	3.70%	16.4	17.4	-6%	18%
ONTEX GROUP	ONTEX BB	Staples	9	EUR	OW	3%	9%	4%	3.10%	7.7	14.3	-47%	-3%
FRESENIUS	FRE GR	Health Care	37	EUR	OW	-8%	11%	9%	2.40%	10.6	15.8	-33%	16%
ROCHE HOLDING	ROG SW	Health Care	307	CHF	N	-4%	5%	6%	3.00%	15.5	14.9	4%	8%
SANOFI	SAN FP	Health Care	77	EUR	OW	-3%	8%	10%	4.20%	12.5	13.1	-5%	0%
HIKMA PHARMACEUTICALS	HIK LN	Health Care	2399	GBp	OW	13%	12%	12%	1.50%	17.4	18	-3%	-4%
IPSEN	IPN FP	Health Care	72	EUR	OW	4%	4%	-2%	1.50%	9.9	15.9	-38%	-7%
SOCIETE GENERALE	GLE FP	Financials	15	EUR	OW	-108%	-	74%	4.70%	9.3	8.1	16%	39%
BARCLAYS	BARC LN	Financials	134	GBp	OW	-64%	77%	43%	4.10%	8.7	8.5	3%	32%
ING	INGA NA	Financials	7	EUR	OW	-48%	35%	19%	7.10%	8.5	8.7	-2%	27%
JUPITER FUND MANAGEMENT	JUP LN	Financials	286	GBp	OW	-20%	5%	7%	6.00%	12.4	13.1	-6%	30%
AGEAS	AGS BB	Financials	42	EUR	OW	11%	-16%	8%	6.30%	9	10	-10%	25%
M&G	MNG LN	Financials	176	GBp	OW	-43%	-8%	2%	9.50%	8.1	7.3	11%	25%
UBS GROUP	UBSG SW	Financials	13	CHF	OW	46%	-20%	14%	2.90%	10.3	10.9	-6%	25%
BNP PARIBAS	BNP FP	Financials	40	EUR	OW	-21%	0%	22%	5.90%	8.3	8.3	1%	39%
INMOBILIARIA COLONIAL	COL SM	Real Estate	8	EUR	OW	4%	1%	12%	2.40%	28.5	26.8	7%	35%
MICRO FOCUS INTL.	MCR LN	IT	445	GBp	N	-17%	-5%	-2%	10.10%	3.8	11.2	-66%	88%
WORLDLINE	WLN FP	IT	70	EUR	OW	8%	38%	19%	0.00%	29	27.2	7%	15%
AMS	AMS SW	IT	22	CHF	OW	-111%	-	115%	0.00%	26.5	14	89%	19%
PROSIEBENSAT 1 MEDIA	PSM GR	Telecoms	15	EUR	OW	-41%	39%	13%	4.70%	10.5	11.7	-10%	55%
VODAFONE GROUP	VOD LN	Telecoms	125	GBp	OW	20%	27%	32%	6.30%	14.9	18.5	-19%	23%
ENGIE	ENGI FP	Utilities	13	EUR	OW	-33%	38%	6%	5.70%	12.6	12.4	2%	24%
ENEL	ENEL IM	Utilities	8	EUR	OW	8%	8%	7%	4.50%	15.6	11.7	34%	21%
EDP	EDP PL	Utilities	5	EUR	OW	61%	9%	8%	3.70%	21.5	12.3	75%	25%

Source: J.P. Morgan, Bloomberg Finance L.P., prices and valuations as of 28th Jan 2021

Technical

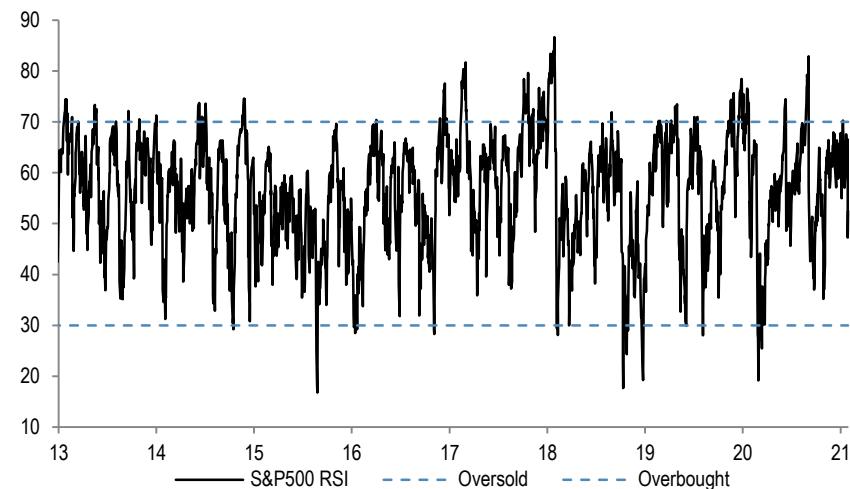
RSIs are pulling back from overbought levels

SXXP sectors RSI



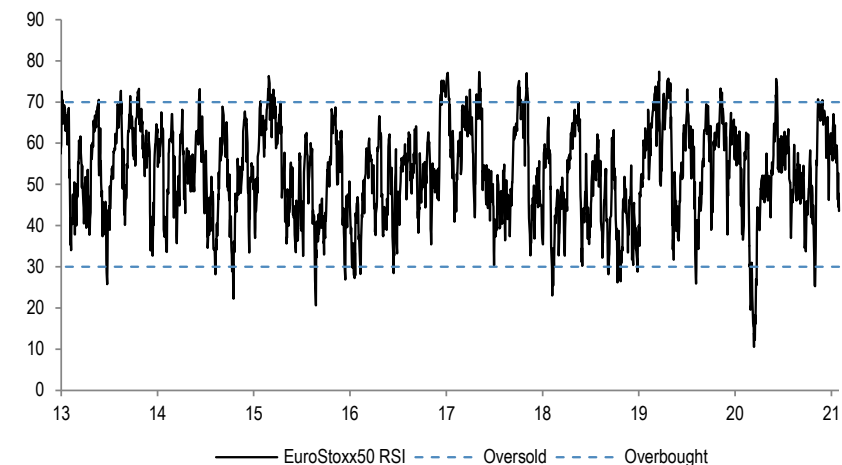
Source: Bloomberg Finance L.P

S&P500 RSI



Source: Bloomberg Finance L.P

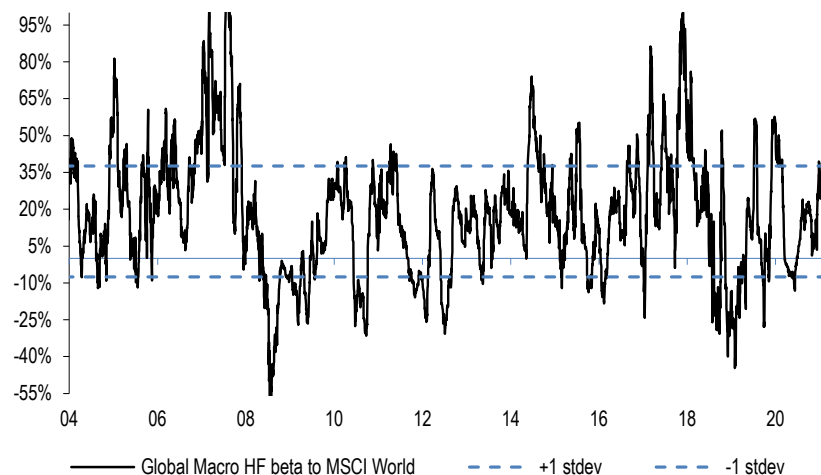
SX5E RSI



Source: Bloomberg Finance L.P

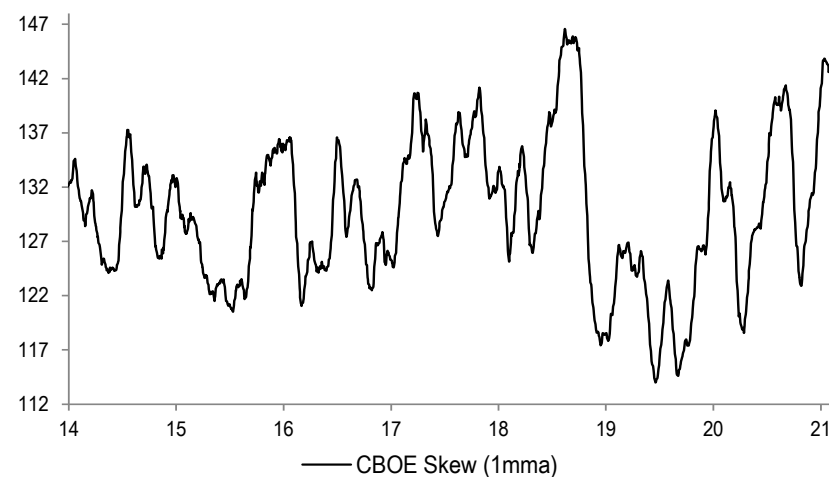
Equity beta for balanced funds is starting to roll over

Hedge Fund beta



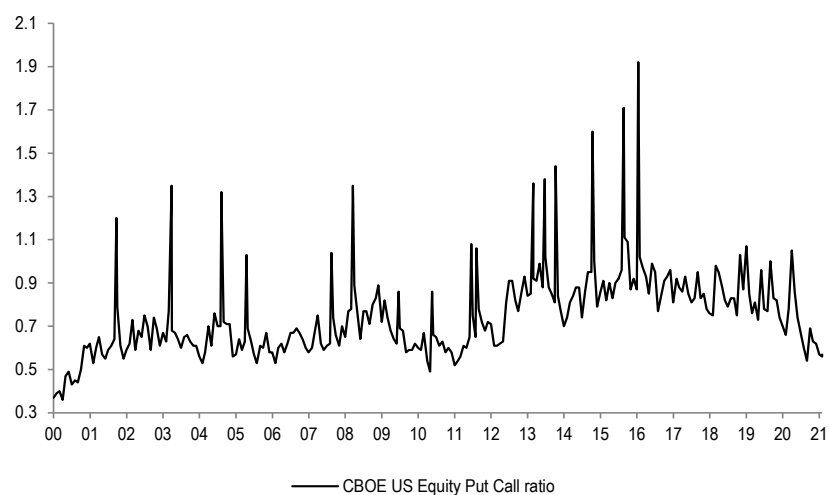
Source: Bloomberg Finance L.P

Equity skew



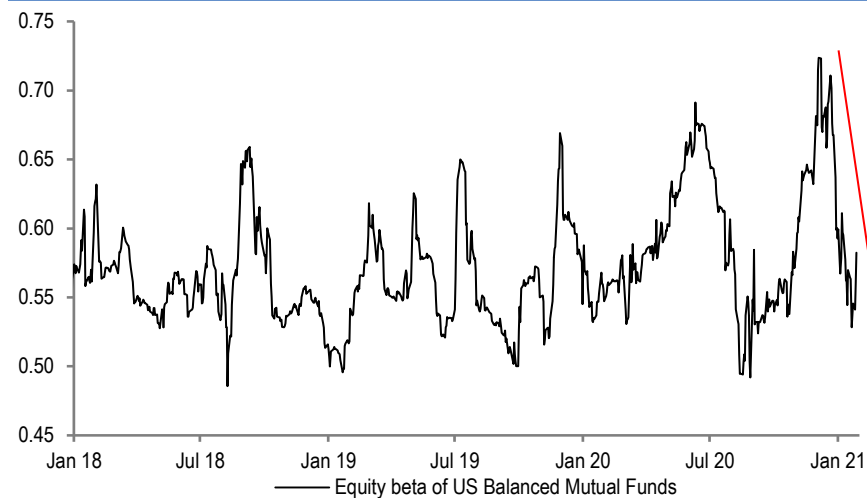
Source: Bloomberg Finance L.P

Put-Call ratio



Source: Bloomberg Finance L.P

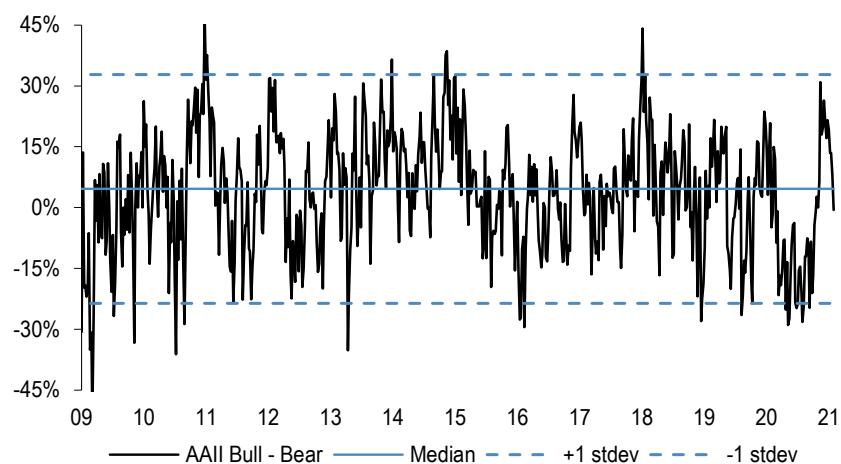
Equity beta for US balanced mutual funds



Source: : J.P. Morgan

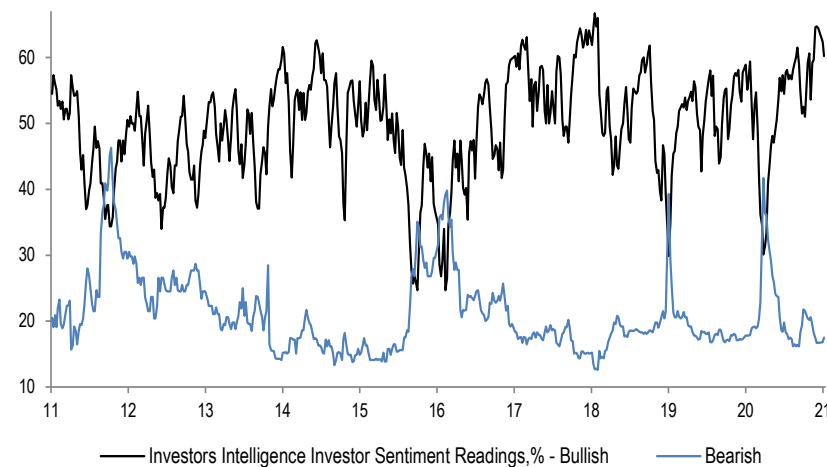
Selected sentiment indicators are improving

AAll Bull-Bear



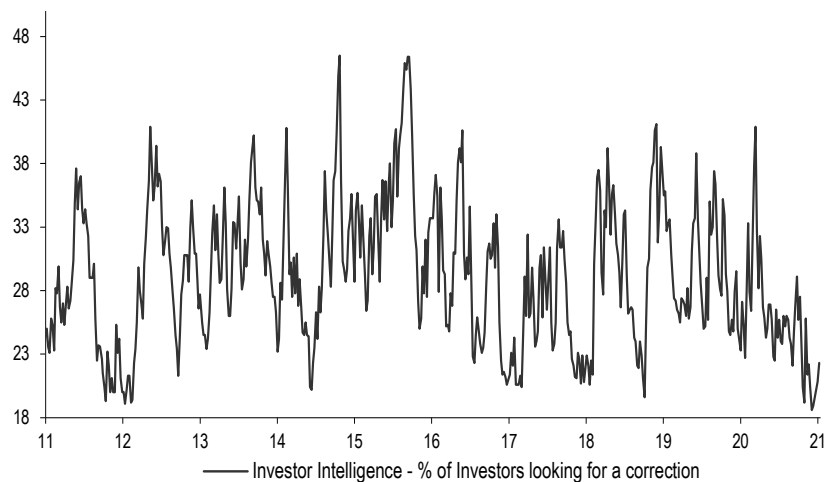
Source: Bloomberg Finance L.P

Investors intelligence - Proportion of bulls and bears



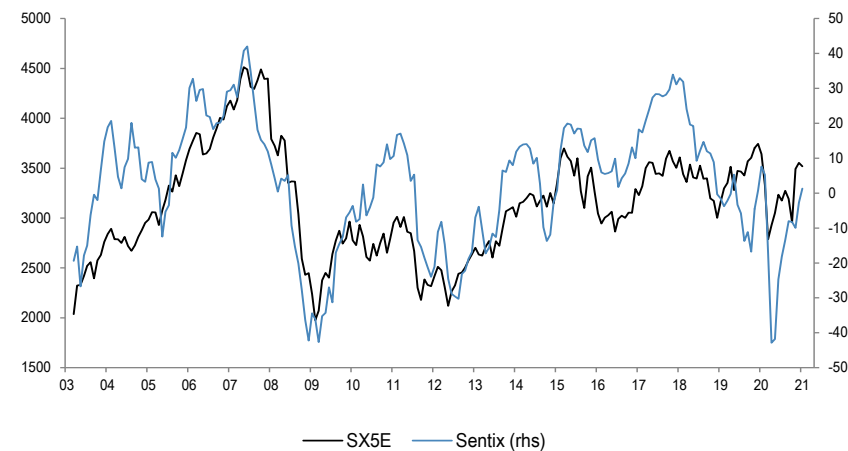
Source: Investors intelligence, Bloomberg Finance L.P , data as of 7th Jan'21

Investors intelligence - correction expectations



Source: Bloomberg Finance L.P, data as of 7th Jan'21

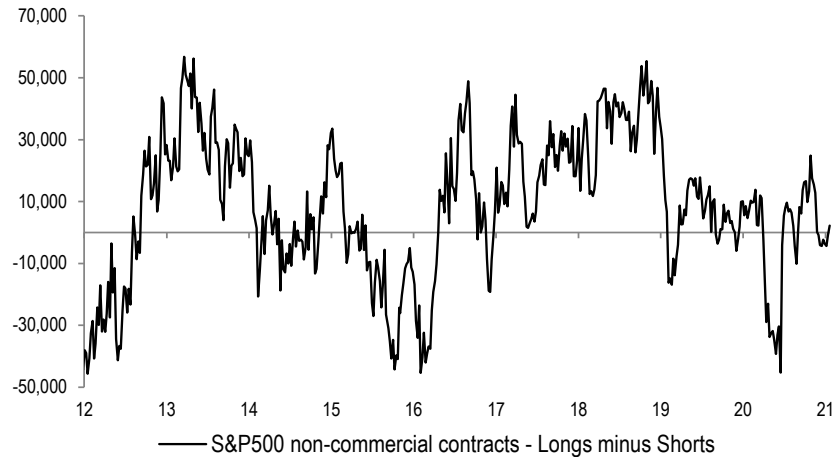
Sentix sentiment index vs SX5E



Source: Bloomberg Finance L.P

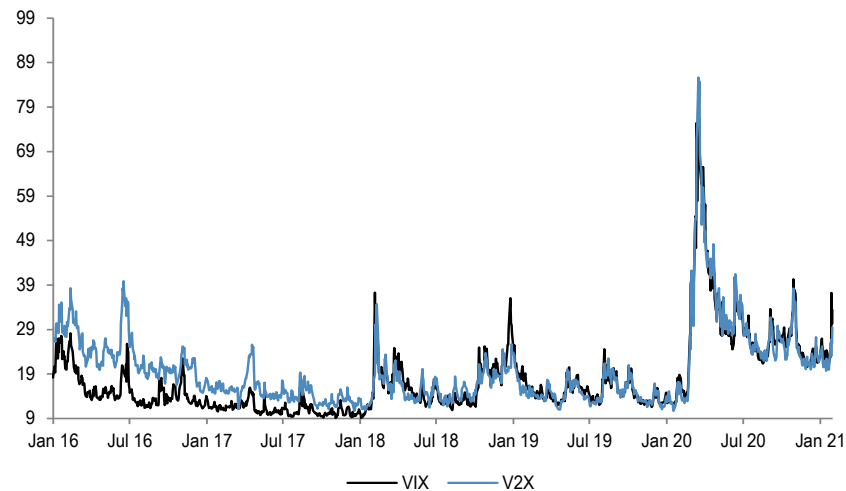
Vix has spiked

Speculative positions on S&P500 futures contracts



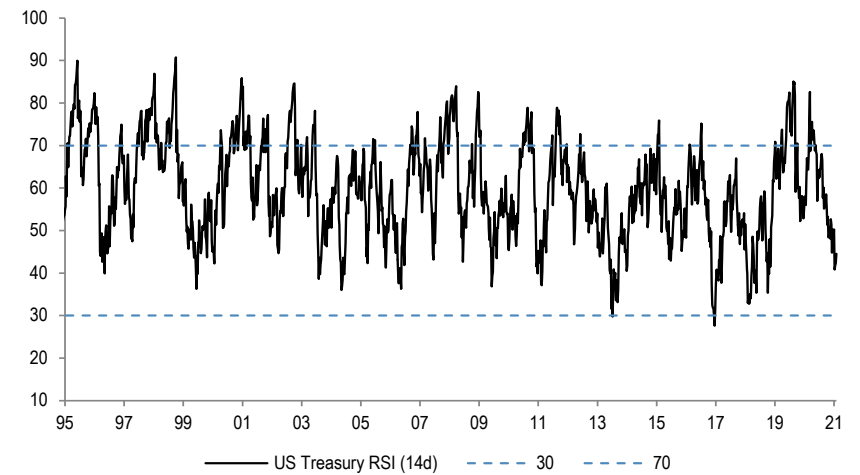
Source: Bloomberg Finance L.P

VIX and V2X



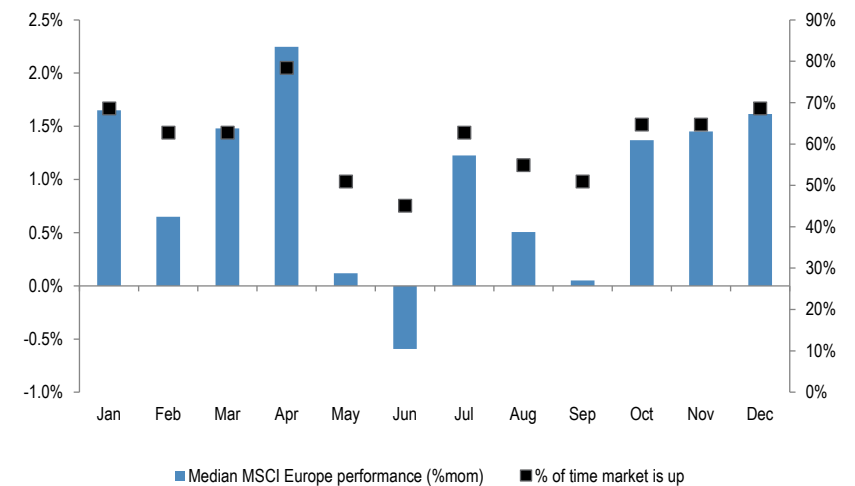
Source: Bloomberg Finance L.P

US 10Y bond RSI



Source: Bloomberg Finance L.P

Seasonality* of MSCI Europe performance



Source: Datastream, *Median since 1970

Equity Flows Snapshot

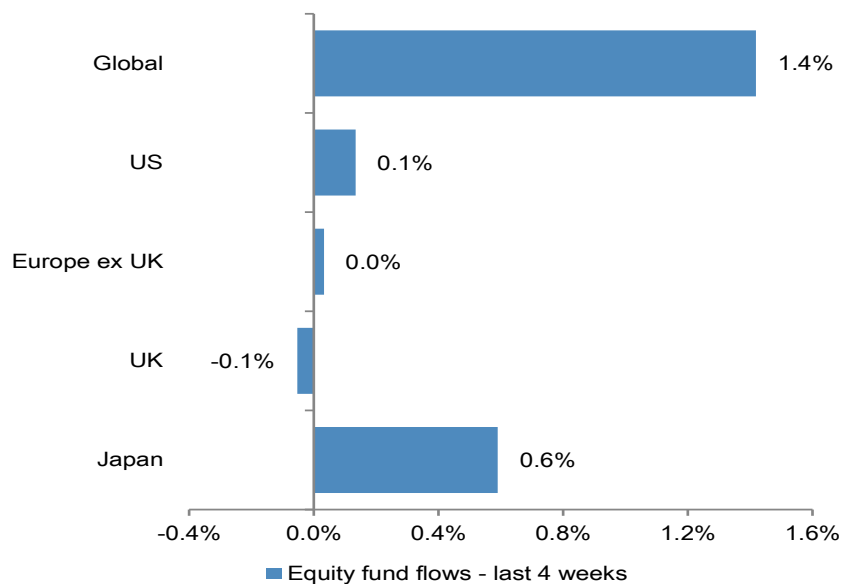
DM Equity Fund Flows Summary

Regional equity fund flows

	\$mn					% AUM				
	1w	1m	3m	Since Jan'20	12m	1w	1m	3m	Since Jan'20	12m
Global	14,856	49,761	136,041	163,862	196,970	0.4%	1.4%	4.5%	6.1%	6.9%
Europe ex UK	-1,076	111	-4,219	-22,730	-20,086	-0.3%	0.0%	-1.4%	-6.9%	-6.1%
UK	94	-169	-2,219	-6,746	-6,961	0.0%	-0.1%	-0.8%	-2.1%	-2.2%
US	2,227	9,541	73,854	26,971	38,671	0.0%	0.1%	1.2%	0.5%	0.6%
Japan	490	4,602	9,006	36,859	39,179	0.1%	0.6%	1.3%	5.9%	6.2%

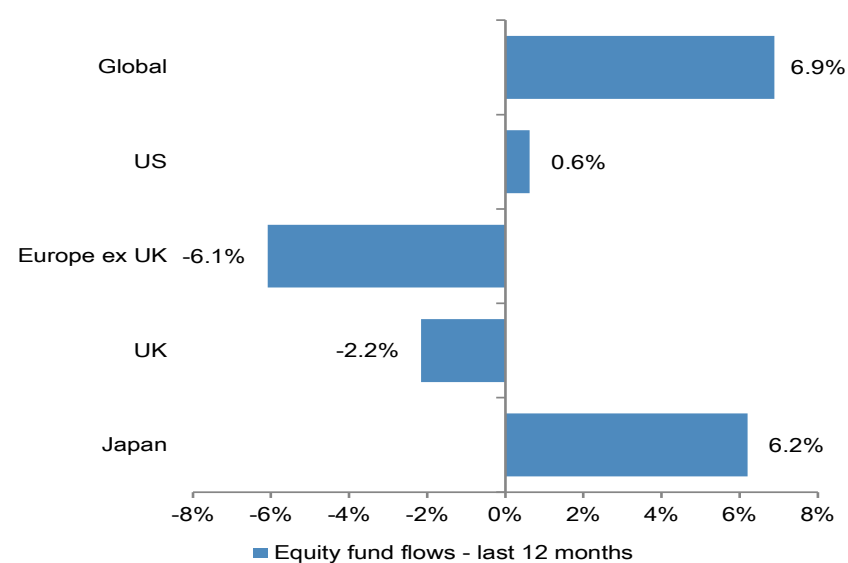
Source: EPFR

DM Equity Fund flows - last month



Source: EPFR

DM Equity Fund flows - last 12 months



Source: EPFR

Global sector valuations

	12m Fwd P/E			P/book			Cycle-adj P/E			12m Fwd P/Sales		
	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median
World	20.8	15.6	-25%	3.0	2.2	-25%	28.5	24.2	-15%	2.1	1.3	-38%
Energy	19.1	14.7	-23%	1.5	1.6	10%	9.7	17.6	82%	0.8	0.9	12%
Chemicals	22.4	15.8	-30%	2.2	1.9	-13%	23.4	24.1	3%	1.9	1.2	-39%
Const Mat	15.6	14.1	-10%	2.1	1.8	-16%	22.7	19.6	-14%	1.3	0.9	-28%
Metals&Mining	11.9	13.4	13%	1.8	1.6	-11%	19.9	19.8	0%	1.1	0.9	-22%
Capital Goods	20.8	16.0	-23%	1.9	2.2	11%	18.6	20.3	9%	1.5	0.9	-41%
Transport	26.3	16.0	-39%	2.5	2.2	-14%	27.0	26.5	-2%	1.8	1.1	-40%
Business Services	28.9	18.5	-36%	-	-	-	-	-	-	2.8	1.2	-57%
Automobile	18.2	11.3	-38%	1.8	1.4	-21%	19.6	19.0	-3%	0.9	0.5	-48%
Cons Dur	23.4	17.5	-25%	6.3	2.9	-55%	44.8	33.5	-25%	2.1	1.1	-49%
Media	30.3	20.0	-34%	3.7	2.5	-32%	33.0	29.1	-12%	4.2	1.7	-58%
Retailing	37.3	19.7	-47%	7.9	3.2	-59%	45.7	32.5	-29%	2.5	1.1	-57%
Hot,Rest&Leis	51.4	18.7	-64%	3.7	2.4	-35%	24.5	35.4	45%	3.7	1.9	-49%
Food&Drug Retailing	20.6	17.3	-16%	4.2	3.1	-26%	30.3	31.3	3%	0.5	0.4	-17%
Food Bev & Tob	18.3	17.0	-7%	3.3	2.9	-12%	25.9	28.6	10%	2.3	1.7	-28%
HPC	23.5	20.1	-15%	4.6	2.1	-55%	34.7	29.0	-16%	3.3	2.1	-34%
Healthcare	18.1	17.1	-5%	5.0	3.3	-34%	40.0	32.0	-20%	2.1	1.8	-14%
Banks	11.4	11.7	3%	0.9	1.3	44%	11.3	20.7	83%	2.3	2.4	4%
Div Fin	16.2	20.4	26%	-	-	-	-	-	-	2.5	1.8	-28%
Insurance	11.1	11.5	4%	1.4	1.7	19%	17.3	22.9	32%	0.9	0.8	-3%
Real Estate	27.9	20.6	-26%	1.4	1.3	-2%	16.0	22.2	39%	4.6	4.0	-13%
Software&Svs	35.4	22.6	-36%	8.6	3.9	-54%	67.0	44.3	-34%	6.9	3.2	-54%
Tech Hardware	27.3	16.9	-38%	3.8	2.4	-36%	29.2	31.8	9%	3.6	1.4	-62%
Semicon	23.8	16.2	-32%	6.0	2.7	-55%	53.5	28.9	-46%	6.2	2.8	-56%
Telecoms	22.6	15.0	-34%	2.2	2.4	9%	17.0	21.1	24%	2.7	1.3	-51%
Utilities	17.6	14.8	-16%	1.8	1.6	-9%	19.2	18.6	-3%	1.5	1.0	-33%
Cyclicals	26.8	17.1	-36%	4.9	2.3	-54%	31.0	28.0	-10%	3.3	1.3	-62%
Defensives	19.7	17.0	-14%	4.1	2.9	-30%	29.5	27.4	-7%	2.1	1.4	-31%
Cyc. Vs. Def.	1.4	1.0	-26%	1.2	0.8	-34%	1.1	1.0	-3%	1.6	1.0	-40%

Source: Datastream, MSCI, IBES. At 28th Jan 2021. 12m Fwd P/E since 1995, Cycle-adjusted P/E since 1983, P/Book since 1980, P/Sales since 2000

European sector valuations

	12m Fwd P/E			P/book			Cycle-adj P/E			12m Fwd P/Sales		
	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median
Europe	16.9	14.2	-16%	1.9	1.8	-6%	19.2	19.4	1%	1.4	1.2	-16%
Energy	13.3	13.4	1%	0.7	1.3	78%	8.2	15.1	85%	0.5	0.8	76%
Chemicals	23.5	14.8	-37%	2.4	1.8	-25%	22.7	18.7	-18%	1.8	0.8	-53%
Const Mat	13.2	13.0	-1%	2.4	1.7	-29%	23.4	16.7	-29%	1.0	0.9	-10%
Metals&Mining	9.8	11.3	15%	1.8	1.5	-18%	15.9	15.1	-5%	0.9	0.6	-31%
Capital Goods	22.1	14.8	-33%	2.4	1.9	-21%	24.3	21.2	-13%	1.6	0.7	-57%
Business Services	23.7	14.4	-39%	-	-	-	-	-	-	1.4	1.2	-16%
Transport	23.6	17.0	-28%	2.3	1.6	-32%	23.4	21.1	-10%	1.1	0.7	-31%
Automobile	8.8	10.1	15%	1.0	1.2	13%	10.6	12.6	19%	0.4	0.4	4%
Cons Dur	27.3	16.4	-40%	5.8	2.9	-50%	45.4	34.7	-24%	2.8	1.4	-49%
Media	18.6	16.1	-13%	2.5	2.5	-1%	19.7	25.5	30%	1.8	1.7	-6%
Retailing	37.9	17.4	-54%	4.2	2.9	-32%	23.6	23.2	-2%	2.4	1.1	-55%
Hot,Rest&Leis	37.4	16.9	-55%	2.8	1.7	-38%	16.4	20.0	22%	2.0	0.7	-65%
Food&Drug Retailing	13.7	14.5	6%	3.8	2.7	-30%	26.3	27.5	4%	0.4	0.3	-27%
Food Bev & Tob	19.2	16.7	-13%	2.6	2.3	-12%	26.1	24.2	-7%	2.2	1.2	-46%
HPC	21.8	20.7	-5%	4.5	2.4	-47%	32.6	23.6	-28%	3.2	2.1	-34%
Healthcare	17.4	16.8	-4%	3.7	3.0	-20%	30.2	25.7	-15%	3.6	2.9	-18%
Banks	10.1	11.1	9%	0.6	0.9	62%	8.8	13.1	50%	1.3	2.4	85%
Diversified Financials	15.7	11.9	-24%	-	-	-	-	-	-	1.3	2.4	87%
Insurance	9.7	10.6	9%	1.2	1.5	29%	13.0	24.1	85%	0.6	0.6	11%
Real Estate	18.0	18.9	5%	1.0	1.0	3%	13.7	24.9	81%	11.5	8.7	-24%
Software&Svs	28.1	21.3	-24%	4.4	3.8	-14%	43.9	34.1	-22%	3.5	2.5	-29%
Tech Hardware	22.0	18.0	-18%	1.9	2.2	12%	30.3	21.8	-28%	4.2	1.4	-66%
Semicon	38.7	20.6	-47%	4.4	2.0	-54%	78.3	35.5	-55%	11.7	2.8	-76%
Telecoms	14.8	14.3	-4%	1.8	2.3	25%	13.6	20.2	48%	1.5	1.4	-3%
Utilities	17.1	13.8	-19%	1.7	1.4	-17%	18.7	19.4	4%	1.4	1.1	-24%
Cyclicals	21.7	15.1	-30%	3.1	2.0	-36%	27.2	20.2	-26%	1.8	0.8	-53%
Defensives	17.7	15.9	-10%	2.9	2.5	-13%	24.3	23.2	-5%	1.9	1.5	-24%
Cyc. vs Def.	1.2	0.9	-24%	1.1	0.8	-27%	1.1	0.9	-22%	0.9	0.6	-38%

Source: Datastream, MSCI, IBES. At 28th Jan 2021. 12m Fwd P/E since 1995, Cycle-adjusted P/E since 1983, P/Book since 1980, P/Sales since 2000

UK sector valuations

	12m Fwd P/E			P/book			Cycle-adj P/E			12m Fwd P/Sales		
	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median
UK	13.7	13.4	-2%	1.6	1.9	14%	14.2	17.8	25%	1.2	1.1	-10%
Energy	11.9	13.7	16%	0.4	1.5	277%	9.4	16.2	73%	0.4	0.6	36%
Chemicals	22.2	15.6	-30%	3.5	2.3	-33%	22.5	19.2	-15%	2.6	0.8	-70%
Const Mat	-	-	-	7.6	3.9	-49%	23.3	16.7	-28%	-	1.3	-
Metals&Mining	9.5	11.7	23%	1.8	1.8	2%	16.7	16.9	1%	0.8	0.9	4%
Capital Goods	19.3	13.7	-29%	1.9	2.6	40%	20.3	17.2	-15%	1.0	0.8	-23%
Transport	-	-	-	4.4	2.3	-49%	16.4	19.6	19%	-	-	-
Business Services	24.9	16.1	-35%	-	-	-	-	-	-	4.4	1.3	-70%
Automobile	-	-	-	-	-	-	8.7	16.1	85%	-	-	-
Cons Dur	12.5	10.7	-14%	4.5	5.0	11%	27.0	28.5	6%	2.0	1.9	-4%
Media	16.4	15.5	-6%	2.2	2.3	3%	18.7	23.6	26%	1.7	1.5	-14%
Retailing	29.9	13.9	-53%	2.7	2.4	-11%	16.9	20.2	19%	1.6	0.7	-56%
Hot,Rest&Leis	36.0	15.7	-56%	2.9	1.8	-40%	14.2	20.7	45%	1.6	0.8	-52%
Food&Drug Retailing	13.6	14.0	3%	5.5	2.9	-48%	22.0	23.9	9%	0.3	0.4	24%
Food Bev&Tob	11.4	14.5	27%	2.0	2.8	41%	24.6	22.5	-9%	2.7	1.9	-29%
HPC	19.1	18.4	-4%	2.2	1.5	-31%	13.3	20.3	53%	2.6	2.8	7%
Healthcare	16.0	15.9	-1%	5.2	5.5	6%	23.0	22.5	-2%	3.0	2.8	-5%
Banks	10.6	10.7	1%	0.5	1.0	105%	9.6	12.2	27%	1.7	2.2	25%
Div Fin	16.3	13.5	-17%	-	-	-	-	-	-	7.3	3.0	-58%
Insurance	9.1	10.6	17%	1.5	1.7	13%	13.0	16.8	30%	0.9	0.8	-8%
Real Estate	22.9	21.0	-8%	0.8	0.8	3%	15.9	25.8	62%	13.6	9.8	-27%
Software&Svs	30.0	17.0	-43%	2.8	3.3	20%	32.7	31.8	-3%	4.9	3.1	-36%
Tech Hardware	-	-	-	4.8	3.1	-36%	33.5	25.2	-25%	-	1.1	-
Semicon	-	-	-	4.3	5.6	31%	68.4	-	-	-	13.1	-
Telecoms	12.8	13.7	6%	1.1	2.4	113%	9.1	20.2	123%	1.0	1.5	57%
Utilities	16.3	13.2	-19%	2.0	2.5	27%	12.7	16.2	27%	2.3	0.9	-59%
Cyclicals	15.3	14.2	-7%	2.9	2.4	-16%	24.2	20.9	-14%	1.5	1.2	-21%
Defensives	12.2	14.2	17%	3.4	3.7	9%	20.2	21.2	5%	2.0	1.8	-9%
Cyc. Vs. Def.	1.3	0.9	-26%	0.8	0.6	-23%	1.2	1.0	-18%	0.8	0.7	-9%

Source: Datastream, MSCI, IBES. At 28th Jan 2021. 12m Fwd P/E since 1995, Cycle-adjusted P/E since 1983, P/Book since 1980, P/Sales since 2000

Regional GDP, CPI, Interest Rate and Exchange Outlook

	Real GDP			Real GDP						Consumer prices			
	% oya			% over previous period, saar						% oya			
	2020	2021E	2022E	2Q20	3Q20	4Q20E	1Q21E	2Q21E	3Q21E	2Q20	4Q20	2Q21	4Q21
United States	-3.5	5.3	3.7	-31.4	33.4	4.0	2.3	9.0	7.7	0.4	1.2	3.1	2.3
Eurozone	-7.1	4.9	5.0	-39.2	60.0	-7.0	-1.5	13.5	9.5	0.2	-0.3	1.3	1.8
United Kingdom	-10.0	5.2	7.3	-56.4	81.1	2.0	-15.5	26.7	17.9	0.7	0.5	2.0	2.3
Japan	-5.1	3.0	2.7	-29.2	22.9	8.0	-4.0	7.0	6.0	0.1	-1.0	-0.8	0.0
Emerging markets	-1.5	7.5	4.9	3.2	31.3	13.6	4.0	4.8	5.5	3.4	2.4	3.2	3.4
Global	-3.7	5.2	5.2	-19.6	37.9	6.2	1.2	8.5	7.3	1.5	1.2	2.5	2.5

Official interest rate	Forecast		Forecast for			
	next change	Current	Mar-21	Jun-21	Sep-21	Dec-21
Federal funds rate	On hold	0.25	0.25	0.25	0.25	0.25
Depo rate	On hold	-0.50	-0.50	-0.50	-0.50	-0.50
Bank Rate	On hold	0.10	0.10	0.10	0.10	0.10
Pol rate IOER	On hold	-0.10	-0.10	-0.10	-0.10	-0.10

10 Yr Govt BY	Forecast for end of				
	28-Jan-21	Mar 21	Jun 21	Sep 21	Dec 21
US	1.10	1.10	1.25	1.35	1.45
Euro Area	-0.50	-0.50	-0.45	-0.35	-0.30
United Kingdom	0.34	0.40	0.45	0.55	0.65
Japan	0.05	0.00	0.00	0.05	0.10

Exchange rates vs US\$	Forecast for end of				
	28-Jan-21	Mar 21	Jun 21	Sep 21	Dec 21
EUR	1.21	1.20	1.20	1.19	1.18
GBP	1.37	1.35	1.34	1.33	1.32
CHF	0.89	0.89	0.88	0.88	0.89
JPY	104	102	101	99	98
DXV	90.5	90.9	90.6	90.8	91.3

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

European countries' valuations and EPS growth metrics

	Fwd P/E				P/Book				Div Yield (%)		Perf		EPS Growth				GDP Growth		
	Current	LT Median	% Disc	% Disc Rel to EMU	Current	LT Median	% Disc	% Disc Rel to EMU	Current	LT Median	2020	YTD	2020e	2021e	2022e	12m Fwd EPS	2020	2021e	2022e
Austria	13.4	11.7	15%	-8%	1.0	1.3	-26%	-23%	1.4	2.4	-12%	4%	-51%	65%	30%	-33.2%	-7.2	3.4	3.4
Belgium	21.5	13.2	63%	28%	1.7	2.0	-14%	-20%	2.1	3.1	-17%	0%	-34%	13%	18%	-35.7%	-6.3	3.9	3.7
Finland	20.9	15.5	35%	7%	2.5	2.3	9%	7%	2.7	3.6	8%	4%	-13%	11%	11%	-9.7%	-3.3	2.7	2.3
France	17.7	14.0	26%	0%	1.7	1.7	3%	-1%	1.9	3.2	-6%	-1%	-45%	65%	20%	-21.7%	-8.8	5.8	4.7
Germany	15.9	13.2	21%	-5%	1.8	1.7	4%	1%	2.5	2.7	0%	0%	-23%	40%	18%	-11.3%	-5.3	4.4	4.7
Greece	11.4	12.9	-11%	-28%	2.7	1.7	56%	52%	4.1	2.6	-36%	-9%	-17%	40%	5%	-29.9%	-8.5	4.1	3.8
Ireland	21.6	14.8	46%	17%	2.1	1.9	12%	10%	1.3	2.1	4%	-1%	-8%	10%	14%	-19.3%	-2.5	3.0	3.5
Italy	12.9	13.3	-3%	-23%	1.2	1.2	-1%	-3%	2.3	3.7	-8%	-2%	-48%	68%	19%	-18.4%	-9.1	5.5	5.8
Netherlands	24.1	13.8	75%	38%	2.5	2.2	17%	17%	1.0	2.7	13%	5%	-10%	21%	17%	-13.5%	-4.3	3.1	2.5
Portugal	19.6	14.9	32%	4%	2.4	1.9	24%	23%	4.2	3.8	2%	0%	-12%	41%	15%	-15.3%	-8.8	4.8	3.4
Spain	15.4	12.9	19%	-6%	1.3	1.6	-17%	-19%	4.0	4.1	-14%	-2%	-58%	80%	22%	-34.8%	-11.1	6.6	7.4
EMU	17.3	13.6	27%		1.7	1.7	3%		2.2	3.1	-3%	0%	-36%	48%	19%	-3.8%	-7.1	4.9	5.0
Norway	15.6	11.8	32%		1.8	1.6	12%		2.6	3.6	-7%	0%	-26%	36%	14%	-20.1%	-3.4	3.9	3.5
Sweden	19.0	15.2	25%		2.4	2.2	7%		1.1	3.0	8%	5%	-16%	17%	10%	-4.6%	-3.0	3.0	3.7
Switzerland	19.3	15.9	21%		3.2	2.7	21%		2.8	2.8	0%	1%	-8%	16%	11%	-5.5%	-4.0	3.6	2.6
Denmark	26.3	16.3	62%		5.3	3.1	73%		1.2	1.7	30%	-1%	9%	11%	14%	6.8%	-4.3	3.5	2.6
United Kingdom	13.7	13.4	2%		1.6	1.9	-15%		3.3	3.6	-16%	1%	-38%	47%	14%	-19.2%	-10.0	5.2	7.3
Europe	16.9	14.2	19%		1.9	1.8	4%		2.4	3.2	-4%	1%	-31%	39%	16%	-5.1%	-7.3	4.9	5.3
US	22.9	16.0	43%		4.4	2.9	53%		1.4	1.9	19%	1%	-10%	21%	15%	-1.6%	-3.5	5.5	3.7

Source: Datastream, IBES, J.P. Morgan Economics Research, consensus forecast in italics, 28thJan 2021

Global Equities Performance & Valuations

3M Performance												
	Market	Energy	Materials	Industrials	Discretionary	Staples	Healthcare	Financials	IT	Telecom	Utilities	
US	16.5%	44.4%	16.2%	15.6%	17.3%	4.7%	13.6%	24.8%	18.6%	16.7%	0.1%	
Europe	17.1%	44.2%	21.8%	17.9%	21.8%	4.7%	7.6%	25.6%	24.2%	12.6%	13.3%	
UK	17.0%	48.1%	35.3%	9.4%	22.4%	6.2%	0.9%	23.9%	2.9%	23.9%	0.6%	
Euro	19.7%	41.8%	20.2%	20.5%	20.4%	7.4%	8.0%	28.7%	27.8%	11.2%	15.1%	
Switzerland	11.3%	-	9.3%	14.1%	40.0%	-0.1%	10.7%	26.8%	-	5.9%	-	
Japan	15.6%	18.6%	23.3%	16.8%	14.5%	8.3%	13.1%	12.3%	24.9%	12.9%	8.1%	
World	16.3%	40.0%	16.8%	15.9%	17.7%	4.8%	11.9%	23.4%	19.1%	15.8%	4.2%	
12M Performance												
US	18.4%	-27.5%	21.9%	6.2%	51.8%	3.0%	15.9%	-3.1%	38.7%	22.1%	-8.7%	
Europe	-3.8%	-31.0%	14.4%	2.9%	7.8%	-6.9%	-2.8%	-15.4%	14.3%	-14.4%	1.6%	
UK	-14.4%	-39.7%	22.7%	-8.2%	-10.3%	-9.8%	-11.7%	-20.0%	-11.6%	-20.0%	-14.0%	
Euro	-2.5%	-19.5%	8.6%	-2.2%	11.4%	-6.2%	-4.5%	-20.0%	14.6%	-10.5%	1.7%	
Switzerland	-1.1%	-	18.0%	8.9%	6.2%	-5.4%	-2.3%	-5.1%	-	-8.6%	-	
Japan	10.1%	-20.6%	21.4%	8.2%	10.0%	1.0%	14.9%	-10.0%	28.0%	33.0%	-3.9%	
World	11.5%	-28.5%	17.1%	5.1%	35.0%	-1.1%	10.8%	-6.2%	36.6%	18.1%	-6.1%	
P/Book (-1M)												Fwd ROE
US	4.1	1.1	2.8	4.9	13.3	6.5	4.7	1.3	10.5	3.9	2.1	18%
Europe	1.7	0.8	1.9	3.2	1.9	3.1	4.0	0.7	5.2	1.3	1.9	10%
UK	1.3	0.5	1.7	4.1	2.3	2.5	5.4	0.7	8.6	0.6	2.0	9%
Euro	1.6	1.0	1.7	2.6	1.8	2.9	2.2	0.6	5.2	1.7	1.8	9%
Switzerland	2.6	-	2.9	5.0	1.5	4.9	4.7	0.8	-	3.5	-	14%
Japan	1.4	0.4	1.1	1.5	1.4	2.4	3.3	0.5	2.4	2.4	0.7	8%
World	2.7	1.0	2.0	3.1	4.2	4.2	4.4	1.0	8.4	3.1	1.8	13%
12m Fw P/E												
US	23.3	27.7	20.9	23.6	37.7	20.1	17.7	14.1	29.3	24.7	18.3	
Europe	17.1	14.1	15.4	22.8	19.5	19.1	17.7	11.3	29.7	14.8	17.5	
UK	14.1	12.9	10.5	21.9	22.6	14.3	16.2	11.5	34.0	12.9	16.6	
Euro	17.5	15.6	18.7	22.3	18.2	21.8	16.4	10.4	30.9	15.1	16.7	
Switzerland	19.2	-	26.0	25.6	30.8	25.9	17.2	12.1	27.1	17.0	-	
Japan	18.2	9.5	18.9	21.9	16.6	22.8	29.8	9.3	25.5	16.3	10.1	
World	20.9	20.3	17.2	23.0	28.4	19.8	18.4	13.1	29.4	22.3	17.7	
12m fw EPS Gr												
US	20.5	-	29.6	30.1	49.2	6.4	12.6	21.5	14.3	15.8	2.9	
Europe	36.0	269.5	35.1	65.7	163.3	9.0	9.2	33.6	12.7	16.3	9.3	
UK	41.3	587.2	36.9	242.4	53.1	7.1	13.0	32.9	1.1	22.5	6.2	
Euro	44.9	143.9	39.7	70.5	207.8	12.8	6.9	42.2	14.3	14.3	12.3	
Switzerland	15.4	-	15.7	31.0	144.5	7.9	9.7	25.6	-5.8	0.3	-	
Japan	31.1	-	111.1	86.8	43.2	30.8	27.8	9.7	22.4	-6.3	-1.8	
World	25.2	511.7	34.2	47.4	68.3	8.8	12.4	23.1	14.6	12.6	4.6	
Dividend Yield												
US	1.9	5.0	1.8	1.6	1.3	2.8	2.0	2.3	1.1	2.8	3.0	
Europe	2.7	6.0	2.7	1.6	1.1	2.8	2.7	3.4	0.9	4.4	3.6	
UK	3.8	6.3	3.2	1.8	0.7	4.0	3.8	4.5	1.5	5.1	5.3	
Euro	2.3	6.2	2.6	1.5	1.1	1.9	2.6	3.0	0.8	4.2	3.5	
Switzerland	2.6	-	2.4	2.7	1.5	2.5	2.6	3.6	-	4.6	-	
Japan	2.0	5.5	1.7	1.6	1.7	2.0	1.5	4.3	1.3	2.1	2.9	
World	2.2	5.4	2.3	1.6	1.4	2.7	2.1	2.8	1.1	3.0	3.3	

Source: IBES, MSCI, Datastream, At 28th Jan 2021, * Discount to MSCI World

Additional Basket Methodology

In order to keep the basket relevant to the investment theme, J.P. Morgan reserves the right to review the following at any time:

Basket methodology. This is to ensure the rules of the basket remain relevant following any structural changes to the theme. This may include ensuring that the sector exposure of the basket remains broadly consistent with the investment theme.

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

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

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

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

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

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