J.P.Morgan

Global Markets Strategy
28 July 2021

Update (first published 26 July 2021)

The J.P. Morgan View

Inflection in UK delta cases may signal start of rotation to cyclicals

Cross-asset Strategy: A significant development over the past few days is an inflection of COVID-19 delta cases in the UK. Many investors were watching in fear the fast rise of delta cases in the UK over the past month, looking for signs of a slowdown or inflection. With UK cases significantly down over the week, the peak appears to be behind us, which could be a signal for rotation back into value, reflation and reopening themes (this fast timeline of 30-40 days is similar to what we saw in India). Additionally, despite the fast rise of cases to near peak levels, mortality is currently 95% lower than during the January peak. This should give confidence to investors that delta is not a serious threat to global growth. Last week, we revised higher our S&P 500 EPS estimates and year-end price target to 4,600. We believe sectors/themes related to reopening (e.g., Semis, Consumer Discretionary, Banks, and Energy) are strong buys at current levels, while those tied to Growth are increasingly vulnerable to yields normalizing off of current low levels and to profit taking. The 10y bond yield bounced from last Monday's lows, but still depressed yield levels continue to reflect overdone growth concerns.

JPM Clients' View: Click here to take this week's survey. This week we poll investors on their views around the impact of the delta variant, in addition to our running questions on equity sentiment and near-term portfolio changes. Last week's survey results indicated (1) equity exposure/sentiment among respondents is ~59th percentile on average; (2) 59% planned to increase equity exposure, and 91% to decrease bond duration near term; (3) respondents expected core CPI to increase at ~4%ar on average in 2H21, but 63% thought the high inflation is transitory and the median respondent expected y/y core inflation prints to fall back to 2% by 2H22.

Markets remain too fixated on the delta variant: The delta variant continues to dominate our client discussions, and markets are pricing in a pessimistic view given reflation trade underperformance. However, even if new mobility restrictions are introduced, last winter's alpha wave demonstrated that economic agents have become more accustomed to mobility restrictions, and the economic or corporate profit impact of these restrictions is thus much dampened. In our view, given the vaccination progress across major economies in Europe and the US, we should see an even smaller growth impact for delta vs. last winter's wave.

New Trades: Positioned for a reflation trade rebound into Q2 earnings, sold SPX skew and convexity (Kaplan); bought SX5E leveraged call spread collars (Silvestrini); sold VIX puts vs SPX calls (Cheng); bought CDX.HY calendar bull risk reversal, shorted Main/CDX.IG 10Y vs 5Y payers (Doctor); initiated greens/blues Euro OIS curve steepeners (Bassi); entered German real yield curve steepeners and long 1Yx1Y UK RPI (Diamond); entered new long S$NEER basket and sold USD/SGD through options (Luk).

Catalysts this week: Peak of 2Q21 earnings (all week, see Fig.11 here); IFO (Jul 26); US Conf. confidence (Jul 27); FOMC (Jul 28); 2Q GDP (Jul 29); Euro area 2Q GDP/CPI and South Korea trade balance (Jul 30).

Global Markets Strategy

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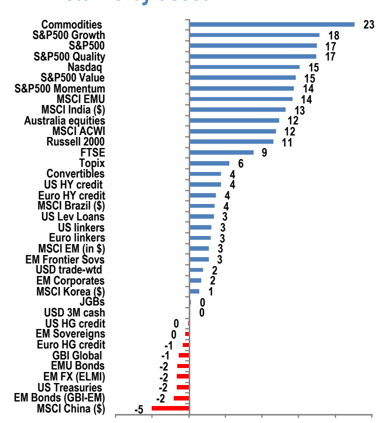
YTD returns by asset



Source: J.P. Morgan

See page 11 for analyst certification and important disclosures.

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Cross-Asset Strategy

Macroeconomic Outlook

The Delta wave increases uncertainty, but progress on vaccinations should be sufficient to unleash significant pent-up demand in 2H21. Our forecasts incorporate an ongoing pandemic drag in countries with low vaccination rates, but the recent surge in infections in high vaccination rate countries is a surprise, and it now looks likely that global infections this quarter will push well above the second-wave peak. However, this time, vaccines should mitigate the consequences as the link between new cases and hospitalizations weakens materially. In the DM, Europe's policymakers are expected to respond modestly and US policy is likely to show even more tolerance. Hence, while we mark down the 2H outlook in Europe somewhat, this should not disrupt a projected 6%ar growth surge in the DM. In EM, we have refrained from making significant revisions, as our forecast has already assumed limited rebounds in 2H21 and outside of EM Asia, policy responses to the Delta variant are likely to be limited (*GDW*, Jul 23).

We met with a mix of policymakers, official creditors, and independent analysts in Washington, DC. The biggest takeaways are a) the divergence between the market's sanguine approach on investing in China versus the hardline stance that the Biden administration has taken; and b) markets could once again be underestimating the size of the combined infrastructure and social spending package, which could come in at an aggregate total of $2-3Tr, or around double market expectations (e.g., see Figure 7 in our survey two weeks ago) (*Washington Policy Perspectives*, Jul 20).

Equities

In the US, we revised higher our EPS estimates and raised our S&P 500 year-end price target from 4,400 to 4,600. At a thematic/sector level, the risk/reward for reopening stocks has improved significantly with the recent pullback creating many unusually attractive opportunities. Consumer Discretionary, Semis, Banks, and Energy are strong buys at current levels. Sectors and Themes tied to Growth are now increasingly vulnerable to yields normalizing off of current low levels and to profit taking as we enter earnings season. We also see attractive entry points for Reopening, Reflation, Small Cap, and Oil Themes given that systematic positioning in these markets has largely to fully reversed. A reversal of these signals could easily amplify moves in the opposite direction (*US Equity Strategy*, Jul 20).

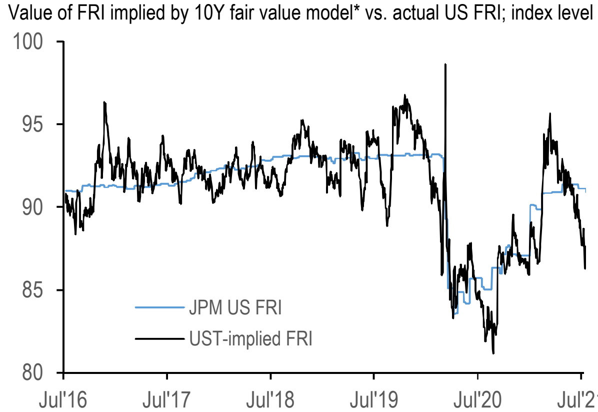
2Q21 reporting season potentially offers a different setup vs the last one. Unlike the run-up to Q1 results, when sentiment was exuberant, this time around investor sentiment is rather subdued and the internal leadership is much more cautious. Cyclical stocks have de-rated, sentiment is deflated, a peak in activity indicators has been digested, and margin pressure fears should not be worsening. Fundamentally, Q2 results should be even stronger than what was seen in Q1, with Q2 PMIs 4 points above Q1. In terms of EPS progression, Cyclicals vs Defensives gap widened further in Q2. The EPS revisions for Banks are staying in positive territory. In contrast, Tech appears to be diverging from the relative earnings delivery and could lose momentum from here (*Equity Strategy*, Jul 19).

So far, earnings delivery has been robust. About 20% of companies have reported in the US and Europe. Within this, 86% of companies in the US and 62% in Europe have beat consensus, with EPS surprises running at 18% and 8%, respectively. At a sector level, Commodity sectors, Financials, and Discretionary have reported strong results while Defensives have lagged (*Q2 Earnings Season Tracker*, Jul 23).

We reaffirmed our key calls for EM equities. We maintain a pro-risk allocation in our EM model portfolio and focus on benign drivers that should support rotation toward Value / Cyclical sectors and Ex-North Asia allocation. Our allocation toward cyclical sectors remains with a targeted focus on investment themes related to reopening and reflation trades. We also continue to see possible drivers to make the relative case of EM / DM equities more compelling into 2H21: (1) the phase-out of US exceptional strength; (2) higher commodity price tailwind; and (3) favorable positioning and valuation relative to DM equities (*Key Trades and Risks*, Jul 22).

Figure 1: The decline in Treasury yields implies lower growth expectations, and would be justified if we lowered growth forecasts by ~4%-pts over the next year

Value of FRI implied by 10Y fair value model* vs. actual US FRI; index level



Source: J.P. Morgan Rates Strategy, Federal Reserve, CFTC. * See *US FIMS*, Jul 16 for model details

Bonds

Bond yields were modestly lower last week. In the **US**, a rally on Monday saw yields decline to a level consistent with an economic contraction over the next 12 months, and while much of this was unwound, these growth concerns still look overdone (Figure 1). We stay short 10y USTs and keep 3s/7s steepeners, though we recognize that absent a catalyst such as a substantial tightening in labor markets or progress on an infrastructure bill the path to higher yields may be limited in the near term.

In the **Euro area,** the ECB's new forward guidance was more explicit in pushing the economy harder before hikes would be considered but left much discretion in the ECB's reaction function, which remains less dovish than the Fed's. We have a bearish bias on valuations, but we prefer to express this via greens/15Yx5Y EUR forward curve steepeners as a carry-efficient proxy. Intra-EMU we keep longs in 10Y Spain/France vs. Germany.

In **EM,** our *EM Client Survey* saw little change in local bond positions but a marked reduction in EM FX positions. We see an opportunity to OW Brazil local bonds on value and to earn carry, vs. UW Colombia on a deteriorating fiscal situation and political noise (*Latam*, Jul 22).

Credit

We don't interpret last week's seesaw price action too negatively. If the delta variant means a little less of a "sugar rush" economy, then the odds of reflation remaining orderly have gone up, which is a good thing from an overall risk market perspective. Further, for now, the delta variant has not inclined our company analysts to revise their revenue forecasts. We do not believe there will be widespread lockdowns/business closures again, other than at the local level, and pent-up demand for leisure activities remains robust. In Aviation, we remain OW as we don't think that recent pressure on airlines equities is a leading indicator. The delta variant may potentially delay the international reopening, but we still feel the risk to our corporate forecast remains skewed to the upside (*Credit Watch*, Jul 21).

HY funds maintained a slightly aggressive risk profile. The largest OW is in Gaming/Leisure and UW is in Financials/Autos, the largest reductions relative to the index q/q were Healthcare/Industrials, and adds were Telecom/Energy. EM exposure increased slightly q/q, up from its lowest level since 2011 (*2Q21 High Yield Fund Analysis*, Jul 22).

Currencies

FX markets are responding to delta variant risks, which have also triggered some downgrades to our growth forecasts in the US and Europe. Similarly, but less compared to USTs, our growth models suggest the USD discounts 1.5%pt of downside to growth. The outperformance of a number of high-beta currencies (NZD, NOK, CAD) driven by recent hawkish shifts creates a pricing and positioning setup that creates obvious candidates for hedging delta variant risks.

Upside risks to the size of the US infrastructure baseline have grown. The timeline targets Sept/Oct, coinciding with the end-July debt ceiling reinstatement becoming binding. While there is some debt ceiling accident risk, neither this nor the associated recent liquidity surge is reason to be materially bearish the dollar. The ECB forward guidance this week was dovish, and an eventual QE expansion raises downside risks to our 1Y 1.16 EUR/USD forecast.

We added some hedges last week by selling a basket of CAD & NZD vs USD & JPY. We now hold USD length on both sides of the smile—long vs high-beta as well as long vs low-yielders—and we took profit on short AUD/NZD mid-week (*FXMW*, Jul 23).

Commodities

We reiterated our view that after a decade-long bear market, Commodities as a group are back. The Energy upcycle has structural momentum supported by a post-pandemic supply/demand imbalance, inflation hedging, and the unintended consequences from ESG and energy transition policies reducing fossil energy capacity faster than demand can switch to renewables (*The Return of Commodities*, Jul 19).

OPEC's decision to boost production by 400 kbd per month over the rest of 2021 was in line with our expectations. We think markets will remain relatively tight and maintain our Brent year-end target at $83/bbl. However, the stated plans to phase out all of its 5.8 mbd of halted production by September 2022 have eroded lingering concerns that OPEC+ could run the market hot for longer, trimming the right tail. Our balances indicate that OPEC+'s current plan to bring back an additional 3.8 mbd of supply over next year will likely prove unsustainable given the depressive consequences it would have on prices, and will ultimately restrain the alliance's supply normalization plans. We forecast OPEC+ will only bring ~2.7 mbd of production back online in 2022, but this trajectory still points toward lower Brent prices in 2022 (*Oil Markets Weekly*, Jul 20).

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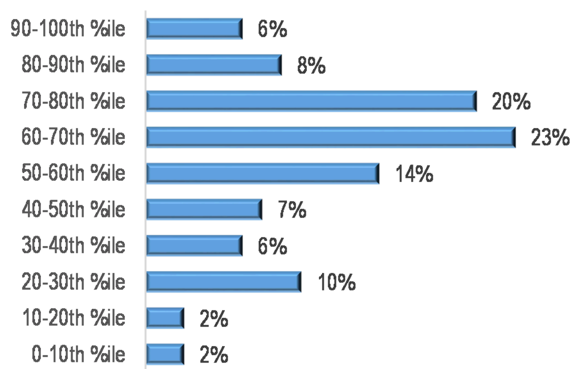
JPM Clients' View

Click here to take this week's survey

This week, we poll investors on their views around the impact of the delta variant, in addition to our running survey questions on equity positioning/sentiment, and intentions for near-term changes to equity allocation and bond duration.

The results from last week's survey are shown in the charts below.[1]

Figure 2: What is your current equity positioning or sentiment in historical terms, expressed from most bearish (0 percentile) to most bullish (100th percentile)?

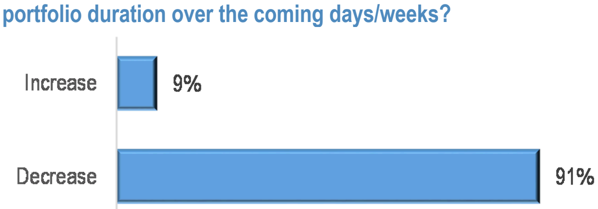


Source: J.P. Morgan.

Figure 3: Are you more likely to increase or decrease equity exposure over the coming days/weeks?

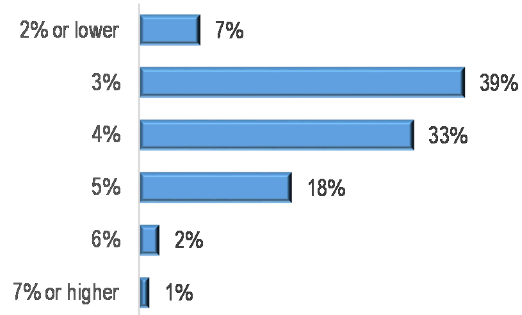
Source: J.P. Morgan.

Figure 4: Are you more likely to increase or decrease bond portfolio duration over the coming days/weeks?



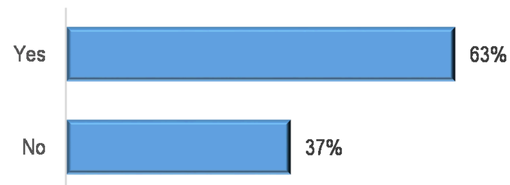
Source: J.P. Morgan.

Figure 5: What do you expect the annualized rate of inflation (US core CPI) to be in the 2nd half of this year?



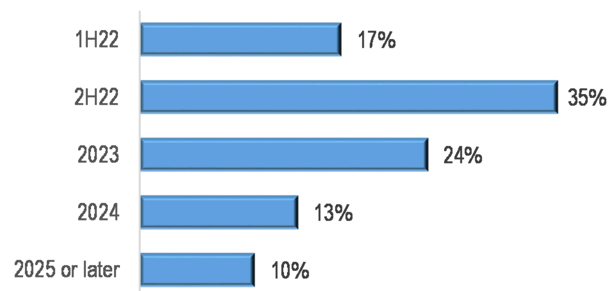
Source: J.P. Morgan.

Figure 6: Is the current high inflation most likely transitory? (assuming monetary policy remains on its current trajectory)



Source: J.P. Morgan.

Figure 7: When do you expect y/y core inflation prints to fall back to 2%?



Source: J.P. Morgan.

[1] Results are based on 83 responses received from clients in our survey conducted July 19-26.

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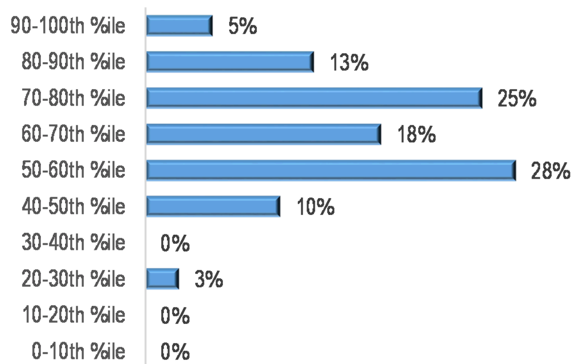
JPM Clients' View – This Week's Interim Survey Results

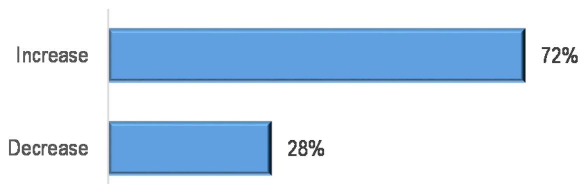
The charts below show interim results from this week's survey, collected over the first ~24 hours it was live. The survey remains open here, and we will show updated results in the next J.P. Morgan View publication.

Figure 8: What is your current equity positioning or sentiment in historical terms, expressed from most bearish (0 percentile) to most bullish (100th percentile)?



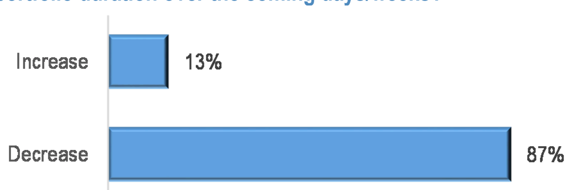
Source: J.P. Morgan.

Figure 9: Are you more likely to increase or decrease equity exposure over the coming days/weeks?



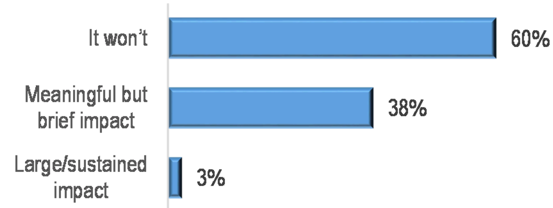
Source: J.P. Morgan.

Figure 10: Are you more likely to increase or decrease bond portfolio duration over the coming days/weeks?



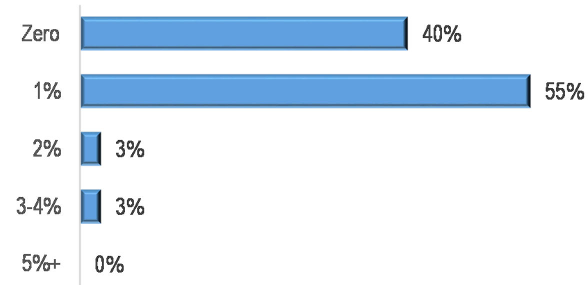
Source: J.P. Morgan.

Figure 11: How do you think the Delta variant will impact markets in 2H21?



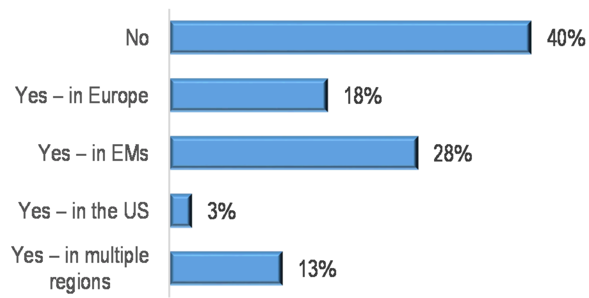
Source: J.P. Morgan.

Figure 12: What do you expect will be the drag on 2H21 global GDP growth (annualized) due to the Delta variant?



Source: J.P. Morgan.

Figure 13: Do you expect new lockdowns and/or material mobility restrictions in response to the Delta variant? If so, where?



Source: J.P. Morgan.

Markets remain too fixated on the delta variant

A significant development over the past few days is an inflection of COVID-19 delta cases in the UK. Many investors were watching in fear the fast rise of delta cases in the UK over the past month, looking for signs of a slowdown or inflection. With UK cases significantly down over the week, the peak appears to be behind us, which could be a signal for rotation back into value, reflation and reopening themes (this fast timeline of 30-40 days is similar to what we saw, e.g., in India or Scotland). It is also important to notice that despite the fast rise of cases to near peak levels, mortality is currently 95% lower than during the January peak. This should give confidence to investors that delta is not a serious threat to global growth.

Despite the rebound in risk markets from last Monday's correction, the delta variant continues to dominate our client discussions. This is especially true after our economists lowered their growth forecasts for Europe, as they now expect the delta wave to induce a reduction in mobility and economic activity over the coming months.

What is the lesson from previous COVID waves? The current conjuncture with the delta wave looks similar to that of last winter with the alpha variant wave, where the reintroduction of mobility restrictions in Europe prompted downward revisions to our growth forecasts. This is shown in Figure 14 with our Forecast Revision Index for Global GDP, which declined during October/November of last year. These downward revisions proved short lived, however, and despite mobility restrictions lasting for several months across several European countries, the economic impact was more modest than initially feared. In fact, the Forecast Revision Index of Figure 14 saw a steep upward trajectory during last December/January as European economic growth was eventually little affected by mobility restrictions at the time, while US growth was revised in the aftermath of President Biden's fiscal stimulus program announcements. Similarly, Figure 15 suggests there was little impact on corporate profits from last winter's alpha wave, with the link between earnings revisions and COVID waves having been weakened.

In other words, the lesson from last winter's alpha wave was that economic agents have become more accustomed to mobility restrictions, and the economic or corporate profit impact of these restrictions is thus much dampened. In our opinion, given the vaccination progress across major economies in Europe and the US, with almost 60% of the population fully vaccinated, an argument could be made of even more reduced growth impact in the current conjuncture vs. last winter's alpha wave.

What is the lesson from India? India was the first country to experience a delta wave. As shown in Figure 16, India's delta wave decline was as quick and as steep as its surge. What precisely has caused this is still debated, as it has a relatively low vaccination rate, but a recent survey on seroprevalence suggests two-thirds of the population may now have antibodies conferring at least some level of protection. The speed of the decline in India's delta wave allowed most economic effects to quickly reverse, and India's equity market made new highs during May and June. While some caution is justified, one of the lessons from India's delta wave may be that of a relatively quick reversal with relatively muted economic or market impact.

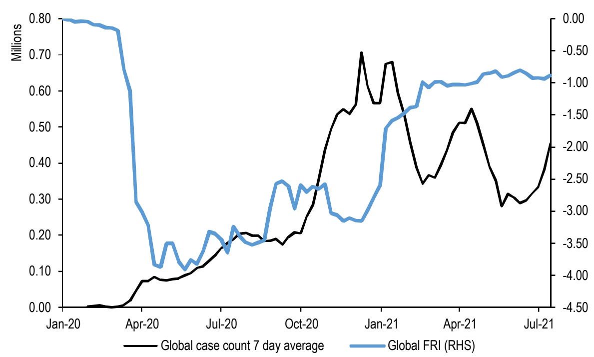
In addition, even if one takes a more pessimistic view of the current delta wave and the resulting mobility restrictions inducing a more significant hit to growth, risk markets appear to be pricing that in already. This is especially true in Europe where the market neutral value factor, which mostly consists of value-oriented cyclical stocks, has almost erased its YTD gains (Figure 17). In other words, a significant cyclical downshift is already in the price in the European equity space. In fact, for those sharing our more optimistic view of a much reduced impact of the delta wave on growth, the more severe retrenchment of the value factor in Europe is creating an opportunity relative to US value stocks.

Moreover, as we argued in our sister publication Flows & Liquidity this week, the rally in US rate markets appears to have been exacerbated by a deterioration in liquidity conditions. Indeed, the market depth in US Treasury futures declined to levels closer to the late February lows, and our metric of market breadth, or the price impact of trading volumes, also showed a deterioration in liquidity conditions to levels seen earlier in the year. This has likely contributed to declines in yields earlier this week to levels that our US rate strategists argued were consistent with an economic contraction over the next 12 months (*UST Markets Daily*, Jul 19).

Separately, the ECB meeting this week was the first since it announced the conclusion of its strategy review. The market reaction to the meeting was dovish, with rates rallying and periphery spreads narrowing. But while the new forward guidance was more dovish in that it was more explicit in pushing the economy harder before interest rate hikes would be considered, there were some indications that the practical implications are less marked. For example, it stopped short of aiming to deliver an overshoot in the vein of the Fed's "make-up" strategy, and ECB President Lagarde also stated that this did not signal a "lower for longer" policy environment. Given the space the ECB has given itself, how much has genuinely changed is less clear given that it did not discuss what other tools it needs to use (e.g., post-PEPP QE and TLTROs in 2022) to deliver on its new strategy.

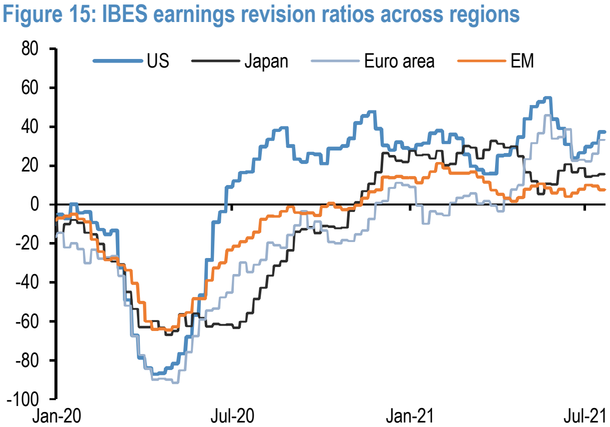
In all, we find no reason to alter our market strategy despite our economists' downward revisions to their European GDP forecasts due to the delta wave. These cyclical risks are more than priced in in the European equity space. And in terms of the overall equity market direction, retail investors continue to buy each dip, providing a strong backstop to equity markets (see *F&L*, Jul 21). In the bond space, not only do we believe that rate markets are pricing in an adverse economic outcome for the coming year but that they also underestimate the inflation surprise force, which is likely to persist into the remainder of the year.

Figure 14: Global daily COVID-19 new cases and JPM Forecast Revision Index for Global GDP



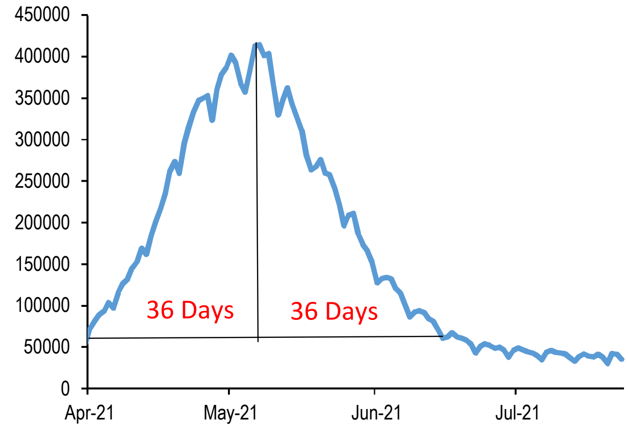
Source: J.P. Morgan.

Figure 15: IBES earnings revision ratios across regions



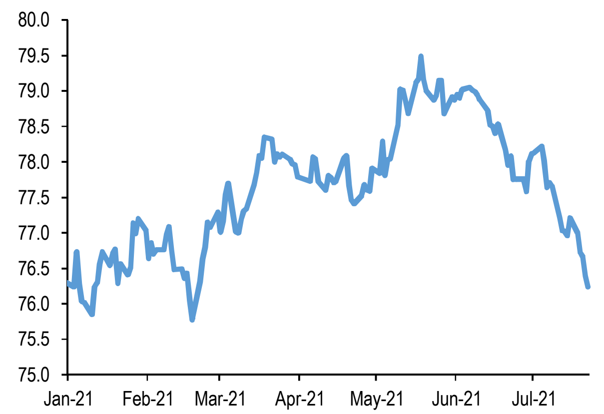
Source: J.P. Morgan.

Figure 16: India daily COVID new cases



Source: J.P. Morgan.

Figure 17: Market Neutral Value Factor within European Equities



Source: J.P. Morgan.

Global Research Digest

Macro & Cross-Asset Views

US Equity Strategy: Market Update, Earnings, Reopening Theme, Dubravko Lakos-Bujas

We raise our long-held 2021 S&P 500 year-end price target of 4,400 to 4,600 and EPS estimates by an additional $5 to $205 for 2021, $230 for 2022, and $250 for 2023. We remain constructive on equities and see the latest round of growth and slowdown fears premature and overblown as the recovery is still in early-cycle and gradually transitioning toward mid-cycle. The risk/reward for reopening stocks has improved significantly with the recent pullback creating many unusually attractive opportunities for investors to reenter various parts of the cyclical cohort.

Flows & Liquidity: Impaired liquidity conditions have likely amplified UST yield moves, Nikolaos Panigirtzoglou

The deterioration in liquidity conditions in markets appears to have been mainly concentrated in UST markets and has very likely exacerbated the magnitude of those moves, which is in contrast to equities where liquidity conditions show little sign of deterioration. Retail investors stepped in to buy the most recent dip as evident in the acceleration of inflows into equity ETFs, while crypto flow metrics and trading volumes remain weak. Elsewhere, there is some sign of modest deterioration in liquidity conditions for smaller credit ETFs as well as for crude oil futures.

J.P. Morgan Perspectives: The return of Commodities, Joyce Chang, Christyan Malek & Natasha Kaneva

The return of Commodities is one of the enduring paradigm shifts from the COVID-19 pandemic. Investors are facing a conundrum as economies equivalent to nearly 70% of global GDP have announced net-zero targets, but achieving these goals is decades away. One of the unintended consequences from ESG and energy transition policies is the chronic underinvestment by International Oil Companies, which has reduced fossil energy capacity faster than demand can switch to renewables, raising the risk of a structural supply shortfall. At the same time, inflation risk has risen significantly in Developed Markets, and financial flows are poised to play a larger role in energy prices.

Washington Policy Perspectives: Where markets and policymakers diverge: Key catalysts to watch, Joyce Chang

In recently resumed live visits to Washington, DC, investors came away more negative at the margin after the meetings. The size of the combined infrastructure and social spending package that could be approved through reconciliation could be larger than expected. Investors did not appear likely to reduce risk, but there appeared to be little appetite to add risk in asset classes that have lagged, such as emerging markets. Perhaps the biggest takeaway was greater pessimism about the outlook for the US-China relationship.

Global Economics and the Recovery from COVID-19

US: Will Fed heads roll?, Michael Feroli

Fed chair Powell faces an uphill challenge in securing a second term as Fed chair, and if Biden opts for change, Governor Lael Brainard is positioned as the leading contender. In addition to a new chair, next year the Fed could see a few other changes in key positions. First, there's still a vacancy on the presidentially-appointed Board. Second, it's pretty clear that Quarles will not be nominated for another term as vice chair of supervision when his term in that role ends this October. However, he has indicated that he may stay on as governor even if he loses his leadership role (his term as governor ends in 2032). Third, Vice Chair Clarida's term as governor and vice chair ends next January. Inflation expectations are likely to be key in modulating the Fed's degree of accommodation.

US: Revising our Q2 real GDP growth forecast down to 8.0%, Michael Feroli

We are lowering our forecast for Q2 annualized real GDP growth from 9.0% to 8.0% as GDP source reports generally have disappointed in recent weeks. The delta variant may impart a little more caution in consumer behavior, and we are adjusting our Q3 real consumption forecast lower from 5.0% to 4.5% to better balance risks around our outlook.

Western Europe: Delta-driven downward revisions, Malcolm Barr

It looks increasingly likely that managing the delta variant of COVID-19 will be more troublesome than we had assumed, and we are making a set of downward revisions to forecast across Western Europe to reflect that. We are anticipating the re-imposition of some targeted mobility-limiting restrictions around the region from mid-August onward. We revise Q3 annualized real GDP growth lower for Euro Area from 13.5% to 11.5% and UK from 13.6% to 9.6%.

Perspectives on the CBO Projections on the US Budget and Economic Outlook to 2031, Joyce Chang

Phillip Swagel, Director of the Congressional Budget Office, discussed projections from *An Update to the Budget and Economic Outlook: 2021 to 2031*, published earlier this month. The CBO's projections cover 10 years and are based on current laws as of May 18, which includes the American Rescue Plan signed into law on 11 March 2021, but not potential future fiscal actions that could be approved later this year. The CBO's baseline is not intended to provide a forecast of future budgetary and economic outcomes but rather provide a benchmark to assess the potential effects of future policy decisions.

Global Market Implications

Credit Watch: Are the Sands Really Shifting That Much? So much for the classic summer low volatility-low liquidity grind tighter!, Dulake, Pace, Streeter, Lim, Hughart, Pan and Caprihan

We interpret this past week's seesaw price action as not so negative from a credit market perspective, and we're more inclined to regard the past week's moves as spreads correcting within the context of an ongoing grind tighter than anything more sinister. The delta variant is unlikely to incline company analysts to revise their revenue forecasts as pent-up demand for leisure activities remains robust and business recoveries would only be delayed temporarily. Business Development Companies (BDCs) have experienced rapid growth both in total assets as well as debt outstanding, and we expect this pace will continue given that the cost of unsecured funding is very attractive relative to the cost of secured term funding.

Increase USD beta to delta: Sell basket of CAD & NZD against USD & JPY, Daniel P Hui

We shifted into a more defensive stance, exiting reflation trades in our macro portfolio and increasing long USD exposure. This was done on the basis of four basic observations: The dollar is well into a mid-cycle phase, no longer broadly vulnerable to early-cycle reflationary forces that indiscriminately lift high-beta FX, peak reflation and global stimulus, broadly short dollar positioning, and increasing vulnerability of cyclical currencies to tail risks, most notably the sudden global proliferation of the delta COVID-19 variant. We scaled up defensiveness by selling a basket of CAD & NZD against a long basket of USD & JPY given steep money market curves and heavy IMM positioning.

The financial stability risks of stablecoins, Joshua Younger

Among the more interesting and potentially impactful developments of explosive growth in cryptocurrency markets has been the advent and broadening acceptance of stablecoins. As a result, regulatory focus on this market has likely shifted from consumer protection to financial stability. Without federal insurance, there is an argument for imposing more stringent liquidity and credit requirements, which likely means a new entrant to the already crowded market for riskless short-term investments, modest for now but with the demonstrated potential to grow rapidly.

Sector-Level Views

JPM Energy Outlook: 10 Predictions & Stock Picks for 2021: A Mid-Year Mid-Mortem, Phil Gresh, CFA, Arun Jayaram, Jeremey Tonet

Favorable Energy over S&P in 2021, but still expect volatility and sub-sector differentiation. Overall, our macro calls to date have done fairly well, particularly on the Upstream S/D and oil price recovery views. Our refreshed list of 10 stock ideas for 2H21 still emphasizes quality over beta, with an expectation of a choppier 2H, given a higher bar for the group.

Engie: Total Recall 2, Vincent Ayral

Engie remains one of the cheapest EU utilities and an attractive proposition for O&G companies looking to reposition on renewables: yet developments on this front are likely to wait until after the 2022 elections. Power prices are up 50% and back to their 2008 levels: something which will boost the profitability of its nuclear and hydro fleets beyond a conservative 2023 guidance.

SoftBank Group (9984) Moving from Not Rated to Overweight with ¥11,100 Price Target; Investment Business Entering Expansive Reproduction Phase, Haruka Mori

SBG defines itself as a capital provider helping lead the AI information revolution and plans to continue to invest aggressively in unicorns. With recouping of investment starting to ramp up for SoftBank Vision Fund 1 (SVF1), we think SBG's investment business is entering a phase of expansive reproduction. Near term, we focus on catalysts for a share-price recovery in the ample IPO pipeline for 2H 2021 and possible renewed buybacks leveraging the stock's widening discount to NAV.

Marko Kolanovic, PhD
Nikolaos Panigirzoglou
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Federico Manicardi
Mika Inkinen
Amy Ho

Strategy & Forecasts

GAA Long Only Model Portfolio

Asset Classes		Active Weights	UW | OW
Equities		10%	
Govt. Bonds		-13%	
Corp. Bonds		-2%	
Commodities		7%	
Cash		-2%	
Sectors		**Active Weights**	**UW | OW**
Equities	US	-2%	
	EMU	1%	
	Japan	1%	
	UK	-2%	
	EM	2%	
	Other	0%	
Govt. Bonds	US Nominal	-1%	
	US TIPs	-1%	
	Europe Core	-2%	
	Europe Periphery	2%	
	Japan	2%	
	UK	0%	
	EM Local	0%	
	Australia	0%	
Corp. Bonds	US HG	-1%	
	Europe HG	-1%	
	UK HG	0%	
	US HY	1%	
	Europe HY	1%	
	US Loans	0%	
	EM Sovereigns	0%	
	EM Corporates	0%	
Commodities	Energy	4%	
	Industrial metals	-1%	
	Agriculture	0%	
	Precious metals	-3%	

Equity sector recommendations and YTD returns

	US		Europe		Japan		EM	
Energy	32%	OW	12%	N	26%	N	11%	N
Materials	13%	N	19%	N	3%	N	19%	OW
Industrials	16%	N	21%	N	9%	OW	12%	OW
Discretionary	12%	OW	19%	N	10%	OW	-6%	OW
Staples	6%	UW	11%	UW	2%	N	-1%	UW
Healthcare	16%	OW	16%	N	-6%	UW	4%	UW
Financials	24%	OW	17%	OW	15%	OW	5%	OW
Technology	17%	OW	26%	N	10%	N	7%	N
Comm Service	21%	N	15%	OW	0%	UW	2%	N
Utilities	5%	UW	3%	OW	-1%	UW	3%	UW
Real Estate	27%	UW	13%	UW	17%	N	-6%	N
Overall	**16.9%**		**16.6%**		**6.7%**		**4.0%**	

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

JPM Forecasts

Rates	Current	Sep-21	Dec-21	Mar-22	Jun-22
US (Fed funds)	0.10	0.00	0.00	0.00	0.00
10-year yields	1.28	1.85	1.95	2.05	2.10
Euro area (depo)	-0.50	-0.50	-0.50	-0.50	-0.50
10-year yields	-0.42	-0.20	-0.10	0.00	0.05
Italy-Germany 10Y (bp)	105	90	100	100	100
Spain-Germany 10Y (bp)	69	55	60	60	60
United Kingdom (repo)	0.10	0.10	0.10	0.10	0.10
10-year yields	0.59	0.95	1.15	1.25	1.35
Japan (call rate)	-0.10	-0.10	-0.10	-0.10	-0.10
10-year yields	0.01	0.10	0.15	0.15	0.15
EM Local (GBI-EM yield)	4.92		4.95		
Currencies	**Current**	**Sep-21**	**Dec-21**	**Mar-22**	**Jun-22**
JPM USD Index	120	119	120	121	121
EUR/USD	1.18	1.18	1.17	1.16	1.16
USD/JPY	110	110	111	112	112
GBP/USD	1.37	1.39	1.38	1.38	1.38
AUD/USD	0.74	0.75	0.74	0.73	0.74
USD/CNY	6.48	6.45	6.45	6.45	6.45
USD/KRW	1151	1135	1130	1130	1130
USD/MXN	20.04	20.25	20.50	21.00	21.30
USD/BRL	5.19	5.25	5.40	5.35	5.50
USD/TRY	8.56	9.00	9.50	10.00	10.50
USD/ZAR	14.78	14.00	14.25	14.50	14.50
Commodities	**Current**	**Sep-21**	**Dec-21**	**Mar-22**	**Jun-22**
Brent ($/bbl, qtr end)	74	80	83	79	72
WTI ($/bbl, qtr end)	72	77	80	75	68
Gold ($/oz, qtr avg)	1,800	1,590	1,550	1,500	1,400
Copper ($/ton, qtr avg)	9,428	8,180	7,550	7,550	8,100
Aluminum ($/ton, qtr avg)	2,480	2,350	2,200	2,075	2,100
Iron ore (US$/dt, qtr avg)	213	188	172	160	150
Wheat ($/bu, qtr avg)	7.0	6.0	6.3		
Soybeans ($/bu, qtr avg)	14.1	10.5	10.5		

Credit		Current	Dec-21
US High Grade (bp over UST)	JPM JULI	111	110
Euro High Grade (bp over Bunds)	iBoxx HG	97	90
US High Yield (bp vs. UST)	JPM HY	392	360
US Lev Loans (bp vs. 3Y Index	JPM Lev Loans	427	450
Euro High Yield (bp over Bunds)	iBoxx HY	324	275
EM Sovereigns (bp vs. UST)	JPM EMBIGD	355	325
EM Corporates (bp vs. UST)	JPM CEMBI	262	225
Equities		**Current**	**Dec-21**
S&P 500		4,410	4,600
MSCI Europe		1,828	1,830
MSCI Eurozone		261	268
FTSE 100		7,028	7,100
TOPIX		1,904	2,000
MSCI EM ($)		1,326	1,550
MSCI China		103	125
MSCI Korea		995	1,100
MSCI Taiwan		686	755
MSCI India		1,842	1,800
Brazil (Ibovespa)		125,474	134,000
Mexico (MEXBOL)		50,211	46,300
MSCI South Africa (USD)		480	628

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

Risks of Common Option Strategies

Risks to Strategies: Not all option strategies are suitable for investors; certain strategies may expose investors to significant potential losses. We have summarized the risks of selected derivative strategies. For additional risk information, please call your sales representative for a copy of "Characteristics and Risks of Standardized Options." We advise investors to consult their tax advisors and legal counsel about the tax implications of these strategies. Please also refer to option risk disclosure documents.

Put Sale: Investors who sell put options will own the underlying asset if the asset's price falls below the strike price of the put option. Investors, therefore, will be exposed to any decline in the underlying asset's price below the strike potentially to zero, and they will not participate in any price appreciation in the underlying asset if the option expires unexercised.

Call Sale: Investors who sell uncovered call options have exposure on the upside that is theoretically unlimited.

Call Overwrite or Buywrite: Investors who sell call options against a long position in the underlying asset give up any appreciation in the underlying asset's price above the strike price of the call option, and they remain exposed to the downside of the underlying asset in the return for the receipt of the option premium.

Booster : In a sell-off, the maximum realized downside potential of a double-up booster is the net premium paid. In a rally, option losses are potentially unlimited as the investor is net short a call. When overlaid onto a long position in the underlying asset, upside losses are capped (as for a covered call), but downside losses are not.

Collar: Locks in the amount that can be realized at maturity to a range defined by the put and call strike. If the collar is not costless, investors risk losing 100% of the premium paid. Since investors are selling a call option, they give up any price appreciation in the underlying asset above the strike price of the call option.

Call Purchase: Options are a decaying asset, and investors risk losing 100% of the premium paid if the underlying asset's price is below the strike price of the call option.

Put Purchase: Options are a decaying asset, and investors risk losing 100% of the premium paid if the underlying asset's price is above the strike price of the put option.

Straddle or Strangle: The seller of a straddle or strangle is exposed to increases in the underlying asset's price above the call strike and declines in the underlying asset's price below the put strike. Since exposure on the upside is theoretically unlimited, investors who also own the underlying asset would have limited losses should the underlying asset rally. Covered writers are exposed to declines in the underlying asset position as well as any additional exposure should the underlying asset decline below the strike price of the put option. Having sold a covered call option, the investor gives up all appreciation in the underlying asset above the strike price of the call option.

Put Spread: The buyer of a put spread risks losing 100% of the premium paid. The buyer of higher-ratio put spread has unlimited downside below the lower strike (down to zero), dependent on the number of lower-struck puts sold. The maximum gain is limited to the spread between the two put strikes, when the underlying is at the lower strike. Investors who own the underlying asset will have downside protection between the higher-strike put and the lower-strike put. However, should the underlying asset's price fall below the strike price of the lower-strike put, investors regain exposure to the underlying asset, and this exposure is multiplied by the number of puts sold.

Call Spread: The buyer risks losing 100% of the premium paid. The gain is limited to the spread between the two strike prices. The seller of a call spread risks losing an amount equal to the spread between the two call strikes less the net premium received. By selling a covered call spread, the investor remains exposed to the downside of the underlying asset and gives up the spread between the two call strikes should the underlying asset rally.

Butterfly Spread: A butterfly spread consists of two spreads established simultaneously – one a bull spread and the other a bear spread. The resulting position is neutral, that is, the investor will profit if the underlying is stable. Butterfly spreads are established at a net debit. The maximum profit will occur at the middle strike price; the maximum loss is the net debit.

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