Q3 2024 Economic & Market Outlook

3Q 2024 Economic & Market Outlook Summary

Economy

- The probability of recession **was high a year ago** as Leading Economic Indicators (LEI's) pointed to recession. LEI's remain negative, but it seems government spending was able to **offset the impact of higher interest rates an inflation.**
- While economic growth remains resilient overall and the probability of recession has declined, **bifurcations exist with some segments of the economy struggling.**
- Strong economic growth has allowed the Fed to focus on inflation, **which remains sticky near 3%.**

Markets

- Lower interest rate volatility combined with reduced recession risk has supported global stock markets **with double-digit gains in 2023 and mid-single digit gains YTD.**
- Bonds on the other hand are flat on the year **with higher interest rates** offsetting interest income.

Positioning

- Our outlook is balanced with either a shallow recession or soft landing as the most probable scenarios in our view.
- Markets appear increasingly priced for a soft landing and not recession demonstrated by above average equity valuations and tight credit spreads. Therefore, **portfolios are positioned with a more conservative, less economically sensitive stance.**
- Given this outlook, we recommend rebalancing portfolios as appropriate as part of a disciplined investment management process.

U.S. Election

- Markets typically experience more volatility as uncertainty increases ahead of an election. However, **over the long term any impact is hard to measure.**
- Things that may influence markets include: health/ability of candidates to serve, tax policy, approach to regulations, tariffs and deficits

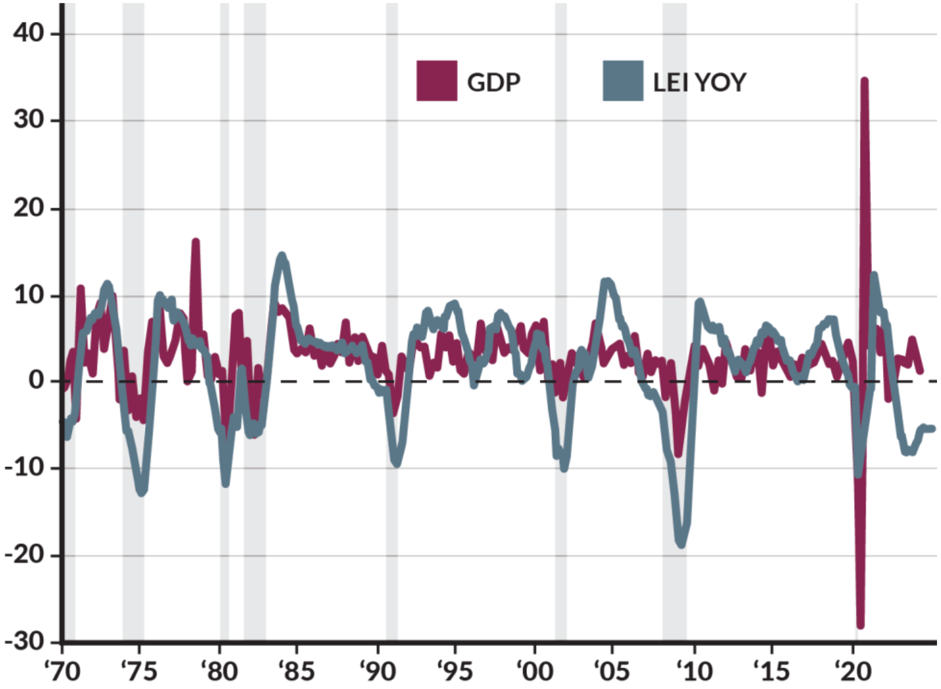
GDP Resilient Despite Higher Rates and Inflation

- Leading Economic Indicators (LEI's) suggested a high probability of recession in 2023, but the economy has proven resilient with GDP growth of 2 to 3% for much of the past year
- We expect growth to moderate over the next year, but recession is not our base case

Inflation Sticky Near 3% and Above 2% Fed Target

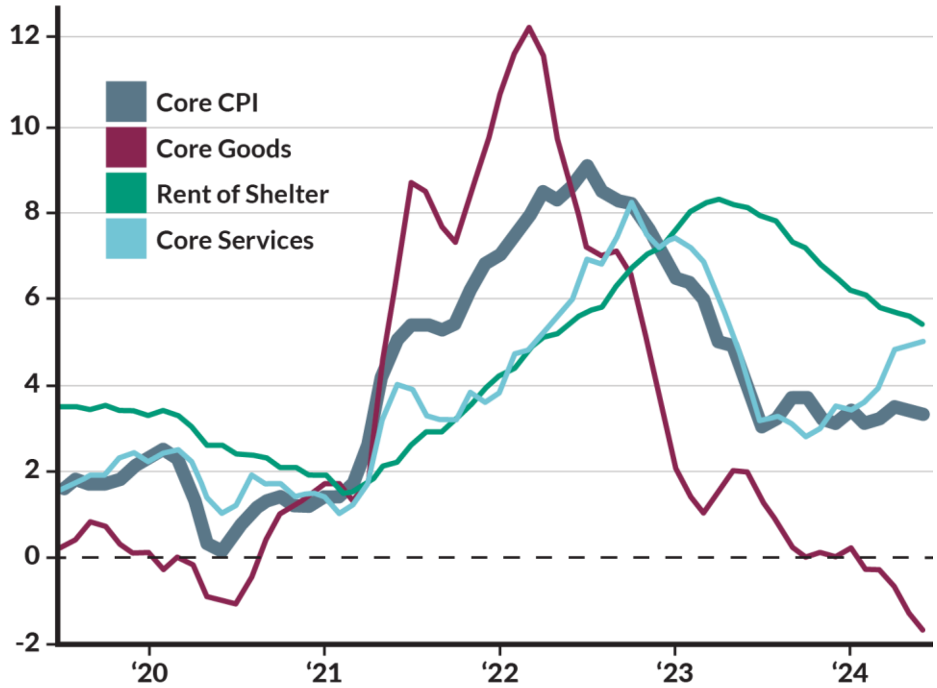
- Some inflation like in consumer goods has dissipated but others like services and rent remain high
- Economists expect inflation to slow further in 2024, but it may take a slower economy for inflation to reach a level for the Fed to start cutting rates

U.S. Leading Economic Indicators & Gross Domestic Product



Source: Bloomberg, The Conference Board; LEIs include 10 components related to interest rates, stock market, new orders, building permits and the labor market

Core Consumer Price Inflation and Select Components



Source: Bloomberg, U.S. Bureau of Labor Statistics

Fixed Income	YTD	2023	Last 5 Years
Bloomberg US Aggregate Intermediate	0.0%	5.2%	0.2%
Bank of America Merrill Lynch Municipals 1-12 Yr	-0.4%	4.5%	1.0%
US Equity			
S&P 500	15.3%	26.3%	15.0%
Russell 1000 Growth	20.7%	42.7%	19.3%
Russell 1000 Value	6.6%	11.5%	9.0%
Russell 2000 (*small-cap*)	1.7%	16.9%	6.9%
International Equity			
MSCI ACWI Ex USA (*international*)	5.7%	15.6%	5.5%
MSCI EAFE (*developed*)	5.3%	18.2%	6.5%
MSCI EM (*emerging markets*)	7.5%	9.8%	3.1%
Alternative Investments			
Morningstar LSTA US Leveraged Loan Index	4.1%	13.2%	5.2%
FTSE Nareit All Equity REITs	-2.2%	11.4%	3.4%

Source: Morningstar Direct as of 6.30.2024

Rates Climb

- Although clipping a 4-5% yield, taxable bond returns are flat YTD due to the price impact from higher rates.
- Rates increases as markets expect 1-2 cuts in 2024 vs 6 at the start of the year.

Economy/Earnings Exceed Expectations

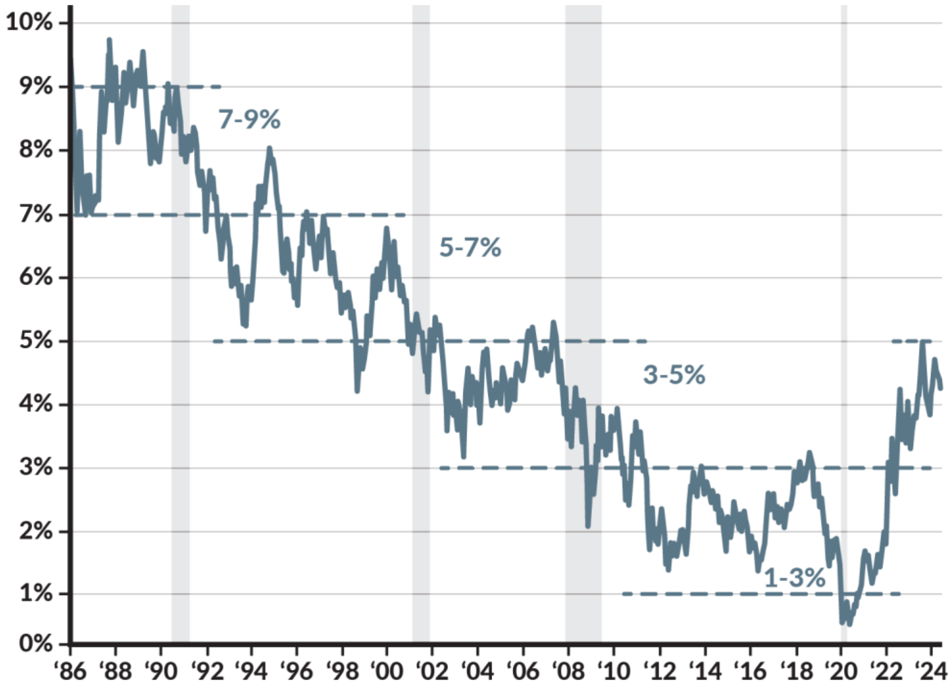
- Stocks have been supported by a resilient economy and better than expected earnings.

Growth Style Leadership Continues

- Growth stocks continue to outperform driven by earnings growth of the MAG 7 and optimism it will continue.
- Outside of small cap stocks, other markets up mid-single digits led by emerging markets.

10-Year U.S. Treasury Yield Back to "Normal" Level

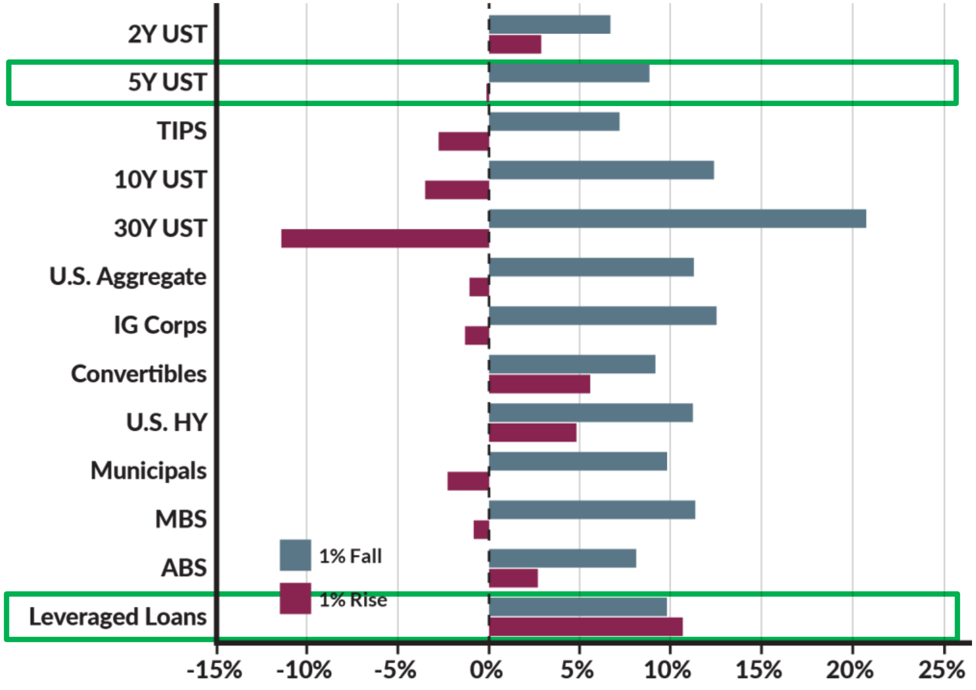
- After 15 years of ultra-low rates, we believe fair value for the 10-year Treasury is in the 3.5% to 5% range assuming inflation settles near the 2% Fed target
- With inflation receding, bonds are once again yielding more than the rate of inflation



Source: Bloomberg 6.30.2024

1-Year Total Return Impact of a 1% Rise or Fall in Rates

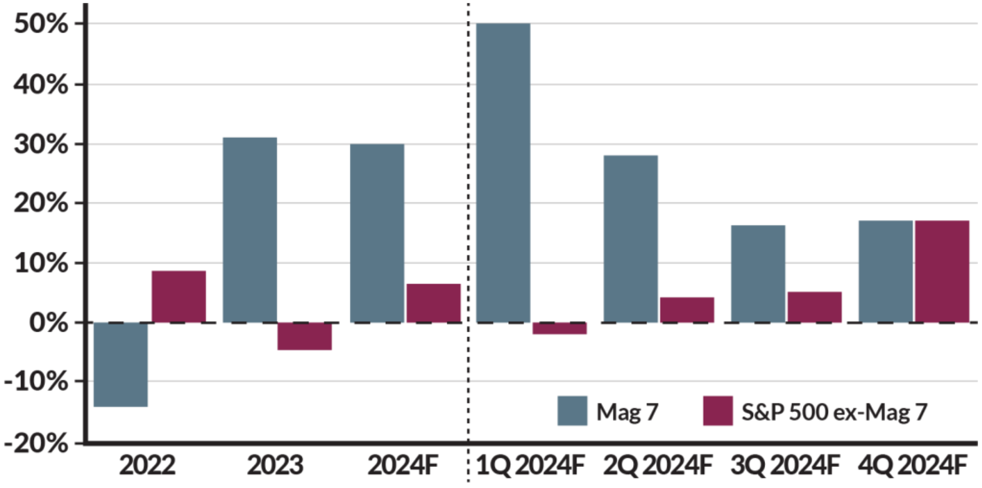
- Higher yields provide a much bigger cushion for a rise in rates than a few years ago reducing the risk of investing excess cash
- Floating rate loans like Leveraged Loans and alternatives strategies like private credit have limited interest rate risk providing diversification in a volatile interest rate environment



Source: J.P. Morgan Asset Management as of 6.30.2024; assumes a parallel shift in the yield curve

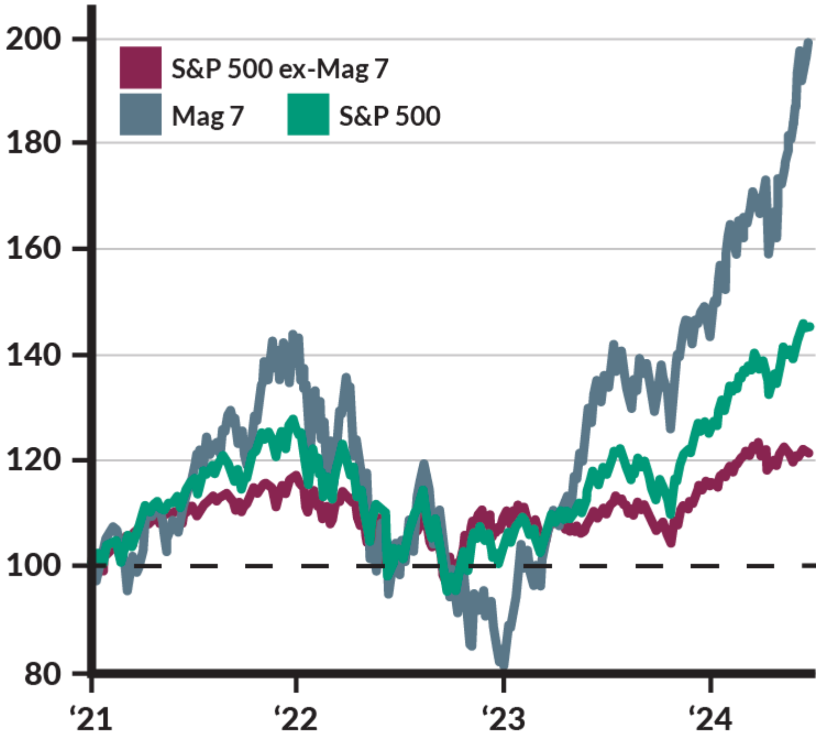
Earnings Growth

Pro-forma EPS, Y/Y



Performance of Mag 7 Stocks in S&P 500

Indexed to 100 on 1.1.21, Price Return



	'21	'22	'23	'24
Returns	40% | 17%	-40% | -8%	76% | 8%	32% | 5%
Share of Returns	33% | 67%	56% | 44%	63% | 37%	61% | 39%

Magnificent 7 Have Led Markets Since Early 2023

- The Mag 7 stocks have contributed about 60% of returns over the past three years, which is why there has been so much focus on the group

Will Leadership Change in 2024?

- Mag 7 stocks surprised investors with stellar earnings growth in 2023, while earnings for the rest of the market declined.
- If earnings growth converges between the Mag 7 and the rest of the market, leadership may shift.

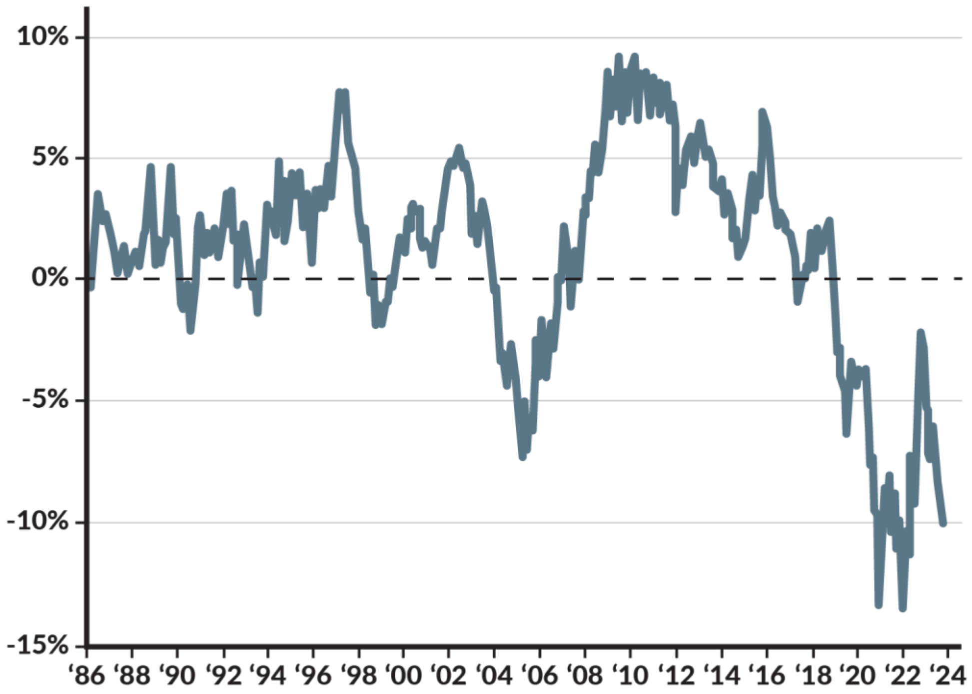
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management
*Magnificent 7: AAPL, AMZN, GOOG, GOOGL, META, MSFT, NVDA and TSLA; earnings estimates based on consensus analyst expectations

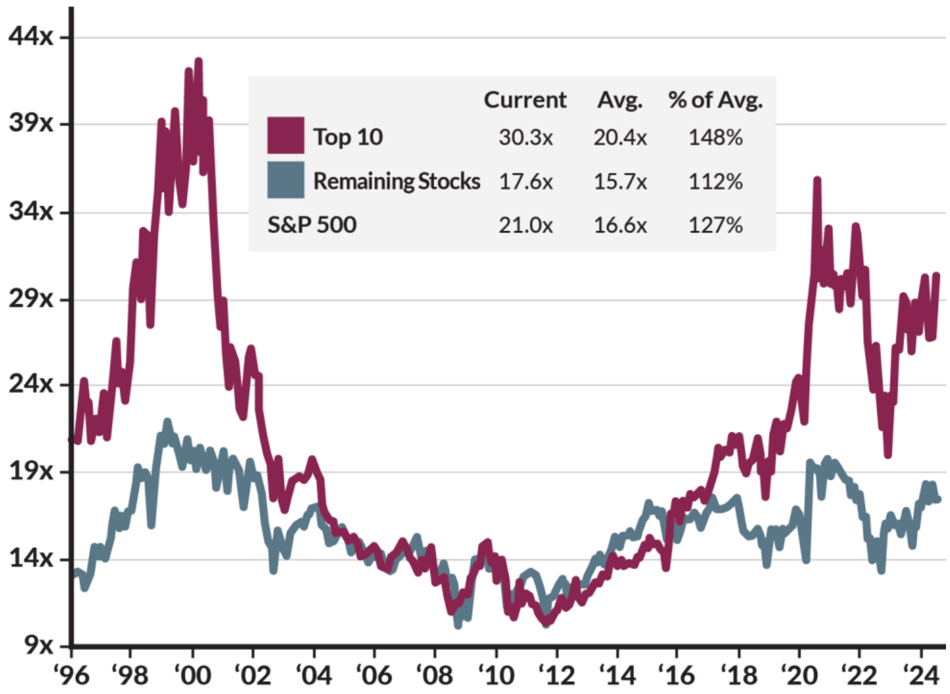
Outperformance of Top 10 Concentrated in Last 10 years

- The top 10 stocks have led markets over the past 10 years, which is contrary to history. Since 1969, the bottom 490 stocks outperformed the Top 10 in 70% of rolling 5-year periods
- Significant appreciation has pushed the weight of the top 10 stocks to 37% of the S&P index compared to 27% during the dot-com bubble and 20% in 2018.

Valuation of Top 10 Elevated Relative to Bottom 490

- The P/E ratio of the top 10 stocks is significantly higher than the bottom 490 with the top 10 trading at 30x earnings compared to 18x for the remaining 490
- The S&P 500 is trading at 21x earnings suggesting investor optimism and contributes to our guidance to consider rebalancing portfolios





	Current	Avg.	% of Avg.
Top 10	30.3x	20.4x	148%
Remaining Stocks	17.6x	15.7x	112%
S&P 500	21.0x	16.6x	127%

Source: Hartford and Compustat; based on the 500 largest US stocks by market cap; top 10 and bottom 490 portfolios are market cap weighted and rebalanced monthly; when the line is above 0, the bottom 490 stocks outperformed the top 10 stocks; data from 12.31.1969 to 2.29.2024

Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management as of 6.30.2024; Current and Avg. represent the price to earning ratio based on consensus forward earnings estimates; Avg. and % of Avg. represent the average over the past 10 years

In the context of managing portfolios to meet long-term portfolio goals, we use scenario analysis as part of our risk management and portfolio positioning process.

	Inflation Resurgence	Recession/ Hard Landing	Soft Landing	Increased Productivity
Economic Growth	0% - 1%	Negative	Near 2%	Above 2%
Inflation	Increases	Faster pace of decline	Sticky above 2% Fed target	Disinflation continues
Monetary Policy	Higher for longer	Fed eases too late	Modest pace of easing	Pause or modest easing
Market Return*	Worst environment for stocks and bonds	Difficult environment for stocks, but good for high quality bonds	Good environment for stocks and bonds	Best environment for equities

We view either a shallow recession or soft landing as the most probable scenarios. As a result, we are positioning portfolios with a more conservative, less economically sensitive stance.

- ✓ **Fixed Income:** Higher credit quality exposure with neutral interest rate sensitivity
- ✓ **Equities:** Underweight small cap, cyclical sectors and highly-valued growth stocks
- ✓ **Alternatives:** Overweight private credit and real assets

*Market return comments are based on expectations for absolute returns over a 12-month horizon in the given scenario.
Source: Scenarios are constructed using input from MSCI Barra with probabilities based on the judgement of the JFG Investment Committee. The scenarios and stress tests presented above were developed by MSCI and are for illustrative purposes only and are not to be taken as advice or a recommendation to buy or sell any investment.

Long-Term Portfolio Return and Risk Expectations

Equities

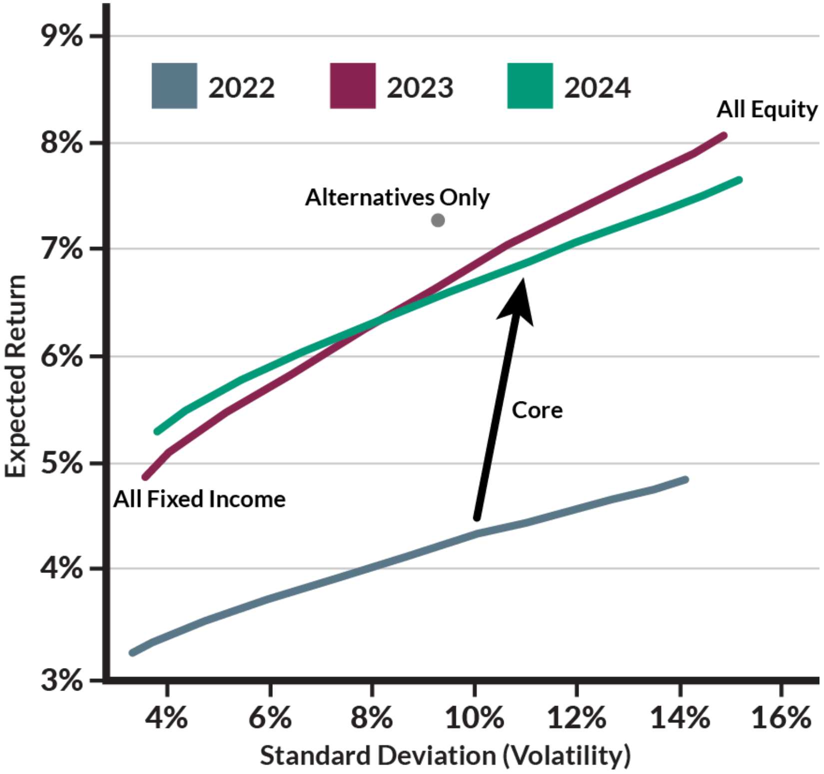
- Expect returns somewhat below long-term averages
- US large cap appears most richly valued compared to history

Fixed Income

- Returns "back to normal" after 15 years of ultra low rates
- Credit spreads tight relative to history

Alternative Investments

- Risk/Return attractive relative to the stock/bond efficient return forecast
- Private credit looks particularly attractive after the increase in rates



Portfolio Return and Risk Matrix

	All Equity	80/20	60/40	40/60	20/80	All Fixed
10-Year Expected Return	**7.7%**	**7.2%**	**6.7%**	**6.1%**	**5.6%**	**5.0%**
Value of $1M after 10 yrs	*$2.1*	*$2.0*	*$1.9*	*$1.8*	*$1.7*	*$1.6*
Volatility Risk	**16.4%**	**13.9%**	**10.9%**	**8.0%**	**5.5%**	**3.8%**
Sharpe Ratio	*0.32*	*0.35*	*0.40*	*0.47*	*0.58*	*0.67*
Prob. Of Earning > 0.0%	*68.1%*	*69.8%*	*73.1%*	*77.7%*	*84.6%*	*90.6%*
Prob. Of Earning > 4.0%	*58.9%*	*59.1%*	*59.8%*	*60.4%*	*61.4%*	*60.4%*
Prob. Of Earning > 6.0%	*54.1%*	*53.4%*	*52.6%*	*50.5%*	*47.1%*	*39.6%*

Source: J.P. Morgan Asset Management 10-15 Year Long-Term Capital Market Assumptions established 9.30.2023; probability of earnings statistics for a 12-month period

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