Long-Term Capital Market Assumptions 2022

Fading scars, enduring policies

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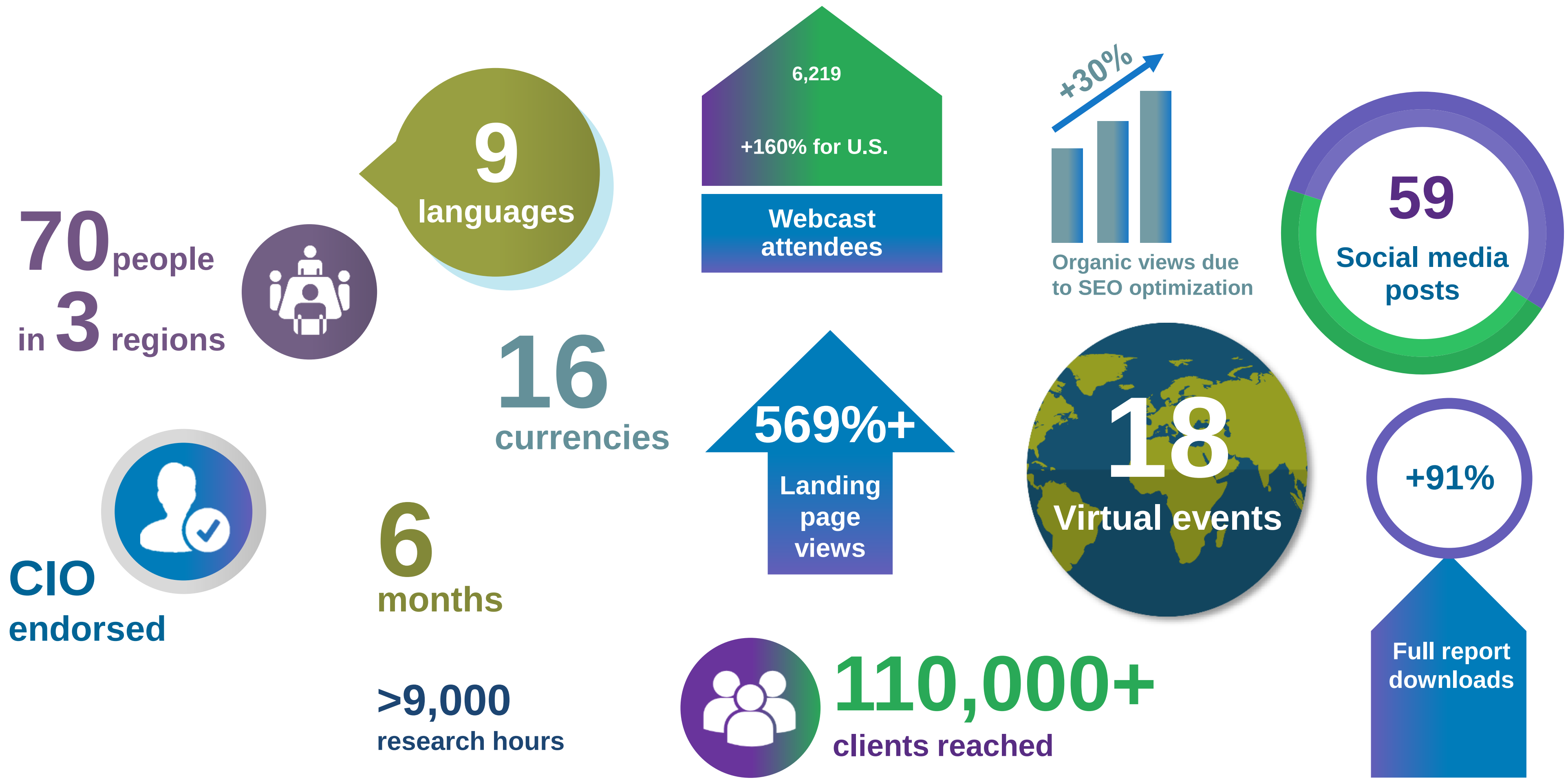
LTCMAs by the numbers…



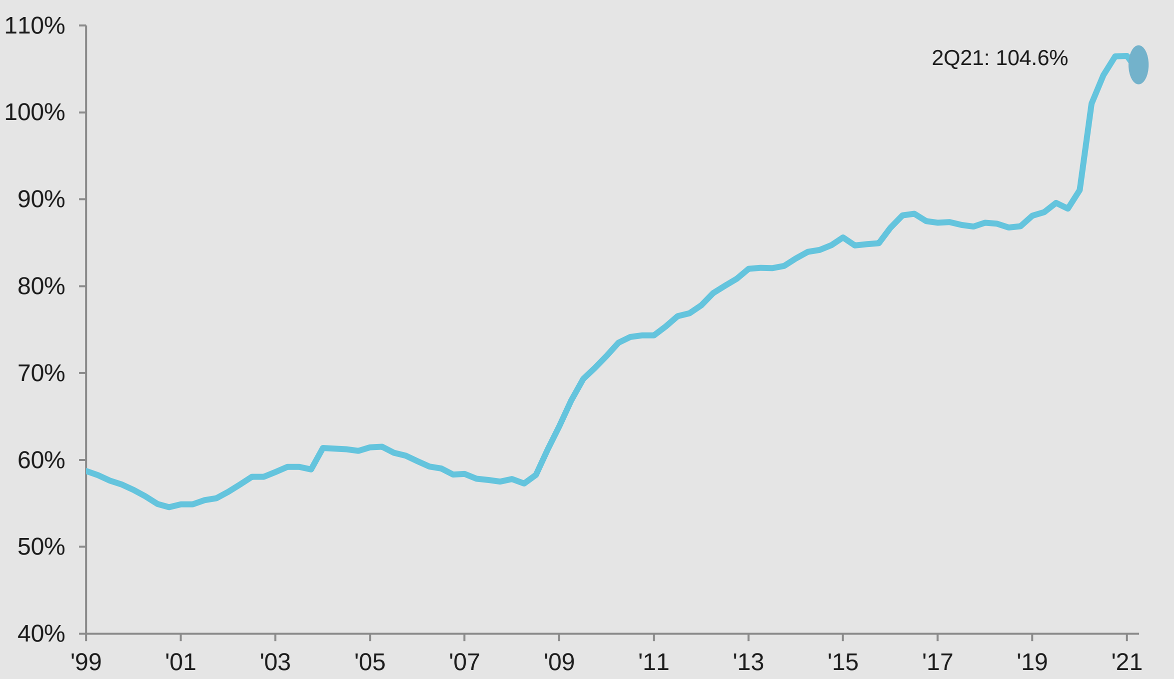
Key takeaways from the 2022 LTCMAs

Fading scars, enduring policies	Post-pandemic, the economy has suffered limited scarring, but policy choices will have an enduring impact
The new old normal	Improving productivity keeps growth forecasts broadly stable, but we now see upside as well as downside risks to inflation
Long term themes set the tone	Key secular issues like ESG, new asset markets, and disruptive forces like crypto are shaping the investment landscape
Low real rates hold back bonds	Sovereign and IG returns a little better, but the outlook remains bleak as rates rise further; high yield returns a little lower
Stable, if cyclical, equity returns	Changing sector mix implies more resilient margins and valuations, but an active stance is more important than ever
Full spectrum investing	Many alpha levers available: active management in public markets, international diversification, and alternative assets

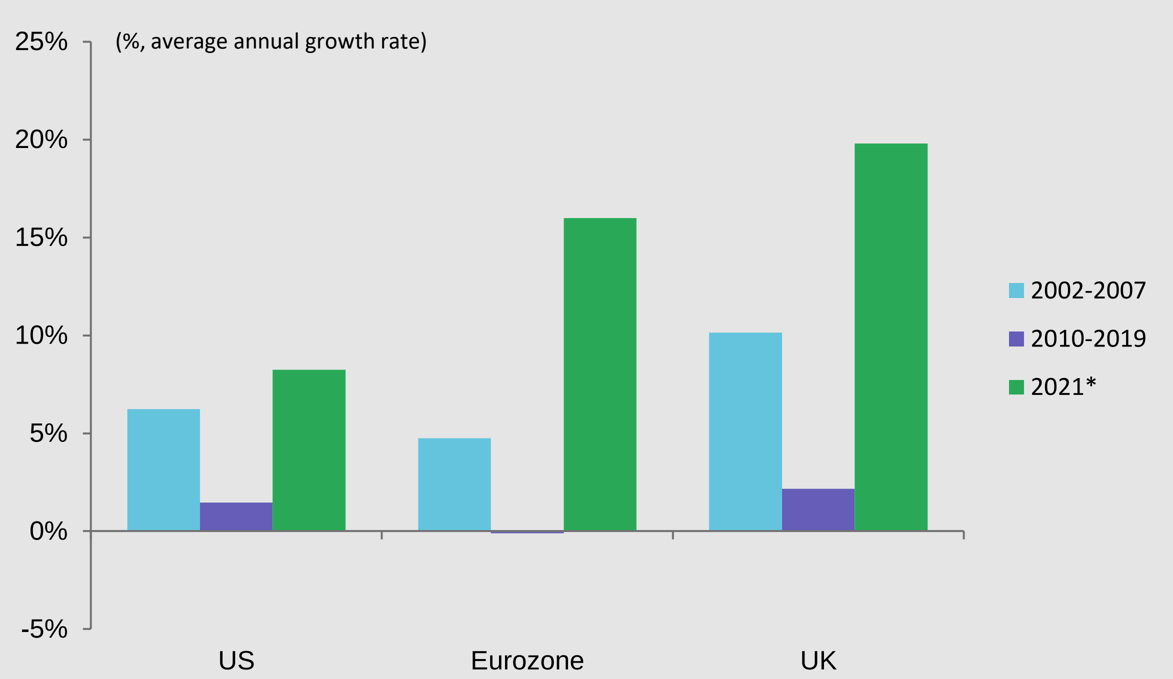
Source: J.P. Morgan Asset Management; estimates as of September 30, 2021.
Outlooks and past performance are not reliable indicators of future results. Opinions, estimates, forecasts, projections and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. There can be no guarantee they will be met. For further information, see “Understanding long-term estimates” at the end of this presentation.

Fading scars, enduring policies

Global government debt % of GDP



Nominal government investment across key regions



Source: Our World in Data, IIF, OECD, IMF, J.P. Morgan Asset Management. . Values are GDP weighted. Short-term interest rates are the rates at which short-term borrowings are affected between financial institutions or the rate at which short-term government paper is issued or traded in the market. *2021 growth rate figures are shown relative to 2019. Data are as of October 31, 2021.

Macro assumptions: growth broadly stable, inflation higher

Compound 10- 15-year GDP Growth and Inflation (%)

	DM*	U.S.	Europe	U.K.	Japan
2022 LTCMAs					
Real GDP	1.50 ↓	1.70 ↓	1.20 ↓	1.40 ↓	0.70 ↓
Inflation	1.80 ↑	2.30 ↑	1.50 ↑	2.20	0.70
2021 LTCMAs					
Real GDP	1.60	1.80	1.30	1.60	1.00
Inflation	1.60	2.00	1.30	2.00	0.70

	EM*	China	India	Brazil	Russia
2022 LTCMAs					
Real GDP	3.70 ↓	4.20 ↓	6.00 ↓	2.00 ↓	0.80 ↓
Inflation	3.30	2.50	4.50 ↓	4.30	5.00 ↓
2021 LTCMAs					
Real GDP	3.90	4.40	6.90	2.40	1.10
Inflation	3.30	2.50	5.00	4.30	5.30

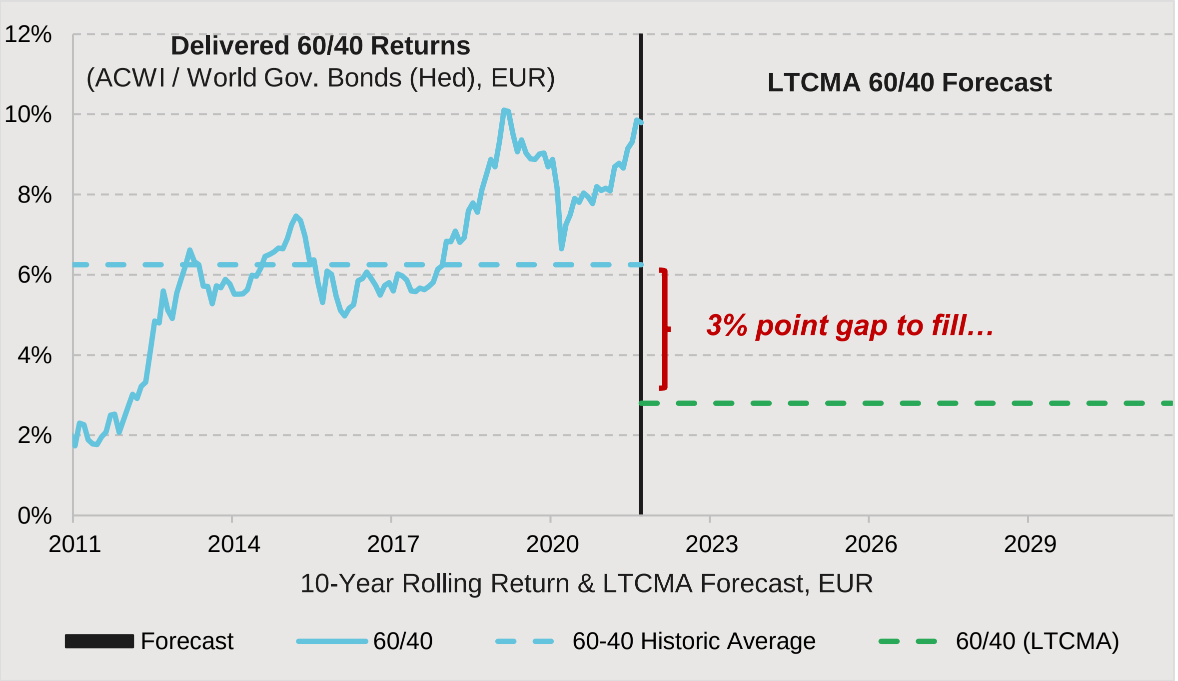
Source: J.P. Morgan Asset Management; estimates as of September 2020 and September 2021. *EM: Emerging Markets; DM: Developed Markets.

PRODUCTIVITY AND INFLATION UPLIFTS

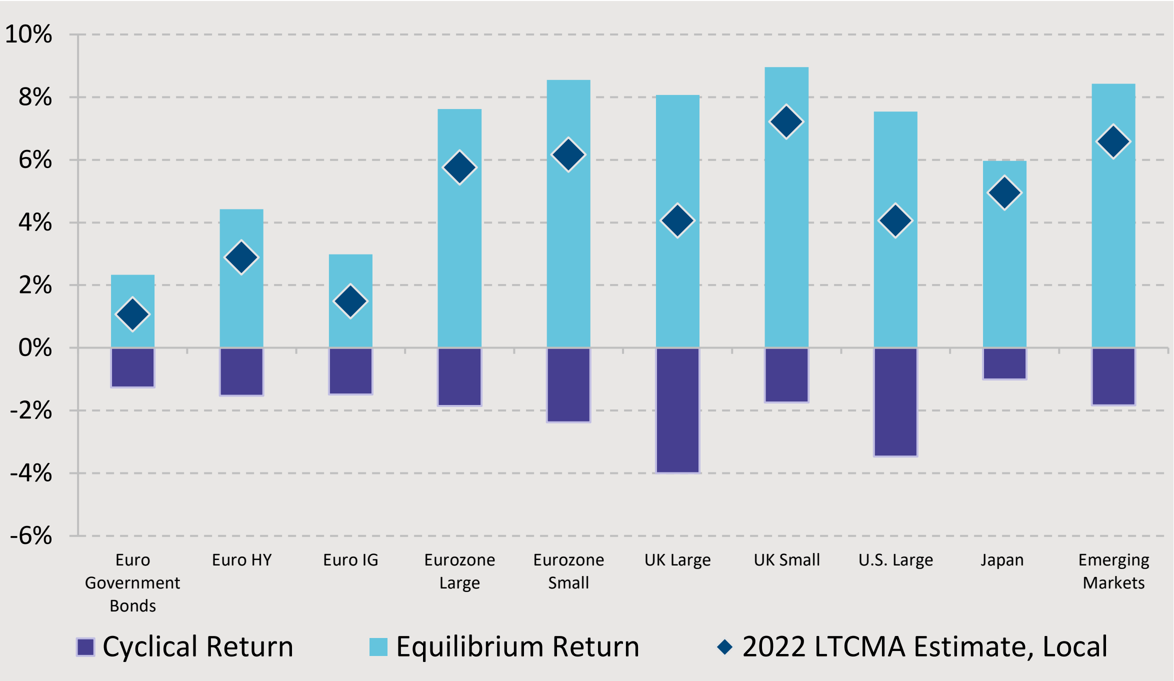
- **Growth** – Small downgrades to U.S. and China, and last year's cyclical bonuses gone, but upward trend revisions for several others
- **Population** – Demographic drag persists as labor forces to grow slowly by historical standards
- **Productivity** – More optimism about medium-term upside, led by tech investment
- **Inflation** – Broad-based upward revision to inflation outlooks for the first time in many years

Beta alone can't deliver the returns we want

There is a 2-pt gap between historic 60/40 returns and our forecasts…



…due largely to a difficult starting point of low yields and high valuations



Source: Bloomberg, Datastream, Haver, J.P. Morgan Asset Management; data as of October 2021. 60/40 portfolios are composite of 60% AC World Equity and 40% U.S. Aggregate Bonds, in USD terms.

Fixed income assumptions: 2022 vs. 2021

UK Fixed income assumptions

	UK Inflation Rate	UK Cash rate	10-yr gilt yield	15+-yr gilt yield	UK IG credit spread
2022 LTCMAs					
Equilibrium Rate / Spread	2.20%	2.10%	2.50%	2.70%	175 bps
Rate / spread on Sept 30, 2021	-	0.02%	1.00%	1.34%	103 bps
Return (%)	-	1.50%	1.70%	0.40%	2.27%
2021 LTCMAs					
Equilibrium Rate / Spread	2.00%	2.00%	2.40%	2.60%	175 bps
Rate / spread on Sept 30, 2020	-	0.01%	0.20%	0.70%	164 bps
Return (%)	-	1.10%	0.90%	-1.10%	2.00%

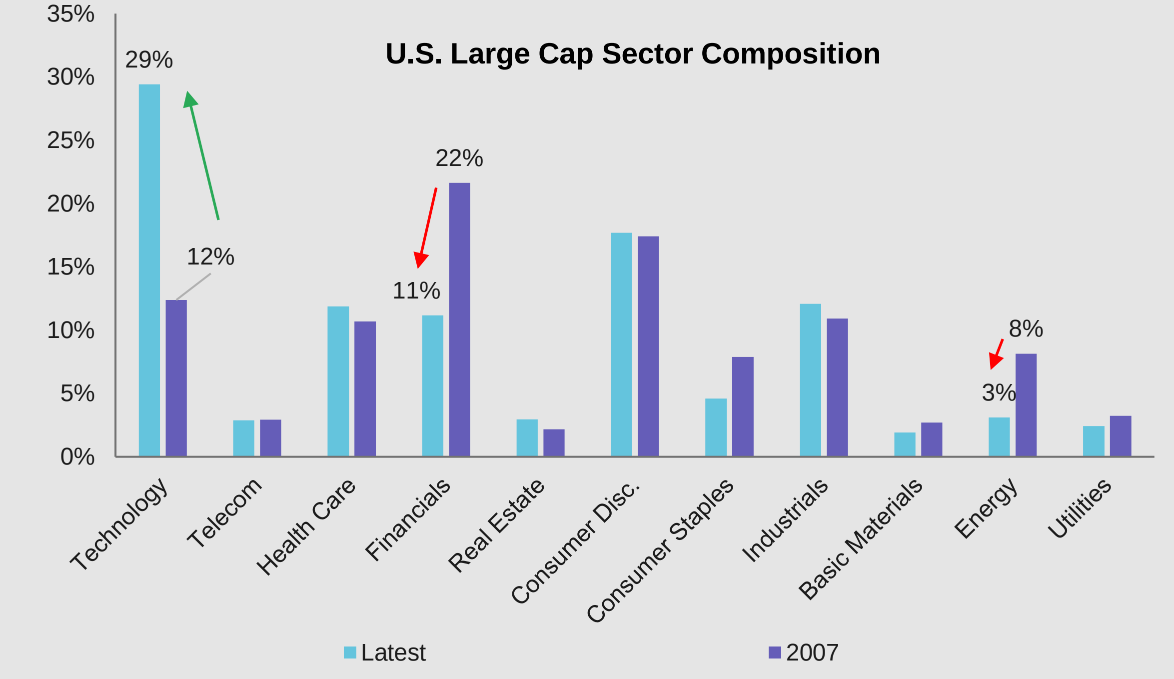
FIXED INCOME KEY POINTS

- We raise our cash rate assumptions modestly, in line with higher inflation expectations.
- The window for normalisation of yields has shortened across major G4 markets.
- Central banks' differentiated inflation-targeting credibility has made cash rates pathways and normalisation more differentiated across DM.
- US HY and EMD returns are still attractive with most of the drag coming from the normalisation in government bond yields.

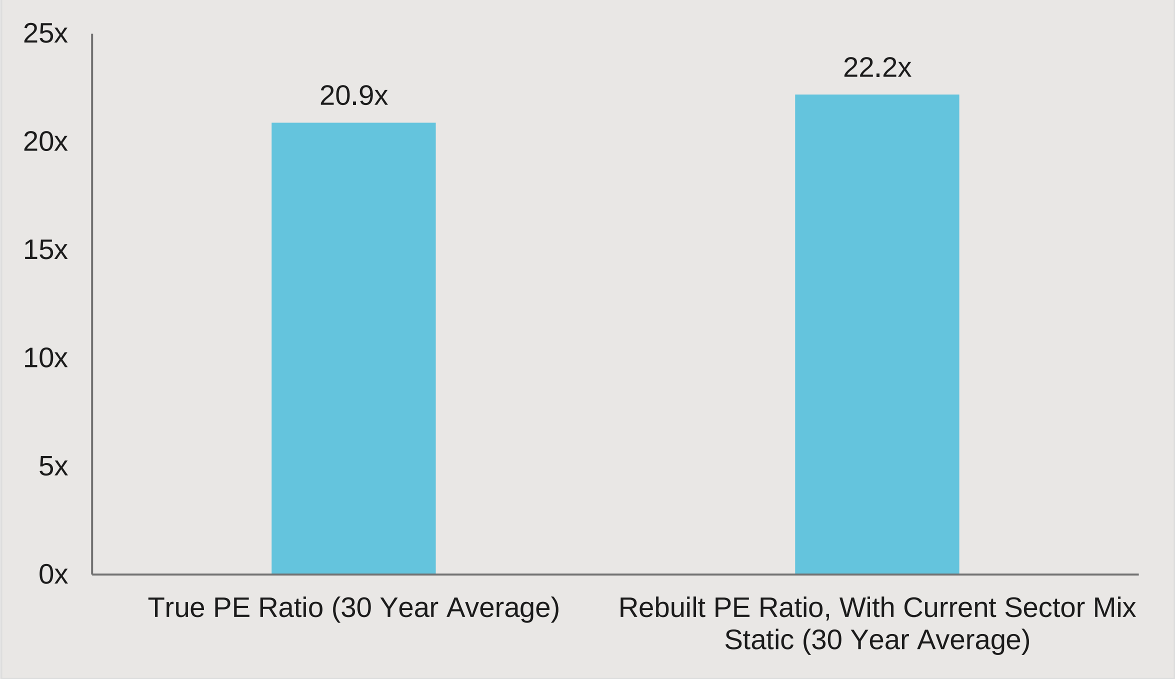
Source: J.P. Morgan Asset Management; estimates as of September 30, 2020, and September 30, 2021.
Past performance and forecasts are not reliable indicators of current and future results

Valuation resilience in the U.S. equity is about tech's earning profile

U.S. Large Cap Sector Composition



Sector adjusted PE ratios (U.S.)

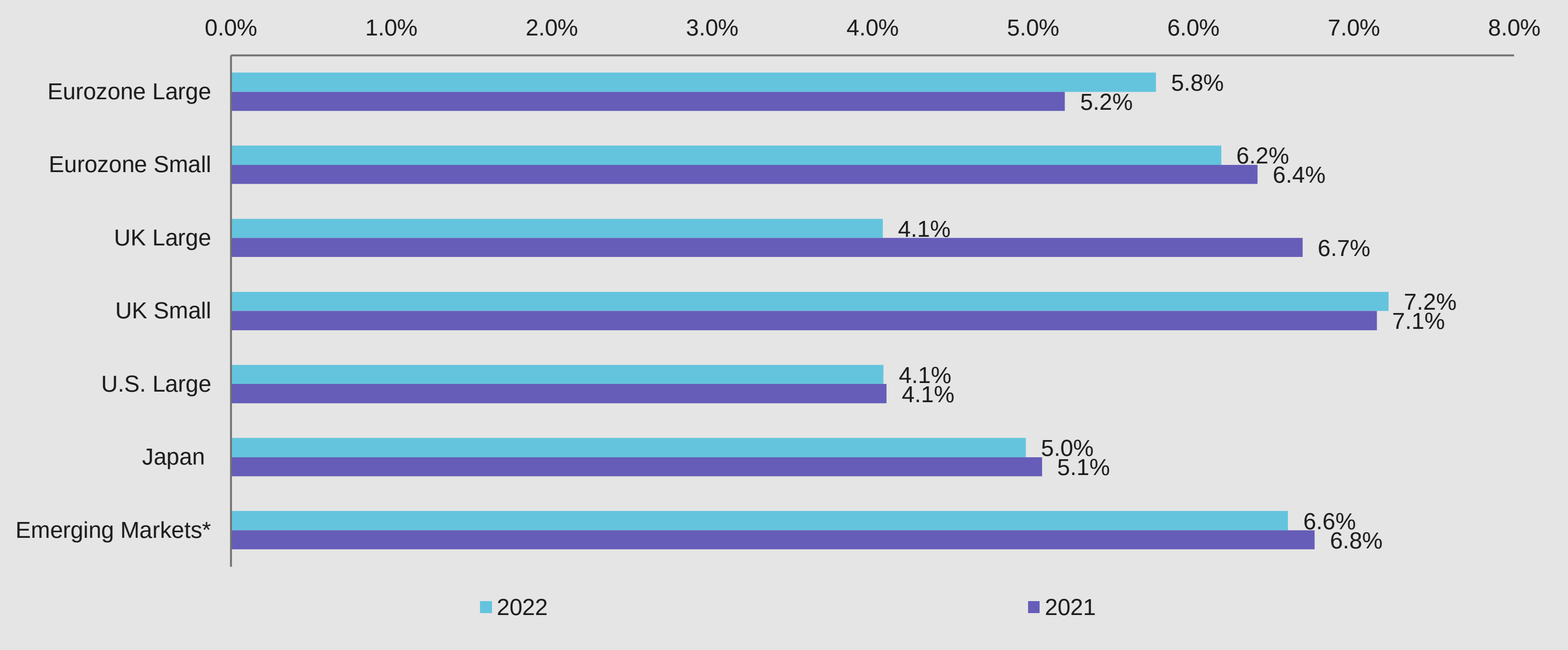


Source: Datastream, J.P. Morgan Asset Management as of September 2021. Charts refer to the U.S. large cap market.

Global Equities – the bottom line

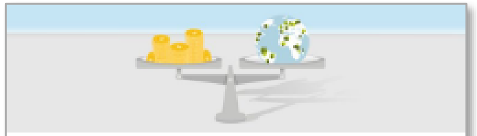
- **An attractive opportunity to (continue to) compound** over time; drawdowns are there to be bought!
- **Alpha opportunities abound**; expected higher dispersion is a great backdrop for stockpickers
- **Shareholder returns an increasingly important component**, globally, balance sheets are very strong
- **International valuations remain compelling** and offer diversification opportunities at sector level

Long-Term Capital Market Assumptions expected returns, local returns



Source: *Long-Term Capital Market Assumptions*, J.P. Morgan Multi-Asset Solutions, J.P. Morgan Asset Management. Returns are nominal. EUR 60/40 portfolio consists of 60% all-country world equity and 40% world government bonds hedged. The projections in the chart above are based on J.P. Morgan Asset Management's proprietary long-term capital market assumptions (10-15 years) for returns of major asset classes. The resulting projections include only the benchmark return associated with the portfolio and do not include alpha from the underlying product strategies within each asset class. The assumptions are presented for illustrative purposes only. Past performance and forecasts are not reliable indicators of current and future results. Data as of November 2021.

Several secular themes are shaping the investing landscape



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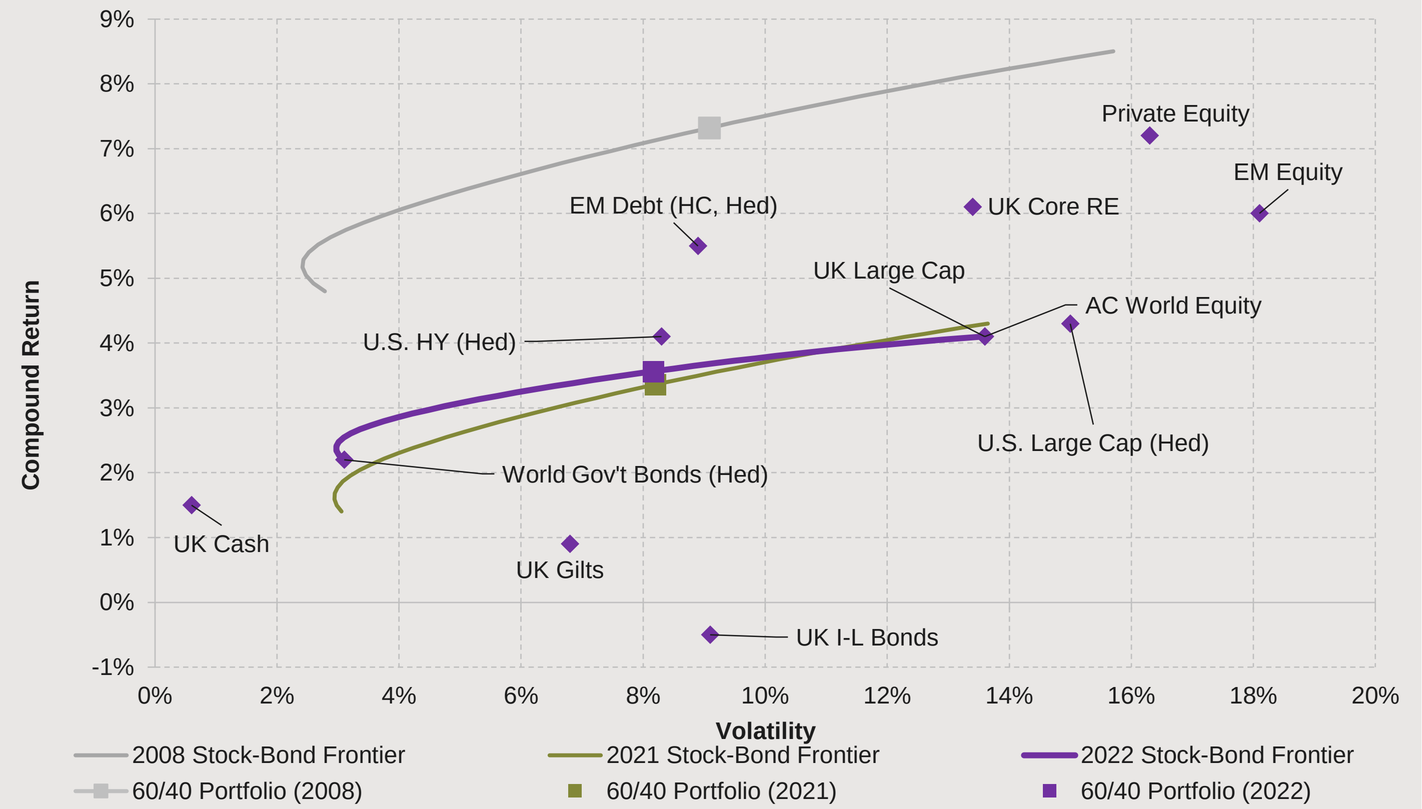
Fading scars, enduring policies

Stock-bond frontiers: 2022 vs. 2021 and 2008 assumptions (GBP)



60/40 marginally higher

GBP 60/40 return forecast increases from 3.1% to 3.4%, driven by bonds.

Wide dispersion of asset returns

Bond returns are higher this year but remain low by historical standards. Alternatives offer attractive returns, monetizing a range of risk premia.

Post-COVID19 distinct to post-GFC

Beta no longer enough: low return expectations make active management and alpha important.

Source: J.P. Morgan Asset Management; estimates as of September 2007, September 2020 and September 2021. *EM: Emerging Markets; DM: Developed Markets.

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