

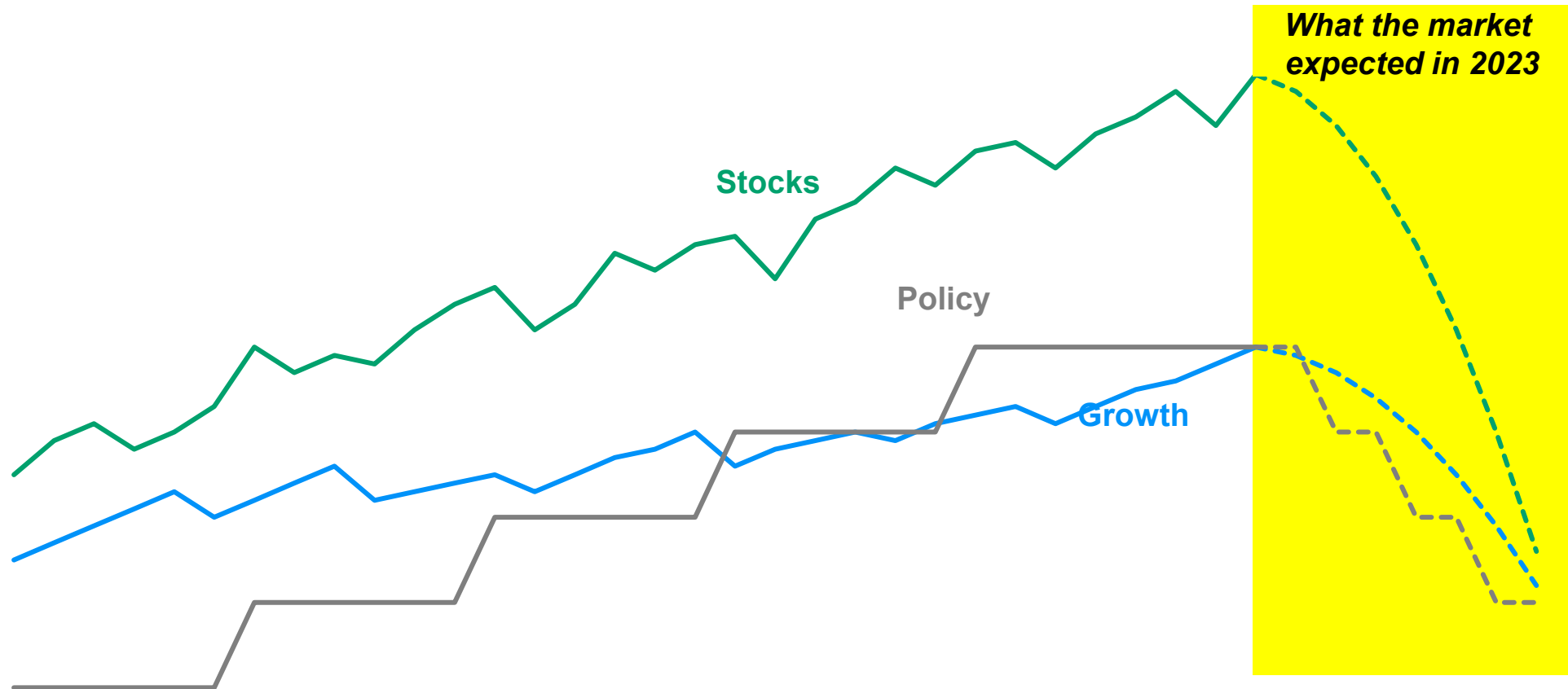
# Multi-Asset portfolios in a world of change

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J.P. Morgan Asset Management Solutions

June 2024

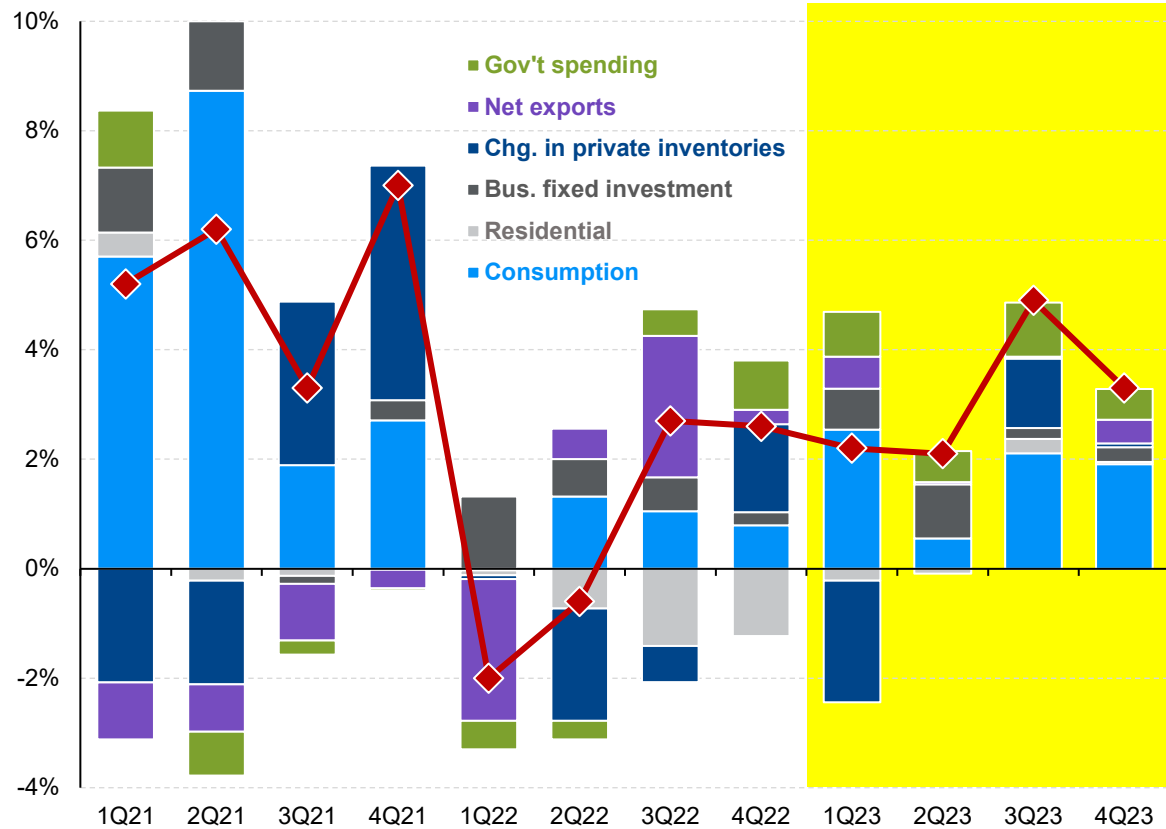
# What many *thought* would happen in 2023...



Source: J.P. Morgan Asset Management. NOTE: STYLISED ONLY, FOR ILLUSTRATION, NOT BASED ON ACTUAL DATA. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

# ...and what *actually* happened

**Contributors to real GDP growth**  
q/q % change, annualized rate



**Global Equity returns**  
Price index MSCI ACWI



Source: J.P. Morgan Asset Management, Haver, Datastream, Factset, Bloomberg, Data as of January 2024. Past performance is not a reliable indicator of current and future results. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

## So, what can we learn from 2023?

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**Growth:** the economy is less interest rate sensitive, less synchronised, and more resilient than was expected



**Policy:** central banks are focused on inflation, but will start to cut well before inflation falls to target



**The cycle:** could extend for some time as late cycle imbalances that higher rates expose are notably absent



**Bonds:** offer limited protection against *inflation* shocks, but no reason they won't protect against *growth* shocks



**Stocks:** corporate earnings are more resilient than assumed, moderating policy rates offer further support

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2024 (and beyond)

OK... what next?

# A world in transition: longer term themes...

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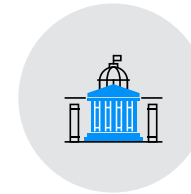
## Economy in Transition:

Fiscal boost from industrial policy pushes up nominal growth



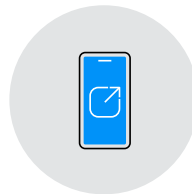
## Policy in Transition:

From negative to positive real rates



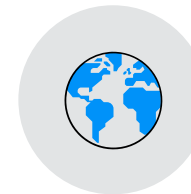
## Technology Transition:

Productivity upside from AI and automation



## Energy Transition:

To renewable energy unleashes a large capex surge



Source: J.P. Morgan Asset Management, as of January 2024. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

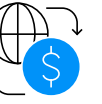
# ...and shorter run concerns



Source: J.P. Morgan Asset Management, as of January 2024. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

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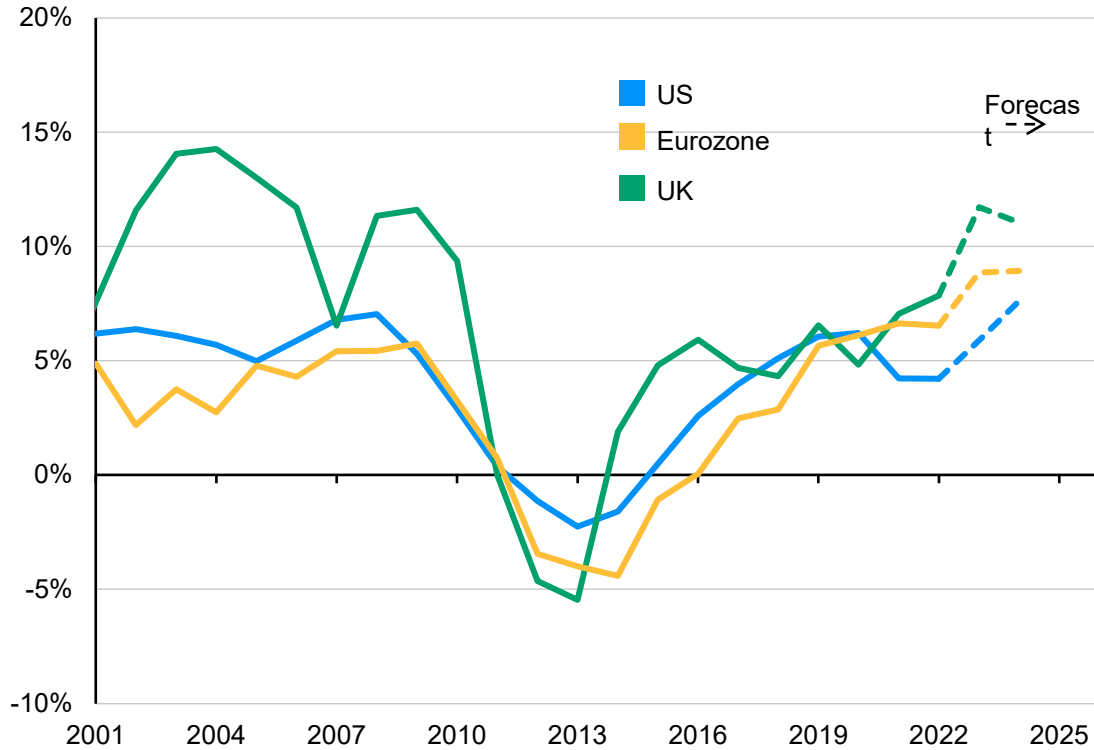
# Strategic perspective



# Strategic Perspective: Economies are in transition as fiscal activism returns

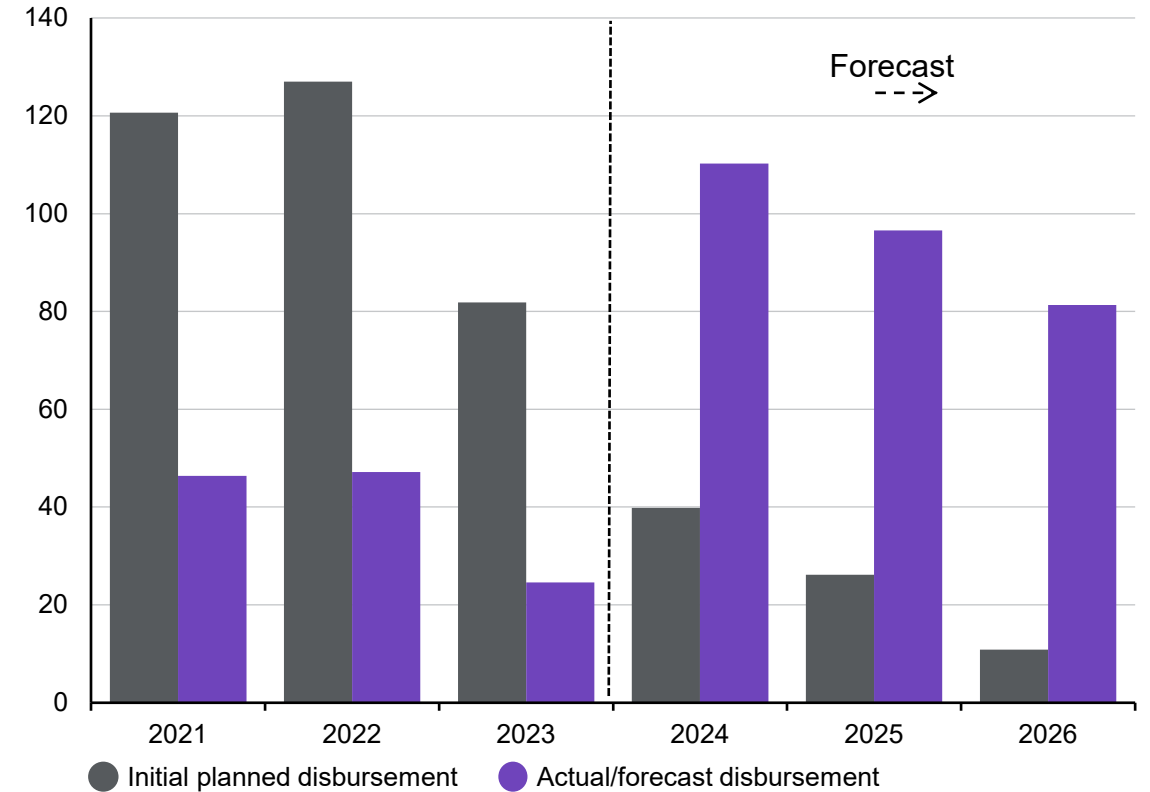
## Fiscal activism is back...

Public sector investment, % change year on year (3-year moving average)



## ...and in the Eurozone there is more to come

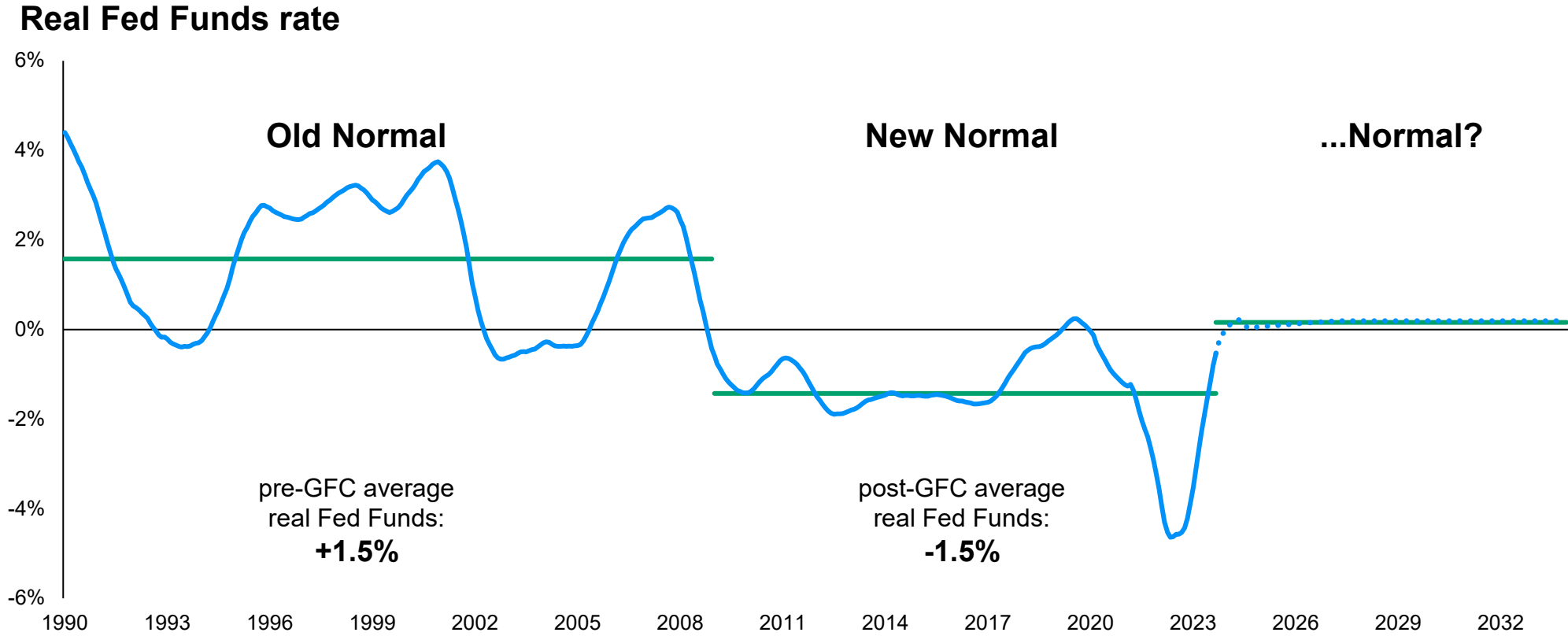
EU recovery fund planned vs. actual spending EUR Billions



Source: (Left) Eurostat, LSEG Datastream, OECD, J.P. Morgan Asset Management. Eurozone is GDP-weighted average of France, Germany, Italy, and Spain. Forecasts are OECD. (Right) Bank of England, Bank of Japan, CANSIM, European Central Bank, Federal Reserve, LSEG Datastream, OECD, J.P. Morgan Asset Management. Data as of 6 October 2023. Right: European Commission, J.P. Morgan Asset Management. The grants disbursed in 2024-26 are based on J.P. Morgan Asset Management estimates. Guide to the Markets - Europe. Data as of 30 January 2024. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.



# Strategic perspective: policy is in transition – no more new normal



Source: Bloomberg, J.P. Morgan Asset Management, data as of 15/09/2023. Past performance is not a reliable indicator of current and future results. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections and other forward statements, actual events, results or performance may differ materially from those reflected or contemplated.

# Strategic perspective: energy transition is gaining momentum



**Net Zero:** Energy investment 4.5% of world GDP by 2030 (from 2.5% today)

source: IEA

**Net Zero land and structures capex:** \$9.2T required annually until 2050

source: McKinsey

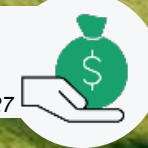


**Clean tech infrastructure:** investment of \$56 Trillion required by 2050

source: Goldman Sachs

**COP27:** loss and damage fund

source: COP27

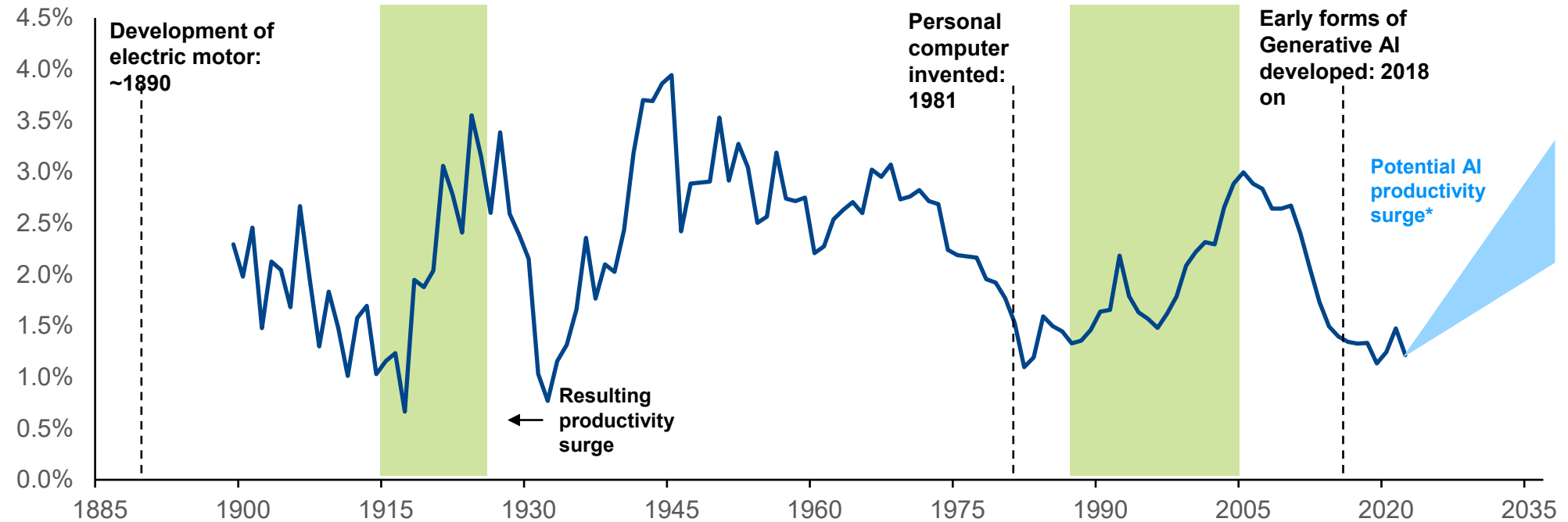




# Strategic perspective: Technology in transition – scope for a productivity surge

## U.S. labor productivity growth

Rolling 10-year annualized rate

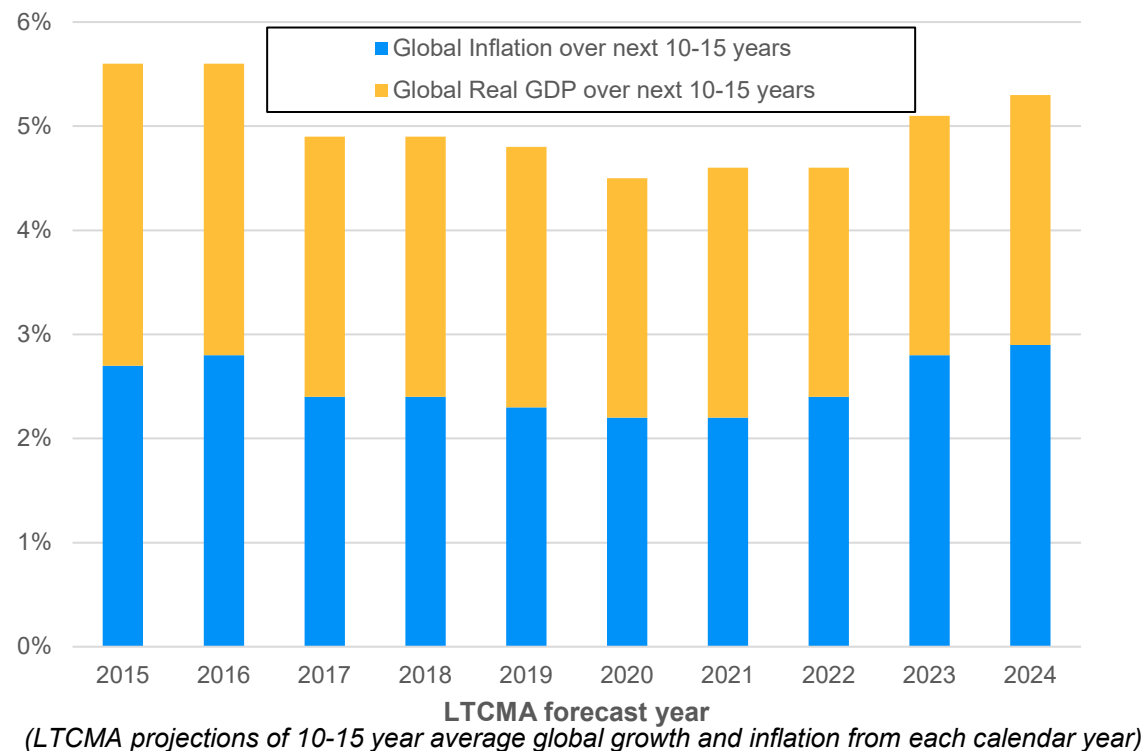


\*J.P. Morgan Asset Management estimates plausible productivity gains of 1.4-2.7% from generative AI and other AI technologies over the next ten years, in addition to 1.5% annual productivity growth currently projected by the Congressional Budget Office.

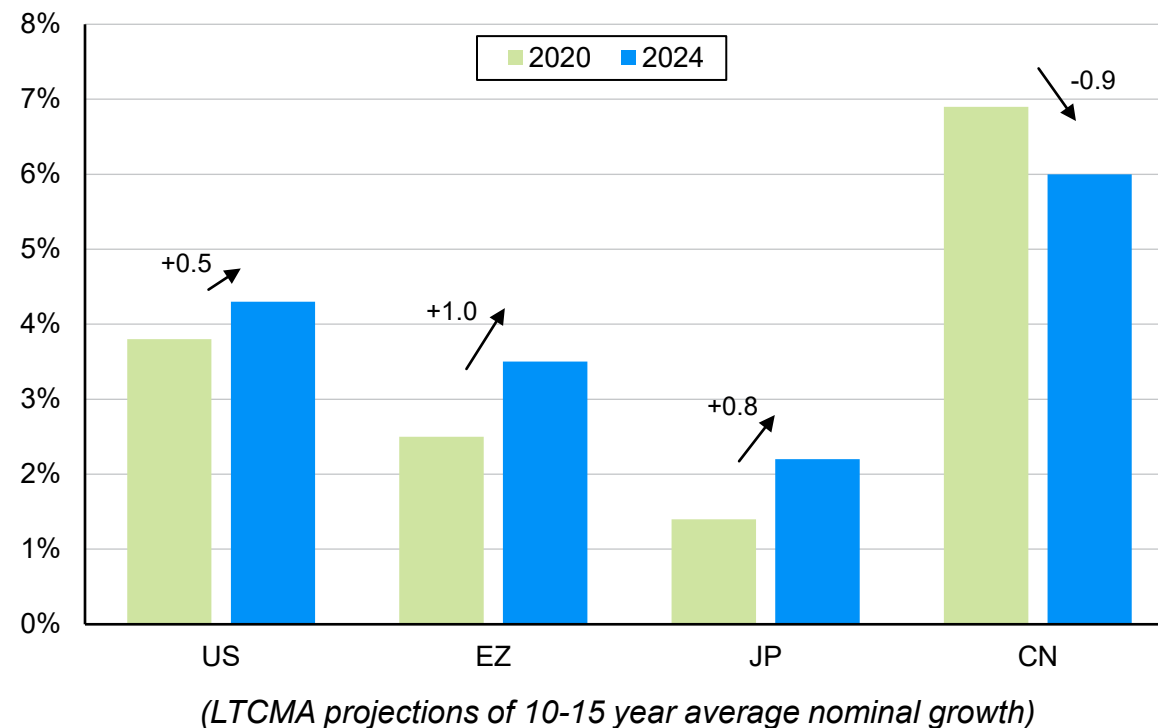
Source: BLS, NBER, J.P. Morgan Asset Management. Data from 1888 to 1957 reflect productivity data for the total private economy from John Kendrick, "Productivity Trends in the United States," NBER. Data from 1958 to 2022 reflect non-farm productivity data from the BLS. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. Data are as of August 31, 2023. Past performance is not a reliable indicator of current and future results. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met. Past performance is not a reliable indicator of current and future results.

# Strategic Perspective: Economies in transition

## Nominal growth has been revised up again



## Japan and Europe have exited their nominal growth rut, China's challenges appear more structural



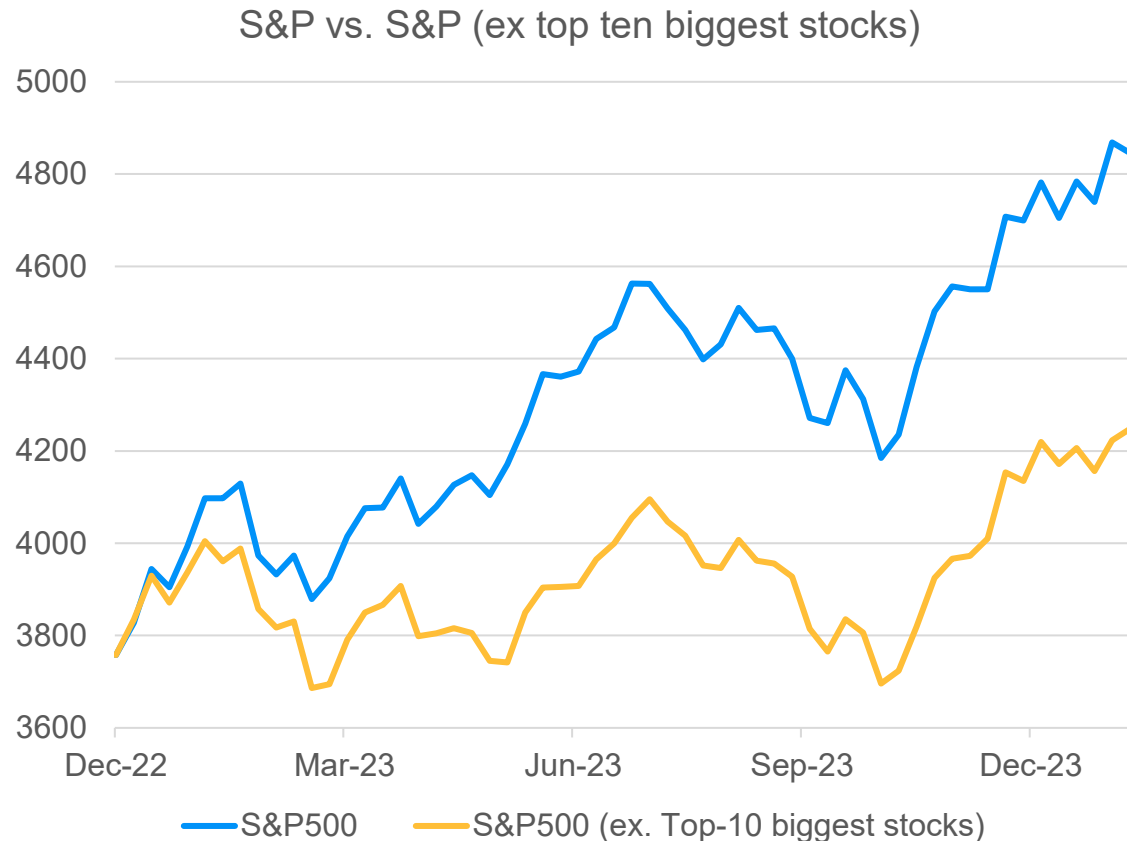
Source: Bloomberg, Haver Analytics, JPMAM Multi-Asset Solutions. Forecasts, projections and other forward looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections and other forward statements, actual events, results or performance may differ materially from those reflected or contemplated. Data as of September 2023.

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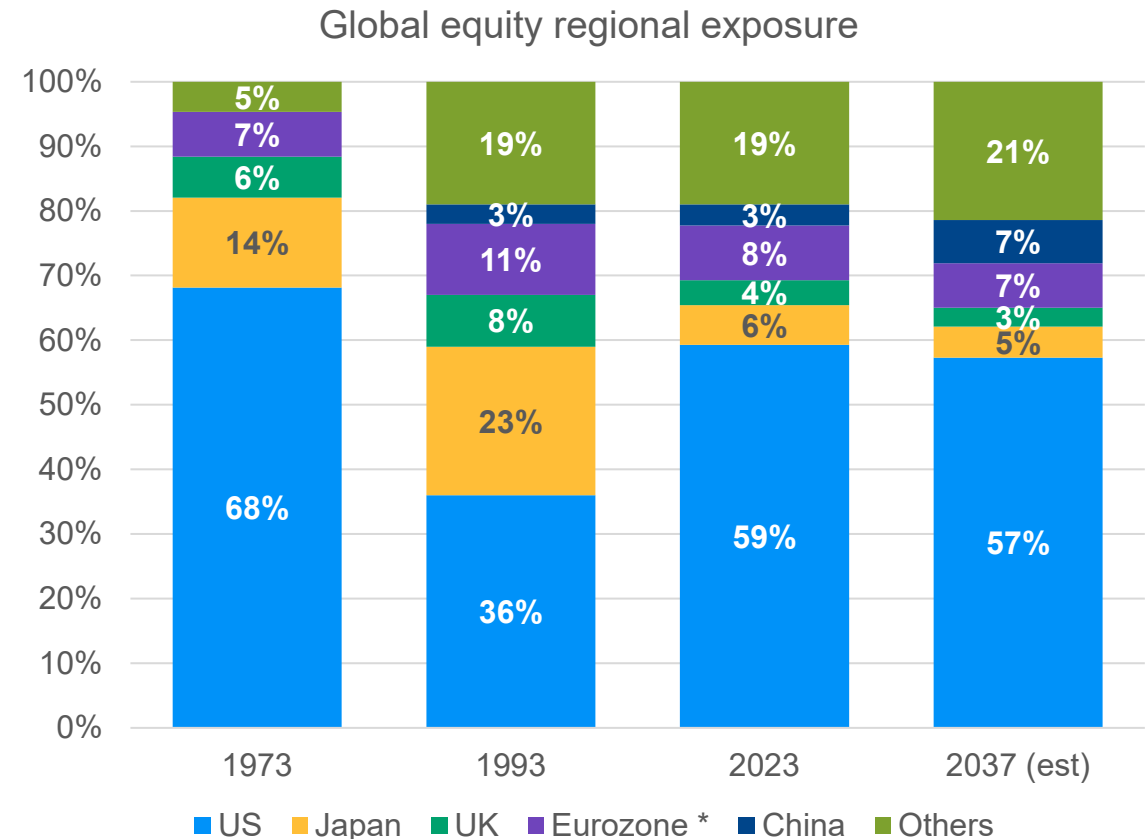
# Tactical awareness

## Tactical awareness: Concentration at sector and regional level is pronounced...

### Evidence of sector concentration in S&P 500...



### ...and of U.S. in global equity indices



Source: SEC, Credit Suisse, McKinsey, MSCI, Bloomberg, Haver Analytics, J.P. Morgan Asset Management Multi-Asset Solutions; data as of February 2024

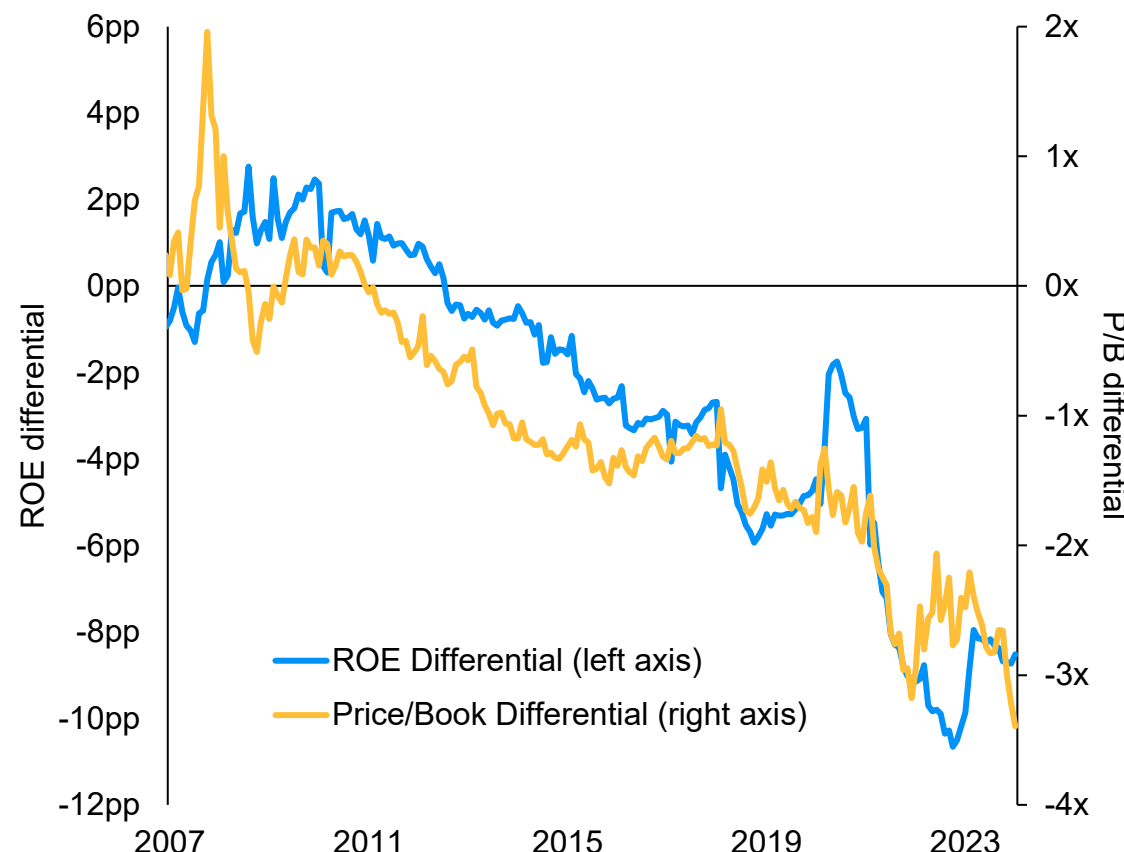
Note: \* Eurozone historic data estimated from summing member states, or applying prevailing ratio of reported states to estimate eurozone total where data incomplete. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met. Past performance is not a reliable indicator of current and future results.

# Tactical awareness: Chinese stocks may be oversold, but might not be truly cheap

## RoE trend in China has been weak for over a decade



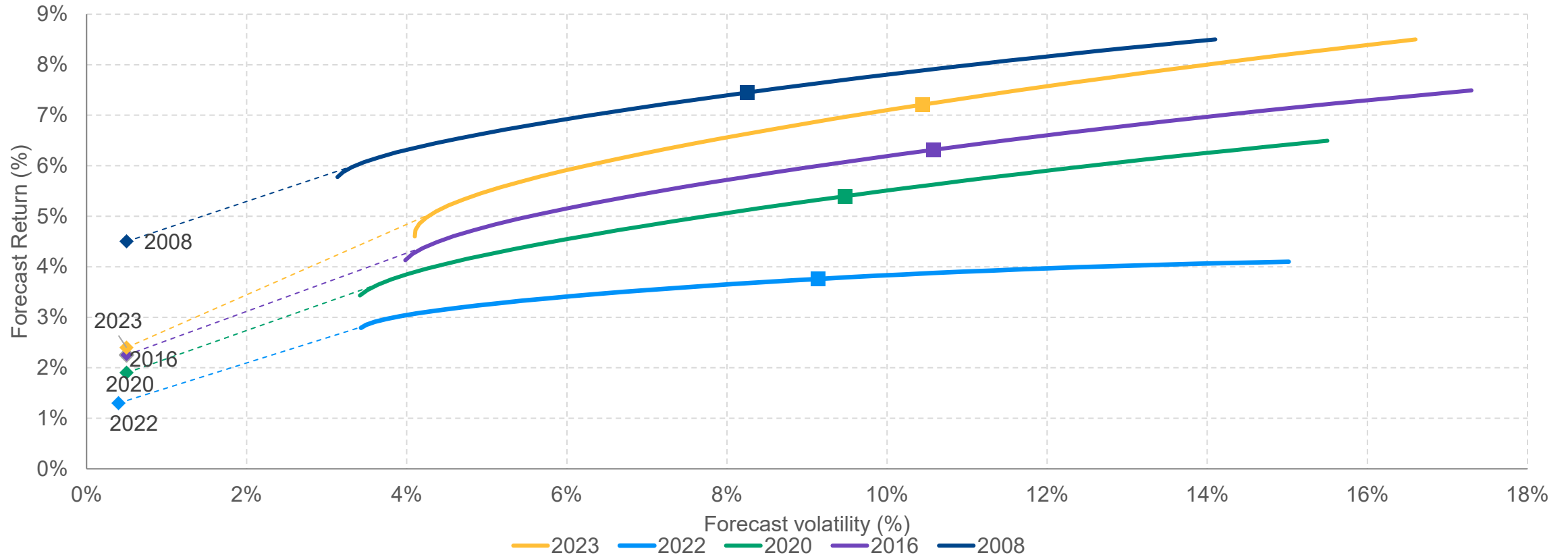
## Justifying a wider valuation discount to other markets



Source: Bloomberg, Haver Analytics, J.P. Morgan Asset Management Multi-Asset Solutions; data as of February 2024. Past performance is not a reliable indicator of current and future results. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

# Tactical awareness: the “asset stack” moves with cash

Historic LTCMA stock-bond frontiers (ACWI/U.S.Agg) and USD cash forecast

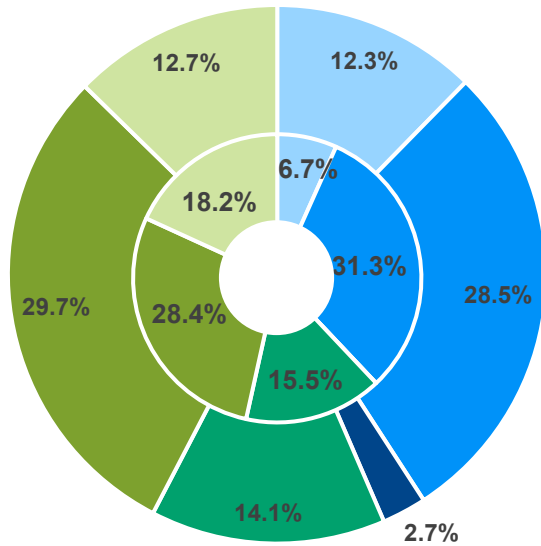


Notes: The lines represent portfolios from 100% bonds (U.S. Agg) to 100% equities (MSCI ACWI) plotted as an efficient frontier in risk (x-axis) and return (y-axis) terms. The square block represents a 60 stock / 40 bond portfolio. These portfolios are based on LTCMA's forecasts from the indicated historic annual publication. Past performance is not a reliable indicator of current and future results. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections and other forward statements, actual events, results or performance may differ materially from those reflected or contemplated.

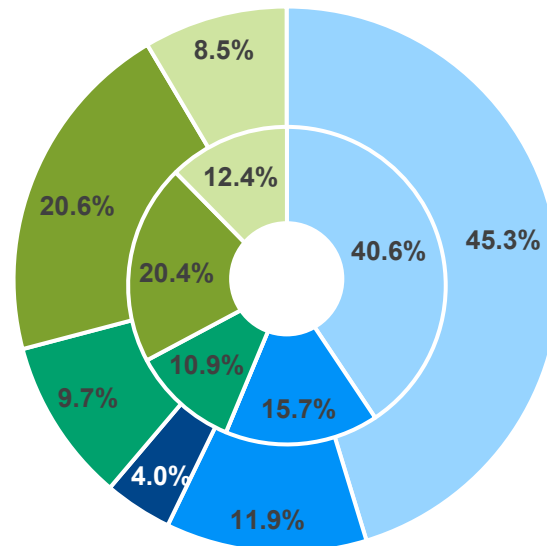
# Tactical Awareness: Sharp moves in cash have limited impact on optimised portfolios

*Outside circle is 2023 portfolio weights, inside circle is from 2022*

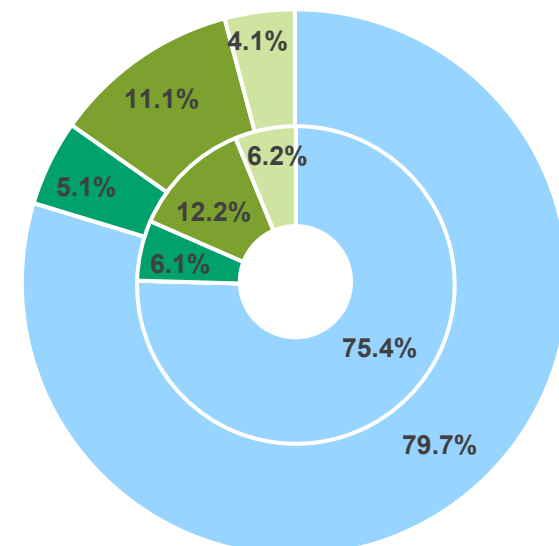
**Higher risk: 10% vol target**



**Moderate risk: 7% vol target**



**Lower risk: 4% vol target**



- Intermediate Treasuries
- Long Treasuries
- IG Corporate Bonds
- U.S. Equity
- EAFE Equity
- EM Equity

*Blue Shades: Fixed Income Assets*

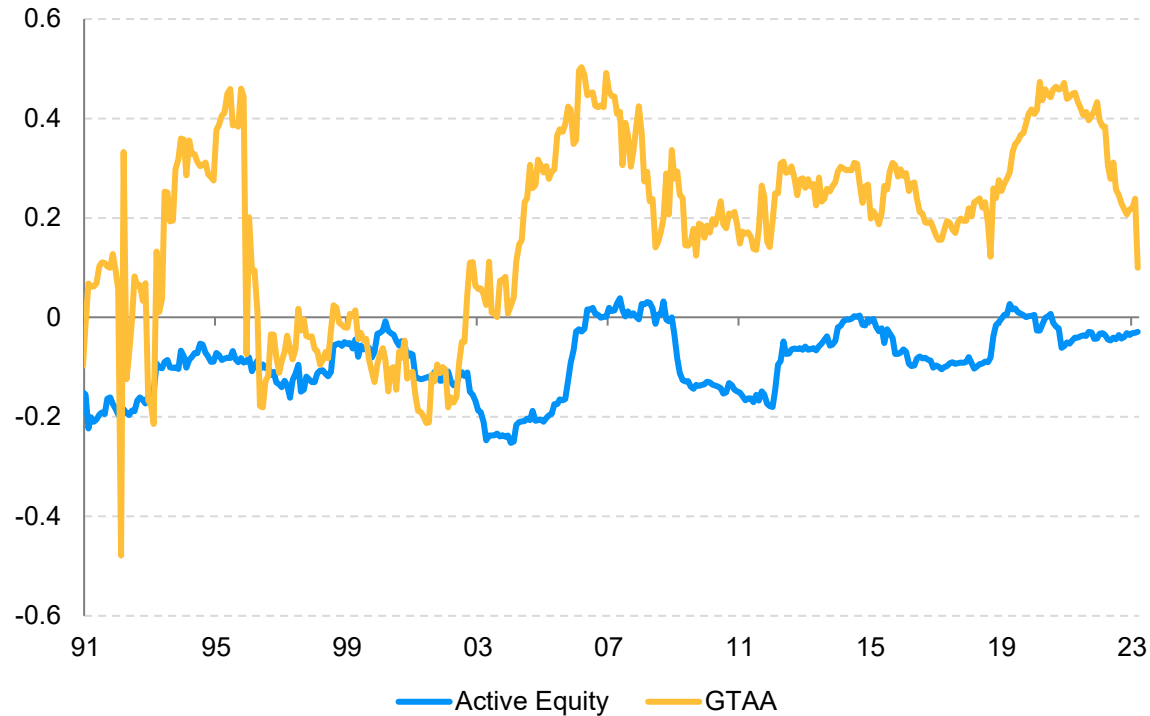
*Green Shades: Equity Assets*

Source: J.P. Morgan Asset Management Multi-Asset Solutions; assessments as of June 2023

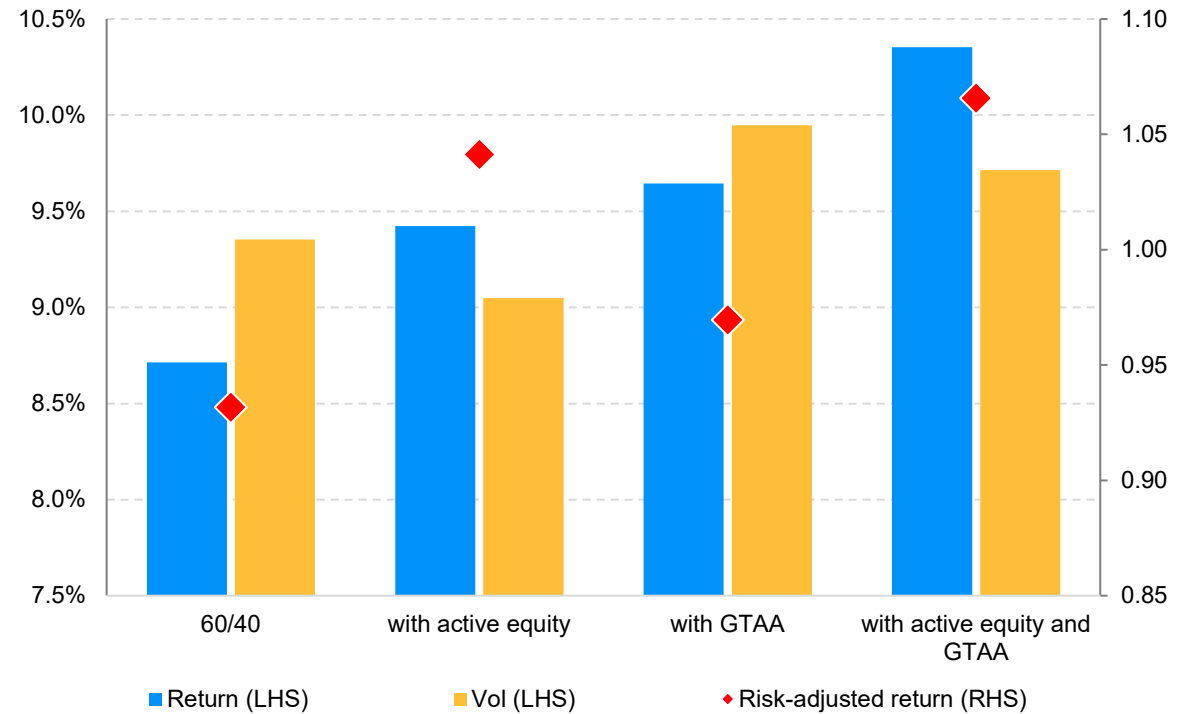
Simple stock-bond-credit portfolios with six assets plus cash available in opportunity set, optimized on simple mean-variance model. Past performance is not a reliable indicator of current and future results. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

# Active allocation can help create a more robust portfolio with better risk-adjusted return

## Rolling 36-month correlation between active manager excess return and public equity

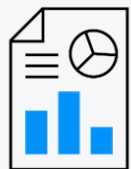


## The impact of active manager excess return on portfolio construction



Source: eVestment; data as of March 2023. Data are from eVestment's Global Tactical Asset Allocation, US, EAFE, Global and ACWI large cap core categories. We use excess return time series, defined as the return in excess of the benchmark from eVestment. The correlation is run on a fund-by-fund basis.

## Key takeaways



Expect higher **nominal growth**, **upside risks to inflation** and an **end of the new normal**

Build exposure to **secular themes of a world in transition** across assets



**Higher cash rates** mean higher expected returns across asset markets

Sitting in cash carries **significant opportunity cost and reinvestment risk**



**Elevated volatility and correlation** should not mean less focus on diversification

Explore **new axes of diversification**, and don't forget the power of carry and of compounding

Source: J.P. Morgan Asset Management, as of January 2024. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

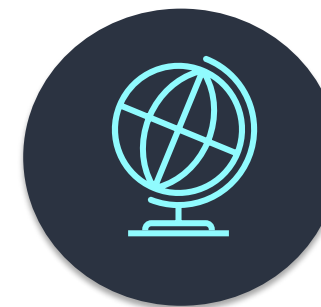
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