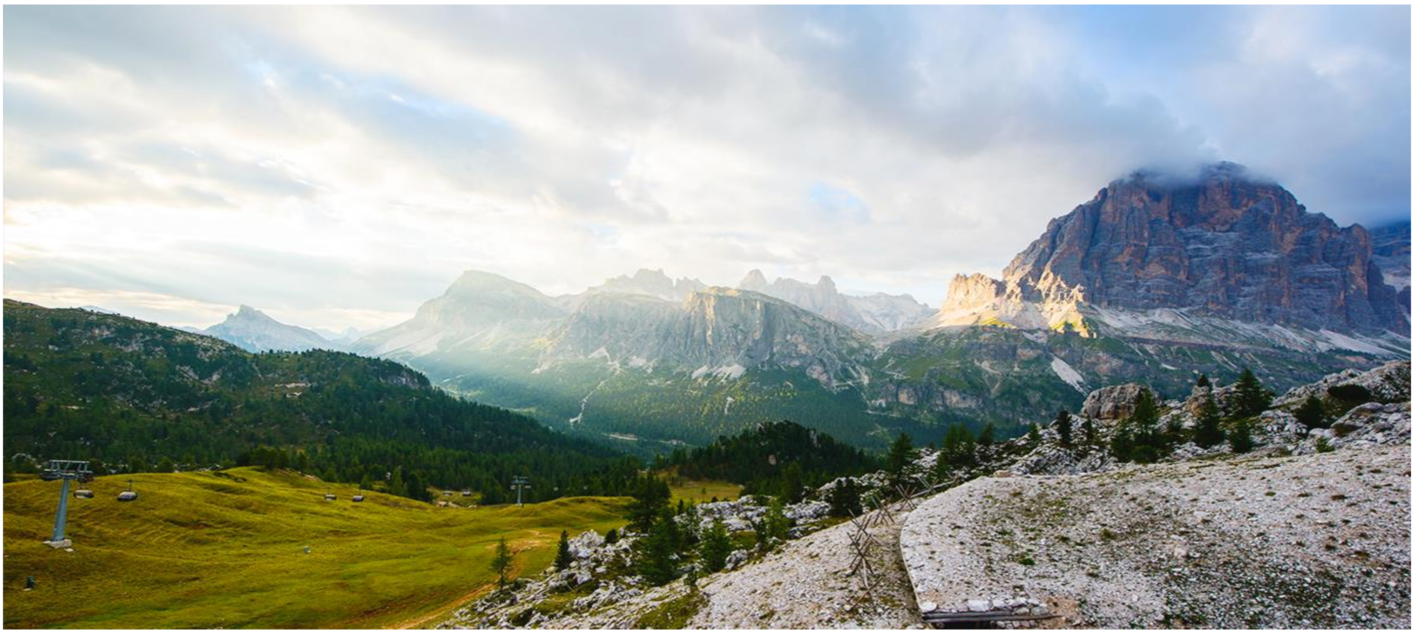
Mid-Year Outlook | 2024

Playing Both Offense and Defense with Diversification



The global growth environment is becoming more benign. The U.S. economy is still exhibiting solid momentum, which could delay its rate cut cycle. Europe's economic performance is improving, and China's policymakers are focused on supporting growth with more consistent policies.

In addition to the macroeconomic growth outlook, the risk scenarios ahead of us will also demand greater diversification. From elections to trade policies to extreme weather events, investors need to acknowledge the limitations in preparing for uncertainties with a portfolio that is concentrated in a few asset classes or geographical markets.

To generate returns and manage risks, diversification in asset allocation across asset classes, geographic regions and sectors can be a solution to address these challenges. This is akin to building a football team with players possessing different skills to win.

In this 2024 Mid-Year Outlook, we aim to address key topics/themes that investors need to consider:

1. Converging growth across developed economies
2. Exports are doing the heavy lifting in Asia, while more stimulus is needed for China
3. The Federal Reserve leading from the back on rate cuts
4. Asian central banks will need to think twice about policy easing
5. Asset allocation that evolves with the rate cycle
6. Fixed income will outperform cash, again
7. A broader rally in the U.S. equity market
8. Neglect European and Japanese equities at your portfolio's peril
9. A cocktail strategy for Asian stocks
10. Tariffs, rain and sunshine—risk mitigation is as important as ever

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1. Converging growth across developed economies

Year-to-date, the global economy has performed better than expected. With some central banks having the room to ease monetary policy, this growth streak could continue into 2025. While there is always a risk that shocks could derail growth, central banks have the tools to deal with these surprises.

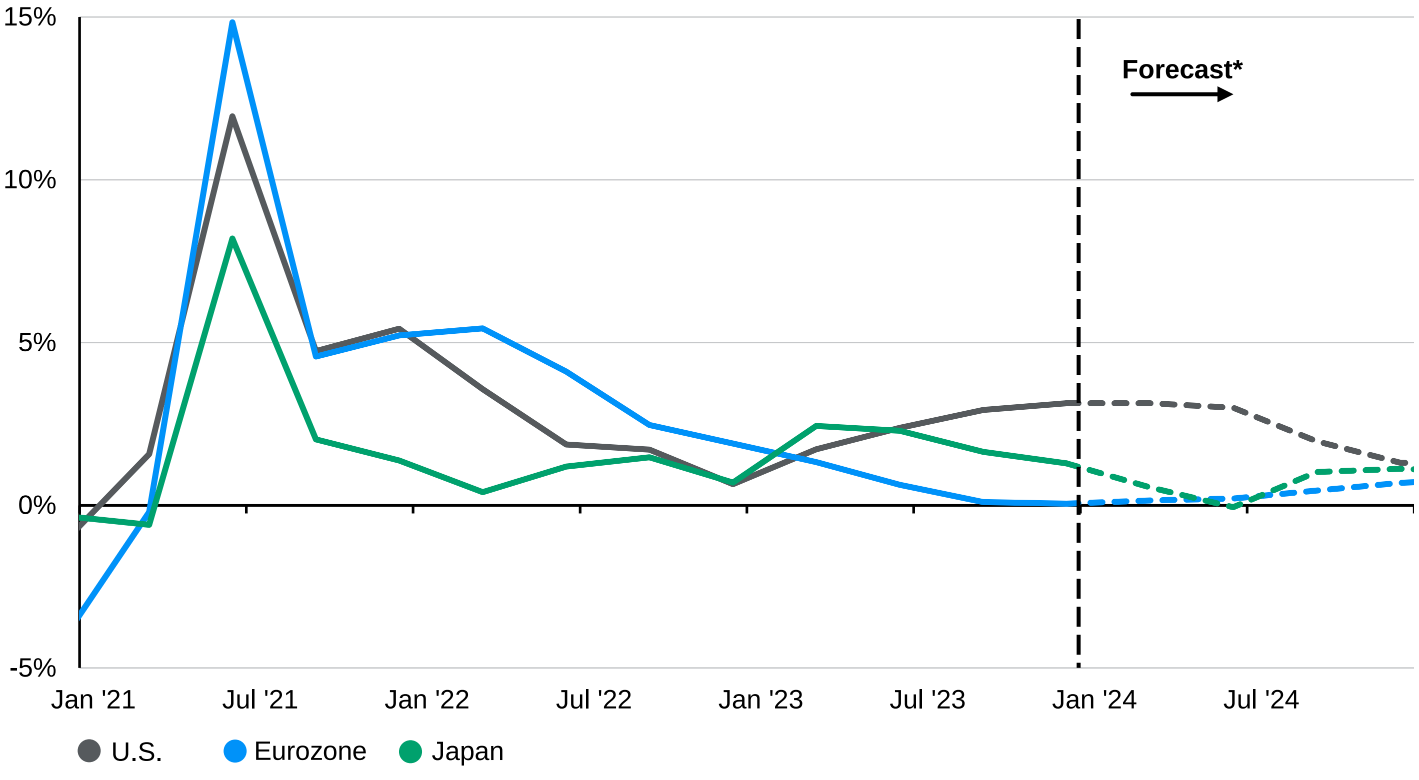
The glide toward slower growth in the U.S. has taken longer than expected. This has contributed to stickier inflation and could potentially delay policy easing by the Federal Reserve (Fed). An orderly moderation in growth remains our base case scenario. Retail sales have started to soften since the start of the year, while consumers remain well supported by a robust labor market. However, declining savings and a rise in borrowing costs could start to taper consumption. This should underpin a gradual moderation in inflation, even though progress in taming price rises has been disappointing over the past six months. Corporate capital expenditure remains steady despite higher funding costs, especially for larger companies.

While we continue to monitor the potential impact of commercial real estate on regional banks, prompt and decisive action by the Fed, Treasury Department and the Federal Deposit Insurance Corporation to manage the fallout from the Silicon Valley Bank turmoil in March 2023 showed that regulators are aware of the importance of maintaining bond market liquidity to ensure the smooth functioning of the financial system. As a result, we believe a severe downturn or systemic financial stress is a low probability event. Overall, we expect the U.S. economy to expand broadly in line with its trend growth going into 2025.

Europe's manufacturing sector is gradually recovering as evidenced by bottoming manufacturing purchasing managers' indices. The European Central Bank (ECB) cutting rates earlier this month could also provide some welcome relief to both households and businesses. Fiscal policy could potentially play a more active role in boosting demand, whether in facilitating the green energy transition or boosting defense spending amid the Russia-Ukraine conflict. Compared with the U.S., European economies arguably offer more room for upside surprises.

The case for Japan's economic growth is more subdued. Accelerating wage growth is offset by imported inflation triggered by a weak Japanese yen (JPY). This creates a dilemma for the Bank of Japan (BoJ)—raise rates and potentially dampen growth or maintain policy accommodation and keep import prices high via a weaker JPY. Exports are benefiting from an upswing in the Asian export cycle and currency competitiveness. Solid corporate earnings growth should support corporate investments, as well as create room for wages to rise.

Some convergence in economic growth within developed economies
Exhibit 1: Developed markets quarterly real GDP growth forecast
Year-over-year change



Source: FactSet, J.P. Morgan Economic Research, J.P. Morgan Asset Management. *Real GDP growth forecasts are based on growth forecasts estimated by J.P. Morgan Economic Research.
Guide to the Markets – Asia. Data reflect most recently available as of 31/03/24.

2. Exports are doing the heavy lifting in Asia, while more stimulus is needed for China

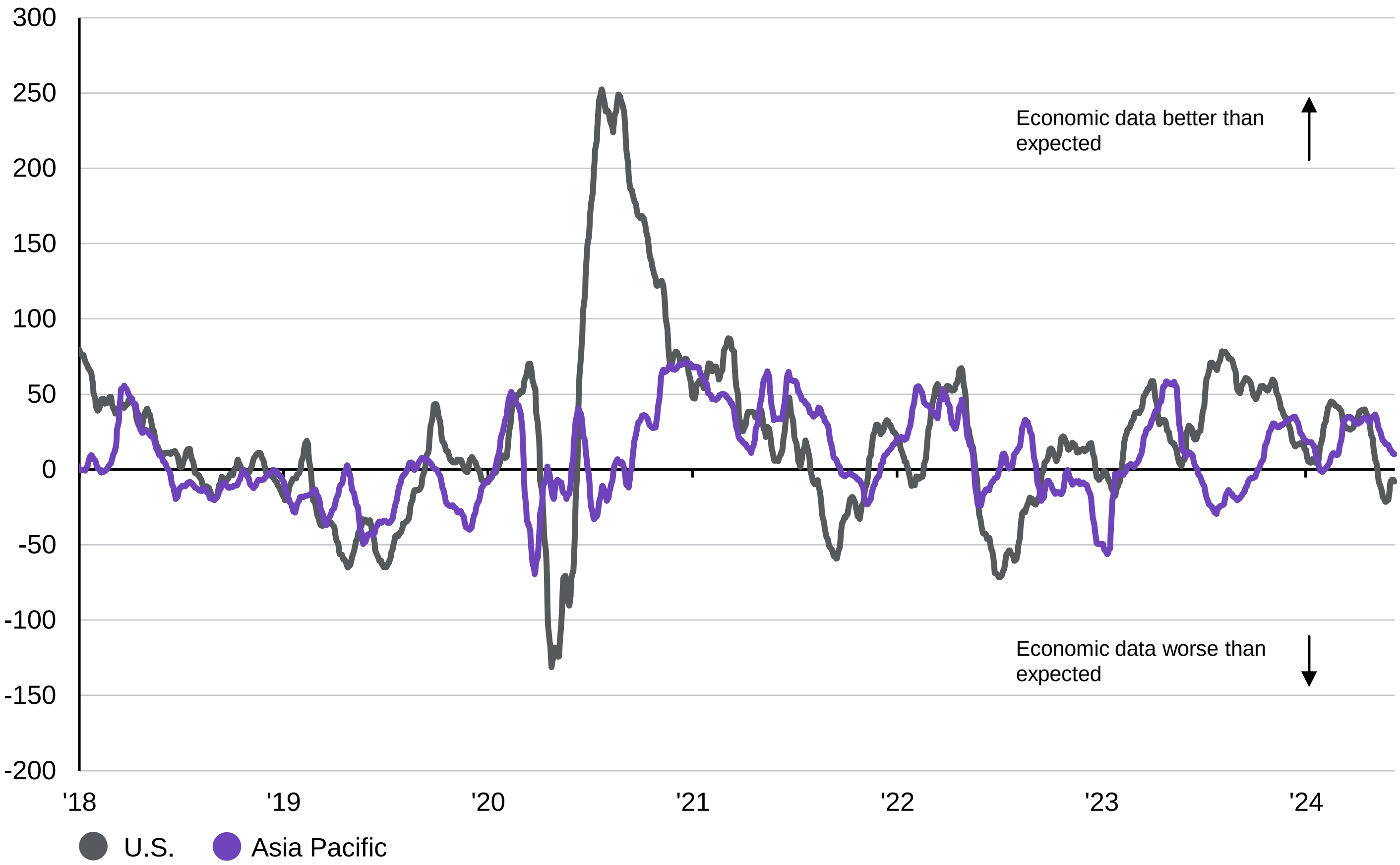
Economic growth in Asia has picked up in recent months, with upside 1Q 2024 gross domestic product (GDP) surprises seen in China, Hong Kong, Indonesia and Korea. Asian manufacturing purchasing managers' indices have also improved year-to-date. This is in line with the recovery in Asia's goods exports, supported by recovering activity in key trade partners, both, intra-regionally and globally. The recovery also reflects the normalization in the trade of global goods post pandemic, led by artificial intelligence (AI)-related investment demand for chips and other tech exports from Korea and Taiwan, as well as better-than-expected China exports so far this year. As for services, with the exception of China, activity in Asia has recently reaccelerated.

Inflation for the first few months of 2024 has generally been soft, amid tepid wage trends. China and Thailand continue to report core and headline consumer price index (CPI) inflation that is close to zero on a year-over-year basis, with declining food prices being an important deflationary force in both markets. This suggests Asian central banks will be able to cut rates to support their economies, if necessary, but most central banks are happy to stay put rather than rush into cutting rates (see more about our take on Asian central banks on Page 5).

China's economic activity continues to diverge, with production growth outpacing consumption. Within fixed investments, manufacturing investment continues to outperform, driven by the government's industrial policy to develop new industries, such as advanced manufacturing, renewable energy and electric vehicles, while real estate investment remains sluggish. In particular, following stronger-than-expected January and February activity, China's economic momentum moderated notably in March, and the latest April activity data suggest further slowing in domestic demand, with both retail sales and fixed investments disappointing expectations. In turn, this has dragged Asia's Citi Economic Surprise Index in April.

China's income confidence index is also hovering at low levels due to weak labor markets, which could be negative for demand recovery and reflation. The latest Politburo meeting reiterated efforts to stabilize the economy by issuing ultra-long government bonds to fund further stimulus. The announcement of the third Party Plenum to be held in July has also boosted hopes of a turnaround as policymakers seek to address investor concerns. The real estate market and private investments will require more time to recover, but ongoing policy support should be able to help limit the downside risks to growth. What is key is whether the relatively strong performance in April can attract more international flows into the Chinese markets.

Growth in Asia has picked up in recent months but retreated slightly as China's domestic demand conditions weakened
Exhibit 2: Citi Economic Surprise Indices
Index, 7-day moving average



Source: Citi, J.P. Morgan Asset Management.
Data reflects most recently available as of 07/06/24.

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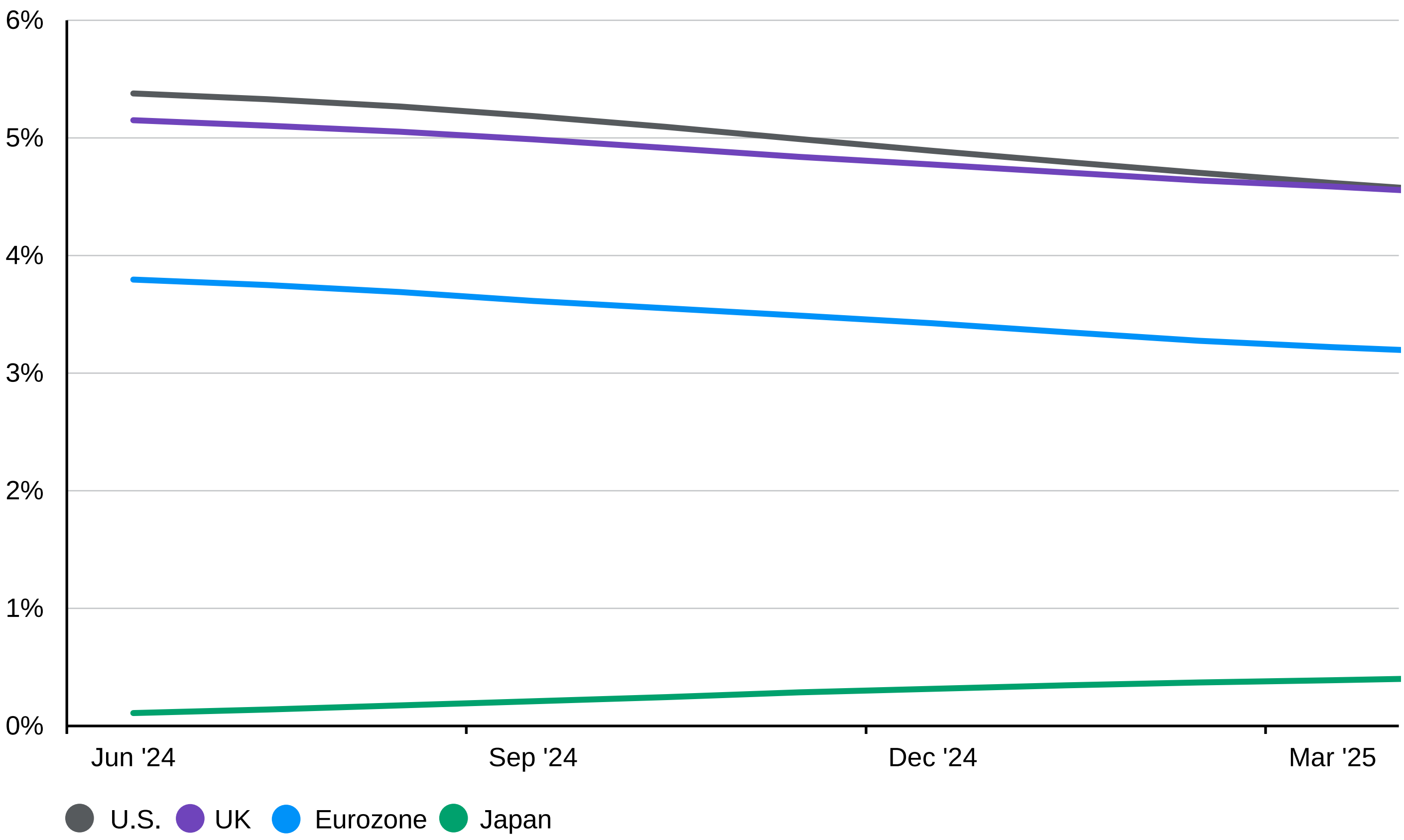
3. The Federal Reserve leading from the back on rate cuts

In the U.S., softer inflation print in April confirmed that while the disinflation trend was disrupted in 1Q, it was not derailed. Meanwhile, there are early signs that the labor market is cooling. If incoming economic data continues to point to a similar moderation, the earliest the Fed can cut rates would be September. However, market expectations of a September cut on the back of April's inflation data could risk being too optimistic. This is because inflation components such as shelter and insurance continue to decline at a very slow pace. GDP forecasts are far from weak and financial conditions have loosened to 2022 levels, removing the urgency to ease. The recent softening in growth data (e.g. retail sales, industrial production) offer some good news, as it points to a potential weakening of inflationary pressure. But while the next move is most likely a cut and not a hike, the risk remains that the rate cut cycle will be shallower and slower than markets currently expect.

Europe and the UK have made significant progress, quelling headline inflation as supply-side shocks eased. European economies are more sensitive to rates than the U.S., facilitating earlier cuts for the ECB and Bank of England (BoE). The ECB has already delivered the first cut in June, and the BoE will likely cut 1-2 times in the second half of this year. Sticky inflation in the euro-area meant that the ECB is not ready to commit to a set rate path in the months ahead. The BoE, on the other hand, will likely remain relatively hawkish until services inflation and wage growth decline more meaningfully. While a divergence from the Fed might pressure domestic currencies, the impact on core inflation is small enough to allow central banks to remain focused on domestic conditions.

On the contrary, the BoJ's decisions are more conditioned on the Fed, as the unfavorable rate differential has had a significant impact on the JPY. The BoJ will have to delicately balance policy to minimize the domestic growth impact from higher rates or a weaker JPY. We expect the BoJ to continue hiking amid further evidence of sustained inflation, but the pace will likely be gradual.

Due to stronger growth and stickier inflation, the Fed will likely start cutting later than the ECB and BoE
Exhibit 3: Market expectations* for central bank policy rates



Source: Bank of England, Bank of Japan, European Central Bank, U.S. Federal Reserve, J.P. Morgan Asset Management; (Right) Bloomberg L.P. *Expectations are based on overnight index swap rates. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – Asia. Data reflect most recently available as of 06/06/24.

4. Asian central banks will need to think twice about policy easing

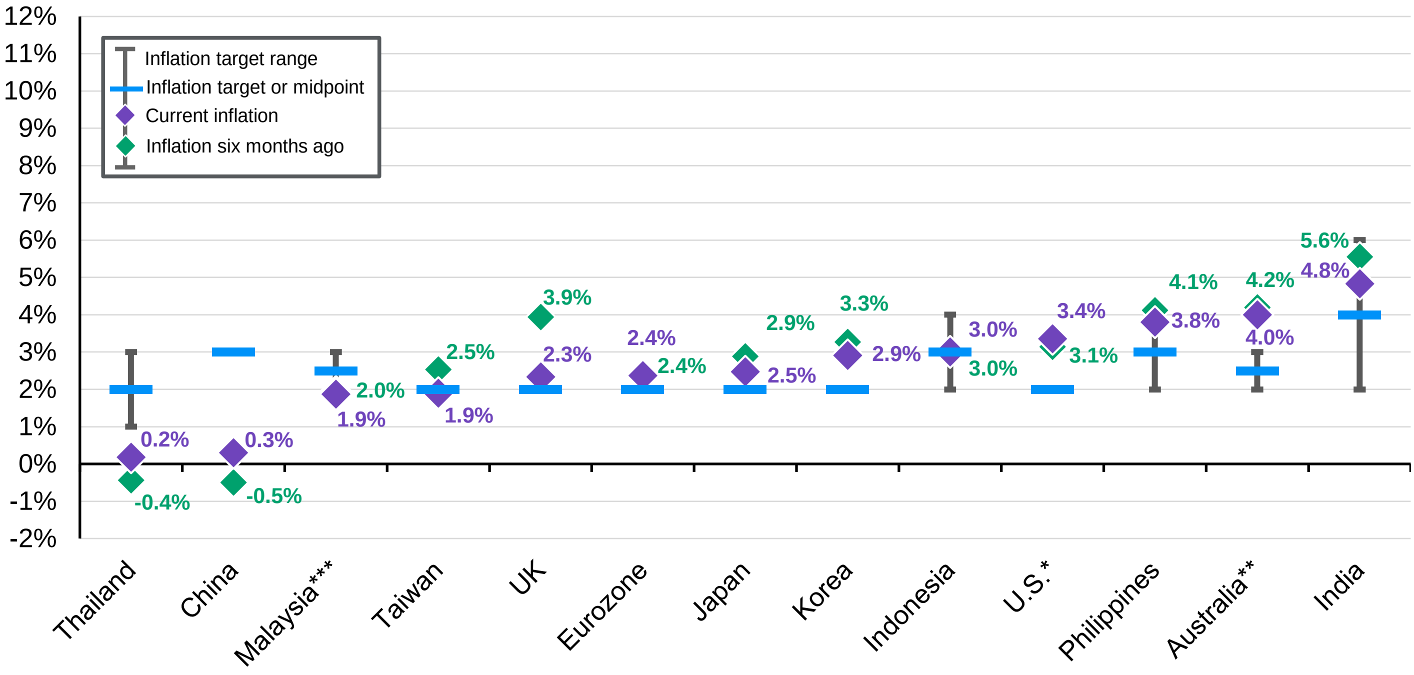
The moderation in price pressures in recent quarters has brought inflation within the official inflation target range across most parts of Asia. However, central banks in the region are not in a hurry to cut policy rates ahead of the Fed, owing to the fact that interest rate differentials between the U.S. and Asia are currently the widest seen in decades. As a result, capital outflows from Asian markets have contributed to the weakening of domestic currencies against the U.S. dollar (USD). As the USD remains resilient, investors may be less inclined to take on foreign exchange (FX) risks associated with investing in Asian local currency assets. Year-to-date, some Asian currencies have fallen to multi-year lows against the greenback. Notably, the Taiwanese dollar and Korean won were down 5.0% and 4.9%, respectively, from the start of the year.

In the near term, markets could continue to reprice the "higher for longer" backdrop, leaving U.S. long-term yields moving sideways. This could stoke higher volatility in asset prices and financial conditions in Asia. Coupled with the ongoing local currency depreciation, these factors could raise the bar for policy easing by central banks in the region.

That said, monetary authorities can still leverage other policy tools like direct intervention in FX markets or keeping front-end rates elevated relative to policy rates. In certain cases, some central banks could resort to hiking policy rates, as was the case in April by Bank Indonesia to preserve financial stability. Investors should remain mindful of the risk that persistent strong growth and sticky inflation in developed markets could result in policy rates staying higher for longer, thereby generating weaker capital inflows into emerging market economies and delaying the start of the monetary policy easing cycle on this side of the world.

In the medium term, the start of the Fed rate cut cycle could be the turning point for Asian assets, potentially generating positive returns through stronger capital inflows and alleviating pressure on Asian currencies. In addition, the concomitant weakening in the USD is likely to create space for Asian central banks to cut benchmark rates at the turn of next year.

Inflation has settled within central banks' target ranges across most Asian economies
Exhibit 4: Inflation and central bank inflation targets
Year-over-year change



Source: FactSet, J.P. Morgan Asset Management. *While the U.S. Federal Reserve officially targets 2% headline personal consumption expenditure (PCE) inflation, headline CPI is used for U.S. inflation in this chart due to the timelier release of data. **The inflation figure used for Australia is based on trimmed-mean consumer price index (CPI), which is the preferred metric used by the Reserve Bank of Australia for its inflation target. ***The inflation figure used for Malaysia is based on core CPI, which is the preferred metric used by the Bank Negara Malaysia (The Central Bank of Malaysia) for its inflation target. Inflation figures for other listed economies are based on headline CPI, in accordance with their preferred inflation target metric.
Guide to the Markets – Asia. Data reflect most recently available as of 03/06/24.

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5. Asset allocation that evolves with the rate cycle

Despite the potential delay of a Fed rate cut, a resilient U.S. economy has driven global equities higher in the first half of 2024. Fixed income has underperformed our expectations, particularly government bonds and investment-grade corporate debt.

Given our view that the U.S. rate cut cycle is merely delayed and not derailed, we maintain our view that both stocks and bonds should outperform cash in the next 6-12 months.

Investors may consider a two-stage approach to allocating between equities and fixed income.

In the first stage, on the back of robust macroeconomic data from the U.S. that are broadly consistent with trend growth, investors might choose to focus more of their allocation to global equities. Sticky inflation suggests companies will still have the pricing power necessary to protect their profit margins. Fixed income remains an important part of return generation, but performance will likely be driven more by the income component than duration. This favors high-yield corporate bonds.

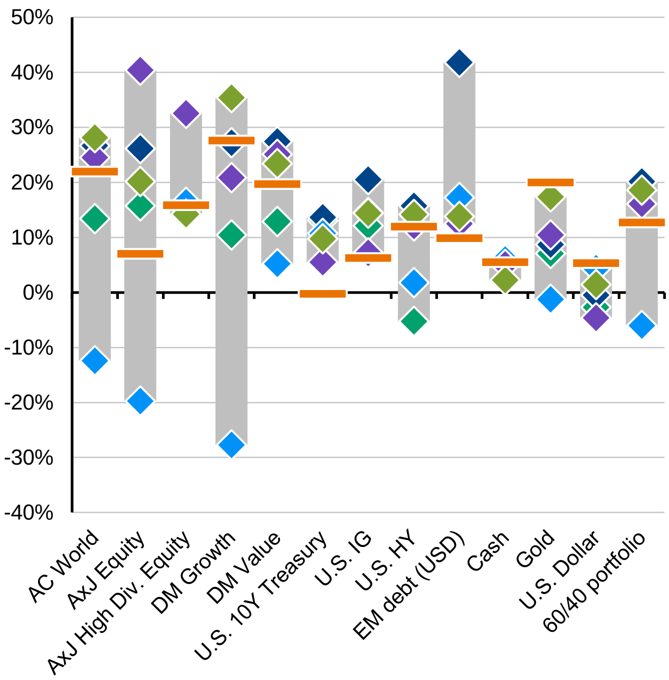
The second stage is characterized by inflation data showing consistent moderation, hence allowing central banks to start cutting rates. Europe and the UK are arguably approaching this stage. This would call for an increase in allocation of bonds versus stocks. Within fixed income, investors can focus on government debt and high-quality corporate bonds given the possibility of slower growth. For equities, lower yields could drive a valuation re-rating of growth and tech stocks, while weaker growth momentum could present a more challenging backdrop for small cap companies and cyclically sensitive sectors.

The prospect of Fed rate cuts should also weaken the USD. While Asia and emerging markets have performed reasonably well during the recent period of USD strength, a weaker dollar could provide further tailwinds, encouraging more capital flows into these markets, both within equities and fixed income.

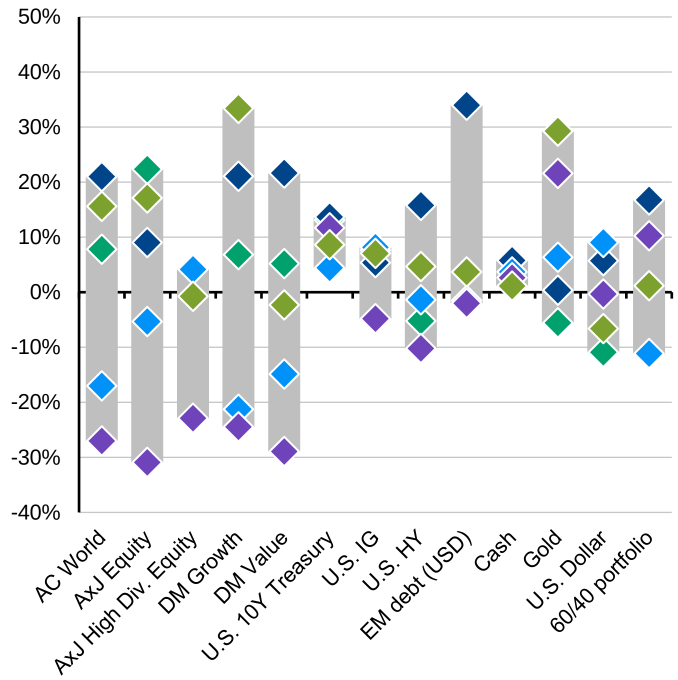
As discussed on the following pages, alternative assets such as real estate, infrastructure and real assets, can make an important contribution to a consistent income stream, as well as provide an inflation hedge. These assets present further diversification benefits in portfolio construction.

Rate cuts and economic soft landing should be positive for stocks and bonds

Exhibit 5: Asset class returns following the end of rate hikes
12 month returns* after the past five rate hike cycles ended



Asset class returns following the start of rate cuts
12 month returns* after the first rate cut in the past five rate hike cycles



1989 (Recession, oil price shock) 1995 (Soft landing) 2001 (Recession, dot-com bust) 2007 (Recession, GFC**)
2019 (Global growth fears) 2023 (Post-pandemic rate hike cycle)*** Range of 12-month returns observed after the last rate hike

Source: FactSet, U.S. Federal Reserve, J.P. Morgan Asset Management. Based on MSCI AC World Index (AC World), MSCI Asia Pacific ex-Japan Index (AxJ Equity), MSCI Asia Pacific ex-Japan High Dividend Yield Index (AxJ Equity High Div. Equity), MSCI World Growth Index (DM Growth), MSCI World Value Index (DM Value), Bloomberg U.S. Treasury Bellwethers 10Y (U.S. 10Y Treasury), Bloomberg U.S. Corporate Investment Grade Index (U.S. IG), Bloomberg U.S. Credit Corporate High Yield (U.S. HY), J.P. Morgan EMBI Global (EM Debt USD), Bloomberg U.S. Treasury Bills 1-3M (Cash), Gold New Spot price (Gold), U.S. dollar index (U.S. dollar), 60% AC World and 40% Global Bonds (60/40 portfolio). The last rate hikes referred to in the charts occurred in Feb '89, Feb '95, May '00, Jun '06 and Dec '18. The first rate cuts occurred in Jun '89, Jul '95, Jan '01, Sep '07, Aug '19. *Total returns in local currency are used, unless otherwise specified. **GFC stands for global financial crisis. ***Returns are annualized and calculated from the assumed last rate hike date (26/07/23) to date. Past performance is not indicative of current or future results.
Guide to the Markets – Asia. Data reflect most recently available as of 31/03/24.
Cash mentioned in this session proxied by U.S. short-term treasuries.

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6. Fixed income will outperform cash, again

At the start of the year, markets were expecting a total of 175 basis points of interest rate cuts. Rate cut expectations have been trimmed significantly since then amid continued evidence of U.S. economic resilience and inflation that has remained sticky. As a result, longer duration bonds suffered as the "higher-for-longer" narrative took center stage once again. High yield corporate bonds, on the other hand, did quite well. Asia and U.S. high yield returned 9.6% and 2.3%, respectively, reflecting the resilient outlook in both regions. Modest refinancing needs as well as high yield's lower sensitivity to interest rates helped support performance.

Recent speeches by Fed officials acknowledged the lack of progress on inflation and the desire to maintain the current level of policy rates for longer. However, we believe the rate cut cycle is merely delayed rather than derailed, and should begin later this year. This should continue to support the case for staying invested in fixed income. In particular, government bonds and high-quality corporate debt have the added benefit of managing portfolios from recession risks.

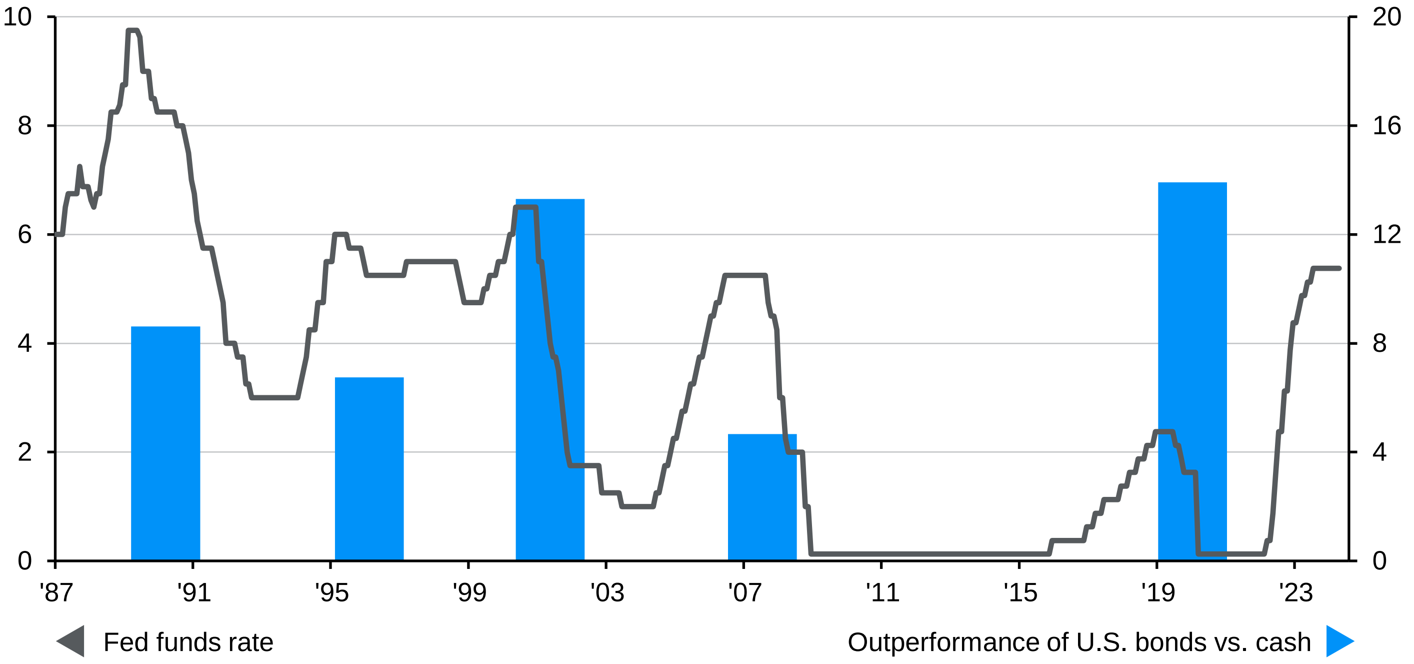
While we acknowledge that there is limited scope for corporate credit spreads to tighten further, history suggests spreads can remain tight for a while. We expect yields to stabilize in the near term and for spreads to remain tight given healthy credit fundamentals and strong economic activity.

In short, not only does fixed income present opportunities for attractive income, but also there is potential for capital gains as we possibly head into a monetary easing cycle in the quarters ahead. Locking in yields at current levels seems attractive, even if bond volatility is likely to remain elevated for some time.

Admittedly, with short-term interest rates at cycle peaks, holding cash or fixed deposits could look tempting. However, sitting on large cash allocations entails significant reinvestment risk, as riskier assets tend to outperform cash consistently after the peak of a rate hike cycle. As illustrated in the following chart, the line tracks the evolution of interest rates over time while the bars show the subsequent 2-year performance of the U.S. Aggregate bond index relative to cash from the peak of each hiking cycle. In every instance within our sample period, bonds outperformed cash.

Furthermore, as inflation will likely remain higher for some time, holding too much cash could present challenges in the face of higher prices. Over the last 30 years, risk assets have handily outperformed inflation, while cash lagged behind higher prices. If history is any guide, investors should embrace high-quality fixed income and be mindful to avoid the cash trap.

Given our view that the U.S. rate cut cycle is merely delayed and not derailed, bonds will likely outperform cash in the next 6-12 months
Exhibit 6: U.S. bonds vs. cash after interest rate peaks
% (LHS); % points, two-year relative performance (RHS)



Source: Bloomberg, Bloomberg Barclays, Federal Reserve, ICE BofA, J.P. Morgan Asset Management. Cash refers to ICE BofA 3-Month Treasury Bill Index; U.S. bonds: Bloomberg Barclays US Aggregate Index.
Guide to the Markets – Europe. Data reflect most recently available as of 30/04/24.
Cash mentioned in this session proxied by U.S. short-term treasuries.

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7. A broader rally in the U.S. equity market

The U.S. equity market has notched up successive all-time highs this year after shrugging off a brief period of consolidation in April. A robust economic backdrop has supported the earnings recovery while driving expectations that earnings will continue to expand in the quarters ahead, lifting investor sentiment.

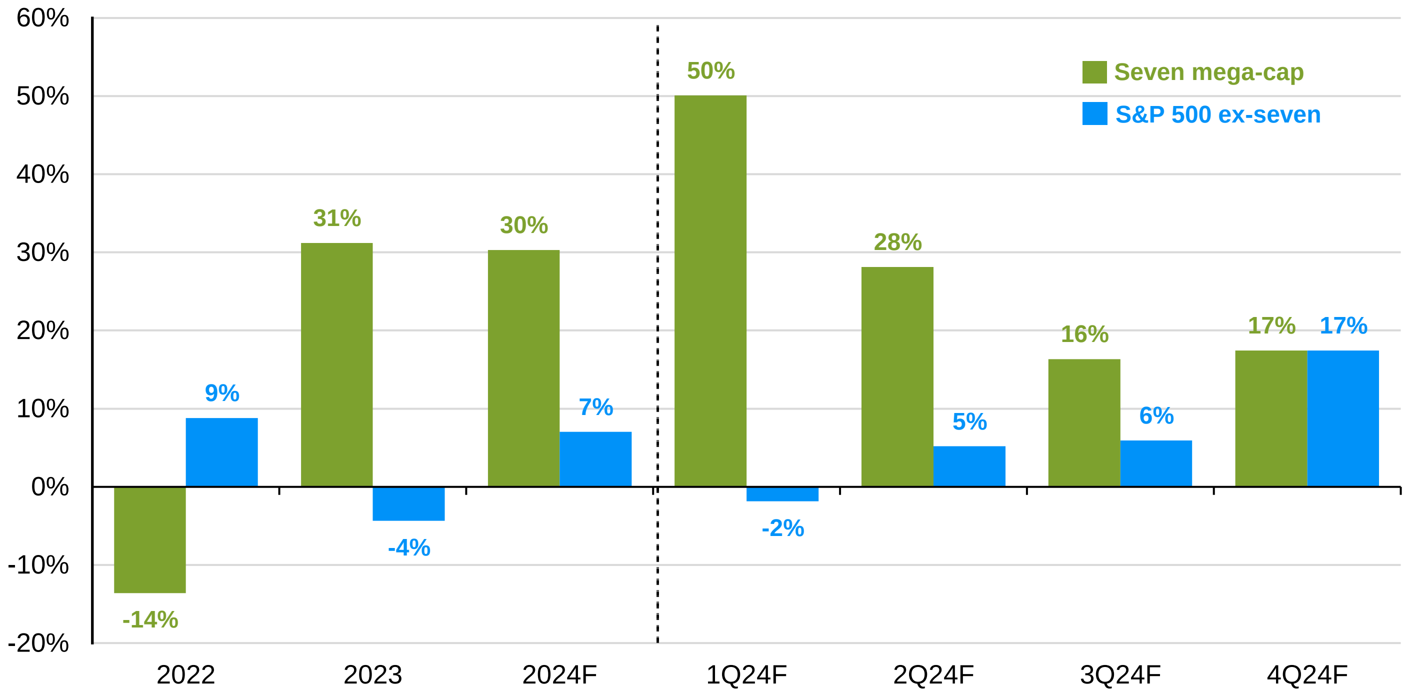
Growth stocks and the seven mega-cap names still account for the bulk of this year's rally. Year-to-date, these seven companies have returned 20%, compared to 6% for the rest of the market. However, a broader participation of sectors and stocks in the equity rally is expected. The earnings outlook for the market, excluding the big seven names, is expected to improve through the year. 1Q 2024 earnings will likely mark this year's low, with earnings growth expected to improve on both a sequential quarterly and year-over-year basis.

A more inclusive market rally can be fueled by still respectable nominal GDP growth in the U.S. and a better balance between real growth and inflation. This should help companies maintain or defend margins through a combination of steady sales and easing input costs.

This constructive outlook for U.S. equities is balanced against a recognition that the market may not be considered cheap. The rally in U.S. equities has resulted in rising valuations, with the forward price-to-earnings (P/E) multiple of the S&P 500 well above its long-run average at around 20.5x. However, headline valuation numbers mask the dispersion within the index. The top 10 companies by market weight are trading at 28.2x P/E, while the other 490 companies are trading at 17.4x. A decline in bond yields may allow for some re-rating of longer-duration sectors such as growth stocks.

An extended business cycle, improving earnings outlook and better relative valuations in some of the unloved parts of the market provide a constructive outlook for U.S. equites. There are still risks to the outlook, which creates a preference for quality, but this can be found across both growth and value styles, as well as in large and mid-cap companies.

A broader earnings recovery should support the U.S. equity market over the rest of 2024
Exhibit 7: U.S. S&P 500 earnings growth
EPS, year-over-year



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Earnings estimates for 2024 are forecasts based on consensus analyst expectations. Data are as of 30/05/24.

8. Neglect European and Japanese equities at your portfolio's peril

The U.S. outlook has dominated the market narrative for much of this year given the strength in returns. However, a more balanced outlook for global growth, a cyclical uplift in the European economy and structural changes in Japan create an environment for improving returns in developed markets outside the U.S. at better relative valuations.

The European region has recently recovered from a recession, and the turn in the economic cycle supports a more constructive market outlook. The combination of fading energy costs and a robust labor market should support consumption growth via rising real incomes. Meanwhile, improving yet low growth and falling inflation have given the ECB credence to start the policy easing cycle, which could help stimulate growth.

The improving economic backdrop is gradually being matched by improving earnings expectations. Full-year earnings for 2024 remain subdued at 4.5% year-over-year, but earnings growth expectations have increased, and earnings revision ratios have started to trend higher.

In Japan, the structural shift in the economy away from deflation and toward improving nominal growth, coupled with corporate governance changes aimed at increasing the value of corporate businesses, should continue to support equities throughout the year.

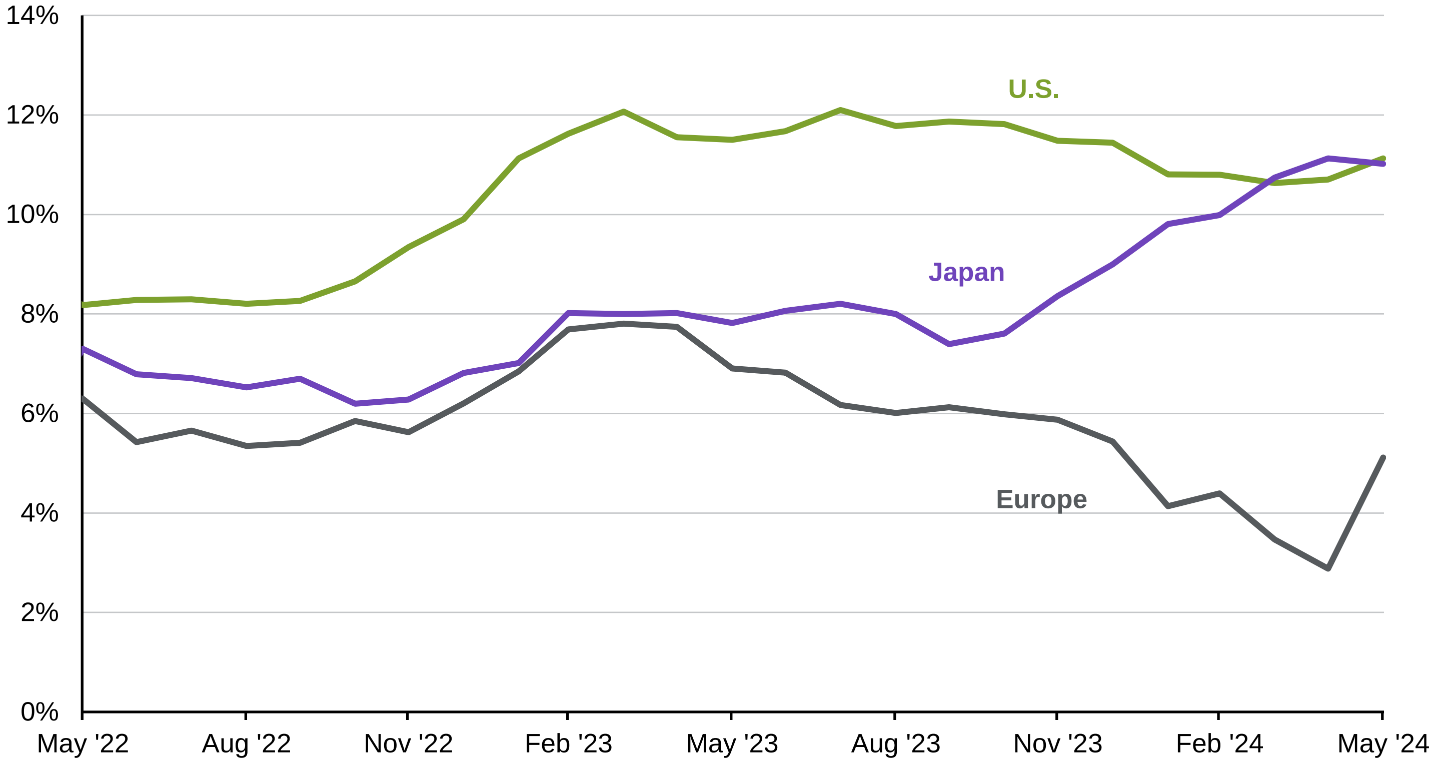
Broad-based wage growth set against a tight labor market could create a virtuous cycle of rising real wages and consumption spending. At more than 5%, the 2024 spring wage negotiations resulted in the largest increase in wages in more than three decades for major enterprises in Japan[1].

More recently, consumption has been soft given the weaker currency and rising cost of imports. This remains a risk to the outlook. However, currency weakness has also boosted exports, lifting the outlook for corporate earnings. We expect the JPY to reverse some of this year's weakness as the rate differential with the U.S. narrows.

An improved nominal growth outlook has historically translated to stronger corporate earnings. 2024 earnings growth has seen steady improvement since late 2023. Stronger earnings coupled with healthy cash balances could lead to increased capital investments that could potentially enhance future returns.

An improving growth outlook in Europe and Japan, as well as equity markets that trade at lower multiples closer to long-run averages, opens the door to broader diversification opportunities in global equity markets.

2024 earnings expectations have been rising for non-U.S. markets, driven by an improving economic outlook
Exhibit 8: 2024 Earnings per share growth estimates
Consensus estimates, year-over-year



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. Data are as of 31/05/24.

[1]Source: Reuters. Data as of 05/06/24.

9. A cocktail strategy for Asian stocks

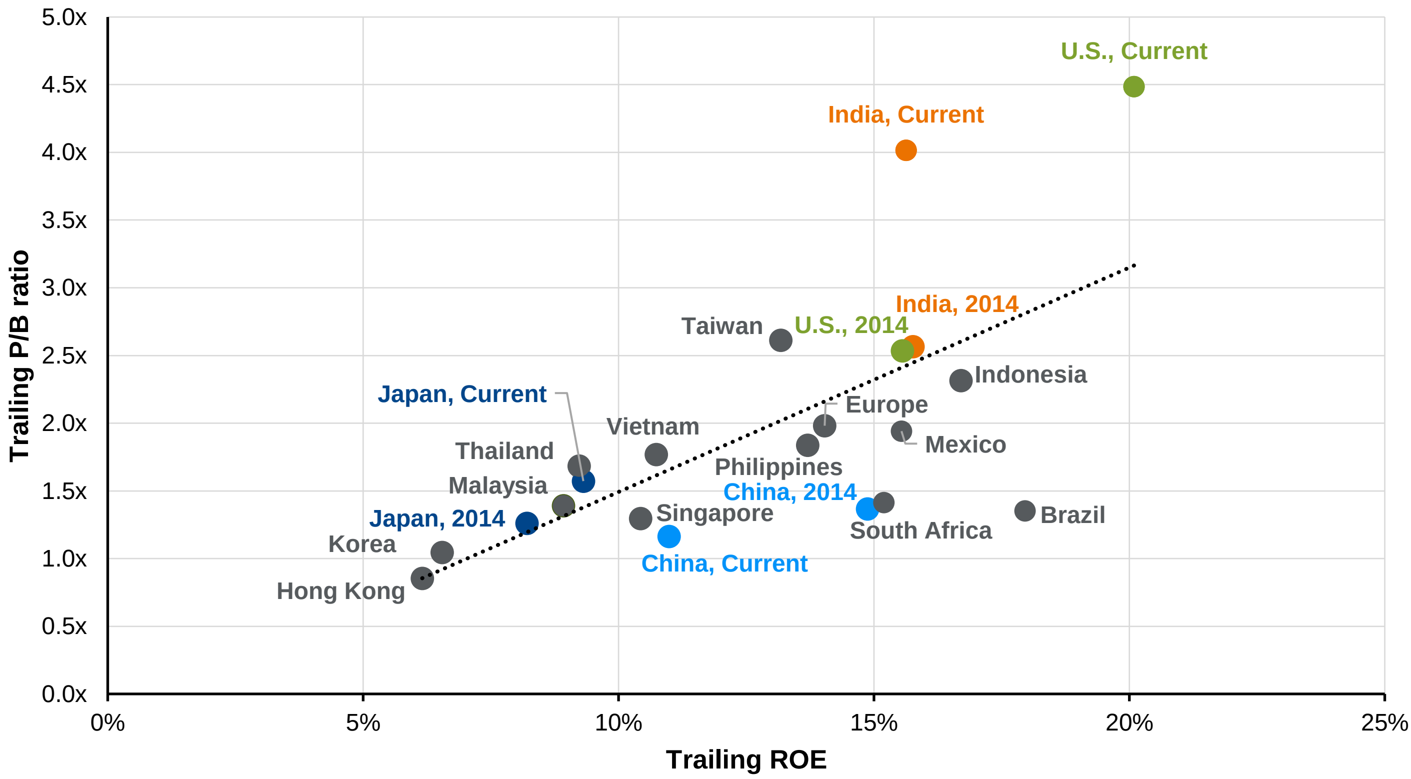
We have seen several themes playing out in Asian markets in 2024. The first is the tech rally, where Asia has benefited from spillover interest in U.S. tech stocks. Earnings growth estimates for this sector remain strong, and as long as investor focus stays on AI globally, we remain constructive on the Asian tech sector. We believe this theme has room to run despite high valuations.

The second theme has been the interest in Chinese and Indian stock markets. Indian equities significantly outperformed their Chinese counterparts in 2023 (MSCI India +21.3% vs. MSCI China -11.0%). The relative performance of the two economies can explain this difference. Weak economic momentum, cautious consumer sentiment and the challenges facing the real estate sector had put downward pressure on Chinese equities. India, on the other hand, saw more supportive factors, including positive earnings growth outlook and prospects of further investments to develop its manufacturing sector.

This trend has reversed in 2024, with China outperforming (MSCI China up 13.6% vs. MSCI India's 3.6% over the past three months). The current consensus is that China's rally has been driven by a combination of reasonable valuation, light positioning by both domestic and international investors and more consistent effort by the government to support the economy. By contrast, valuation of Indian equities is elevated and sentiment on the ground took a hit after the surprise election results. Although current earnings momentum remains positive, the margin of error is narrower.

The real estate sector and general business sentiment hold the key for China's rally to continue into 2H 2024. The upcoming third Party Plenum should focus on long-term development objectives rather than policies to address the economic downturn. This should solidify markets' expectations on those sectors with more policy tailwinds, such as renewable energy, advanced manufacturing and AI. For India, long-term prospects remain attractive given its track record in delivering consistent economic and earnings performance over the long term.

India's longer-term prospects remain attractive, despite higher valuations
Exhibit 9: Return-on-equity and price-to-book ratio for different markets
Last 12 months



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. Numbers are based on MSCI Indices except for the U.S. which is based on the S&P 500 Index. ROE = return-on-equity and P/B = price-to-book.
Guide to Investing in Asia. Data are as of 30/04/24.

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10. Tariffs, rain and sunshine—risk mitigation is as important as ever

In our *2024 Year Ahead*, we discussed the risks of a U.S. recession, a sharp correction in the Chinese real estate sector, and the impact of geopolitics and elections. While the U.S. and Chinese economies are always on our radar, let's focus on event risks and possible solutions for investors.

Amid a busy calendar of elections around the world in 1H 2024, the U.S. presidential and congressional elections remain a key focus. For APAC investors, the next administration's policy on trade is probably a primary concern. Indeed, the Biden administration has recently introduced or raised tariffs on Chinese exports of electric vehicles, solar panels and medical equipment. Former U.S. President Donald Trump has warned of raising import tariffs on a broader number of trade partners. Investors might consider diversifying their portfolios with companies or products that would be less impacted by protectionist measures from the U.S. or Europe. This could include Asian companies focusing on serving domestic consumers or products that are less likely to be produced locally, such as labor-intensive manufactured goods. India and ASEAN markets are also less likely to be targeted.

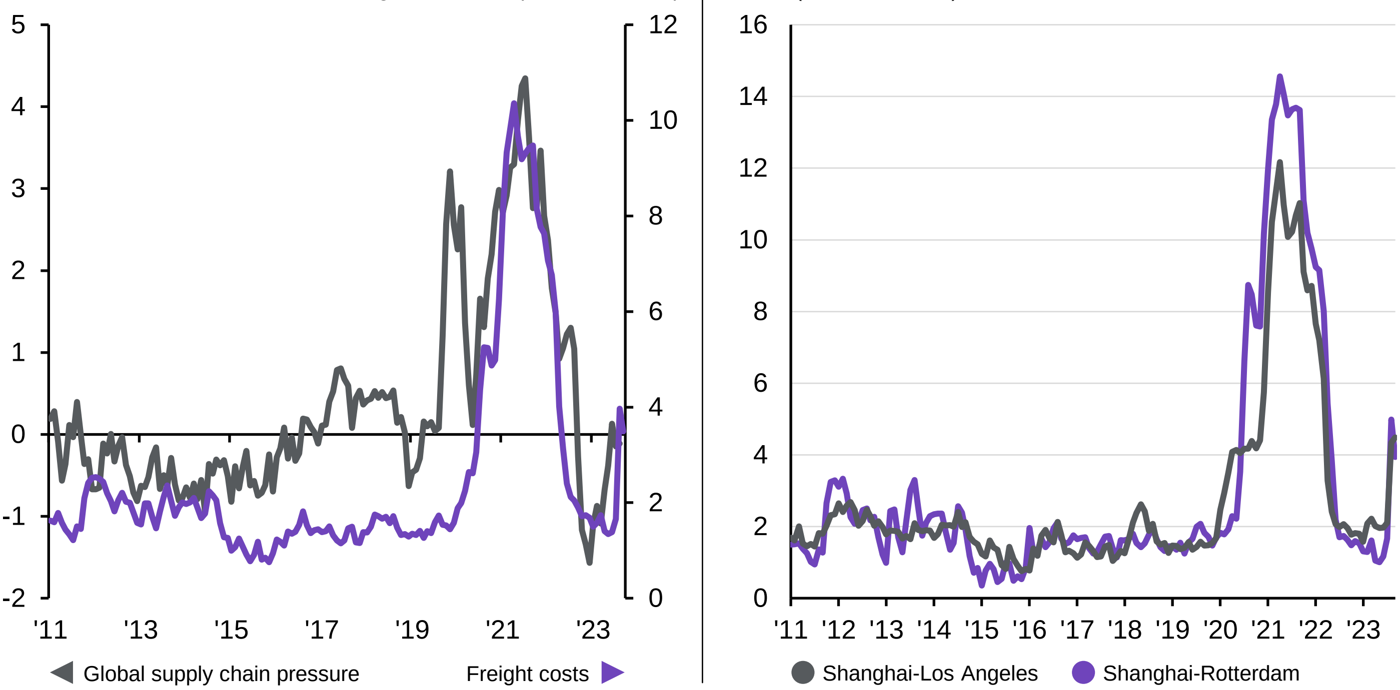
Beyond elections, geopolitics in the Middle East has raised concerns over energy supply disruptions. While there is sufficient spare capacity in global oil production to limit supply shocks, investors could protect themselves from a surge in energy prices by investing in the energy sector and sectors with lower energy intensity, such as consumer services.

As we approach the summer months, record temperatures in many parts of the northern hemisphere and extreme weather conditions, such as floods and droughts, should not come as a surprise given the experience of the past few years. One question is whether this could lead to disruptions in supply chains or other economic activities. For example, low water levels due to droughts could limit the carrying capacity of waterways or the amount of water available to cool power stations. Even if the impact of these events on production and the global economy is short-lived, a globally diversified allocation can help, especially if multinational companies are looking to diversify their supply chains to address these issues. Alternative assets, such as infrastructure and transportation, can also provide a useful hedge against higher inflation given that their revenue is typically linked to consumer prices.

Global supply chain disrupted by the pandemic, the attacks in the Red Sea
Exhibit 10: Global supply chains

Global supply chain pressure* and freight costs** | **Freight costs by route*****

Standard deviation from historical average | Price (USD thousands) | Price (USD thousands)



Source: Applied Macroeconomics and Econometrics Center, Bloomberg, FactSet, J.P. Morgan Asset Management. *The Global Supply Chain Pressure Index tracks the state of global supply chains using data from the transportation and manufacturing sectors. **Freight costs are represented by the Drewry World Container Index, which tracks the freight costs of a 40-foot long container via eight major East-West trade routes, including spot rates and short-term contract rates. *** Shanghai-Rotterdam and Shanghai-Los Angeles represent the two trade routes in the index with the highest volume and thus highest weighting
Guide to the Markets – Asia. Data reflect most recently available as of 31/03/24.

Conclusion

It is usually difficult to solve two problems with one solution. The convergence of global growth and the start of the rate cut cycle around the world should provide a constructive backdrop for investors. Meanwhile, geopolitics and event risks, such as extreme climate conditions, can introduce volatility. For investors to take advantage of the former and protect against the latter, a well-diversified portfolio is key to solving these two tasks.

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