



Guide to the Markets

UK | March 2023

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Learning objectives

- Identify the nature of the downturn facing the global economy
- Assess the path ahead for interest rates
- Determine the ability of fixed income to provide both income and diversification against recession risk
- Explain how much of the economic downturn is already reflected in stock market valuations

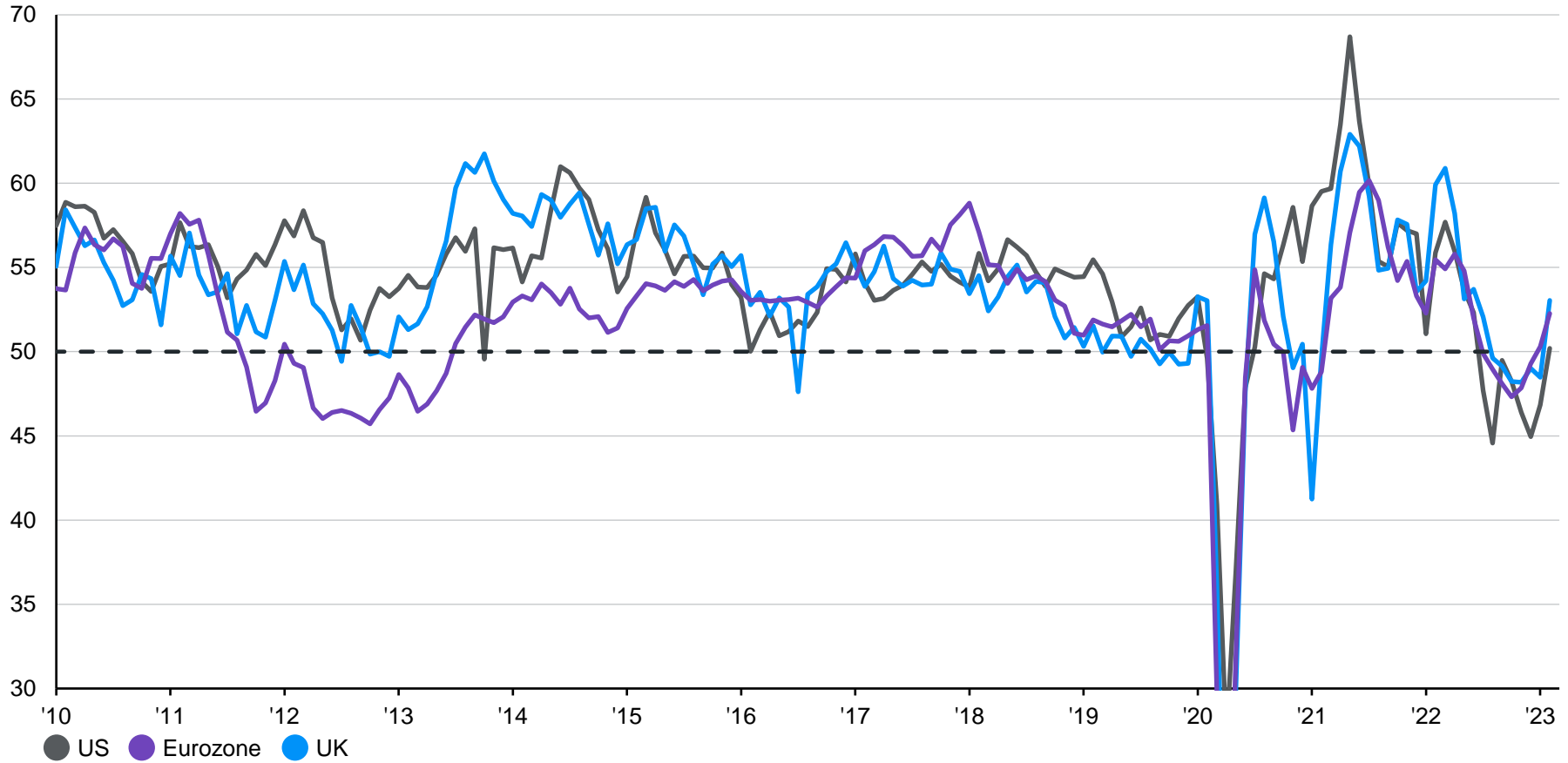


Developed economies have made a resilient start to 2023

Global economy

Composite Purchasing Managers' Index (PMI)

Index level



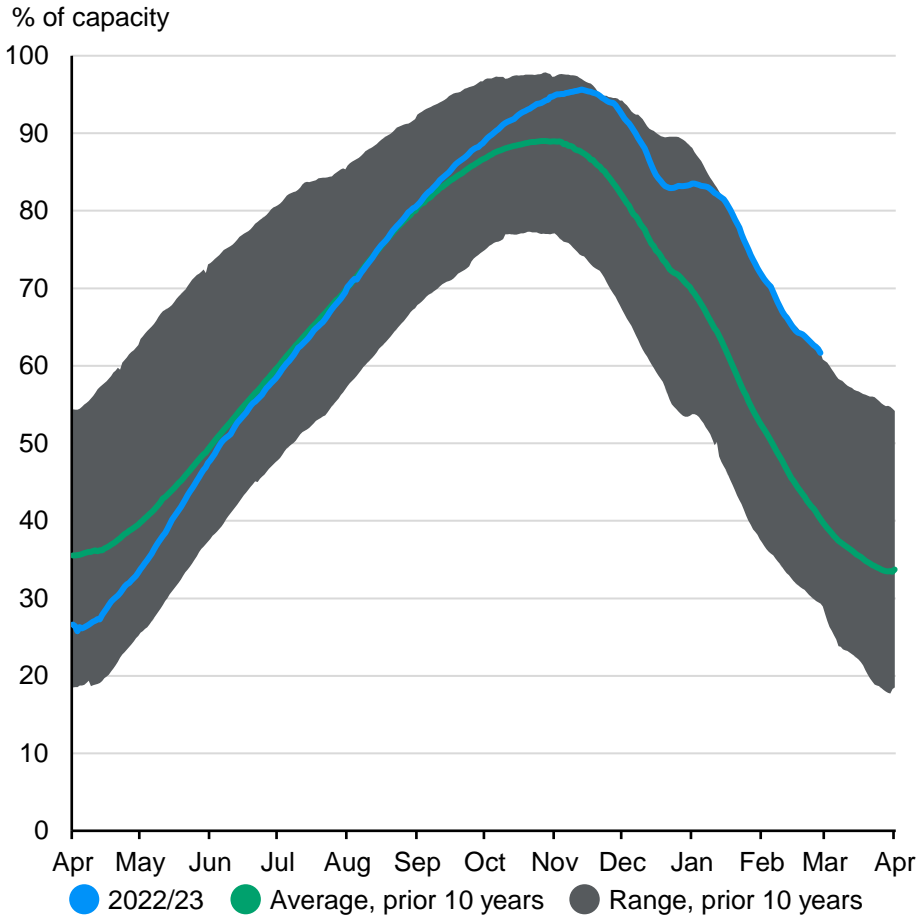
Source: S&P Global, J.P. Morgan Asset Management. A score of 50 indicates that economic activity is neither expanding nor contracting, above 50 indicates expansion. *Guide to the Markets - UK*. Data as of 28 February 2023.



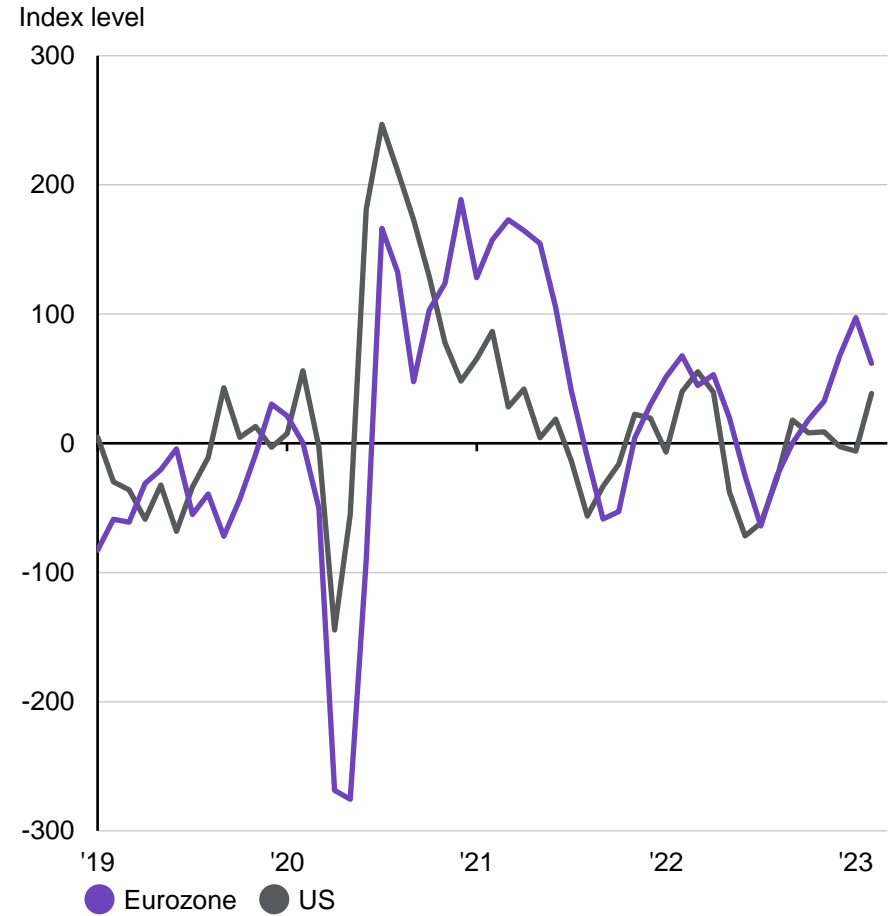
The European outlook has seen the biggest change

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EU natural gas inventories



Economic surprise index



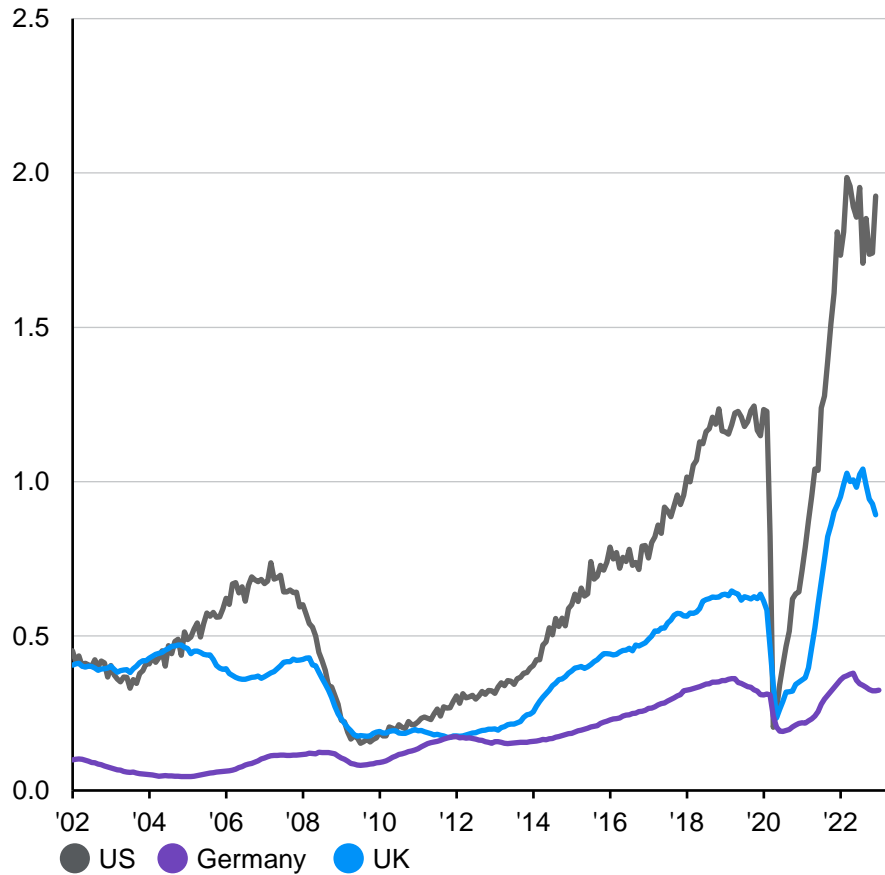


Weaker US growth is still necessary to bring inflation back to 2%

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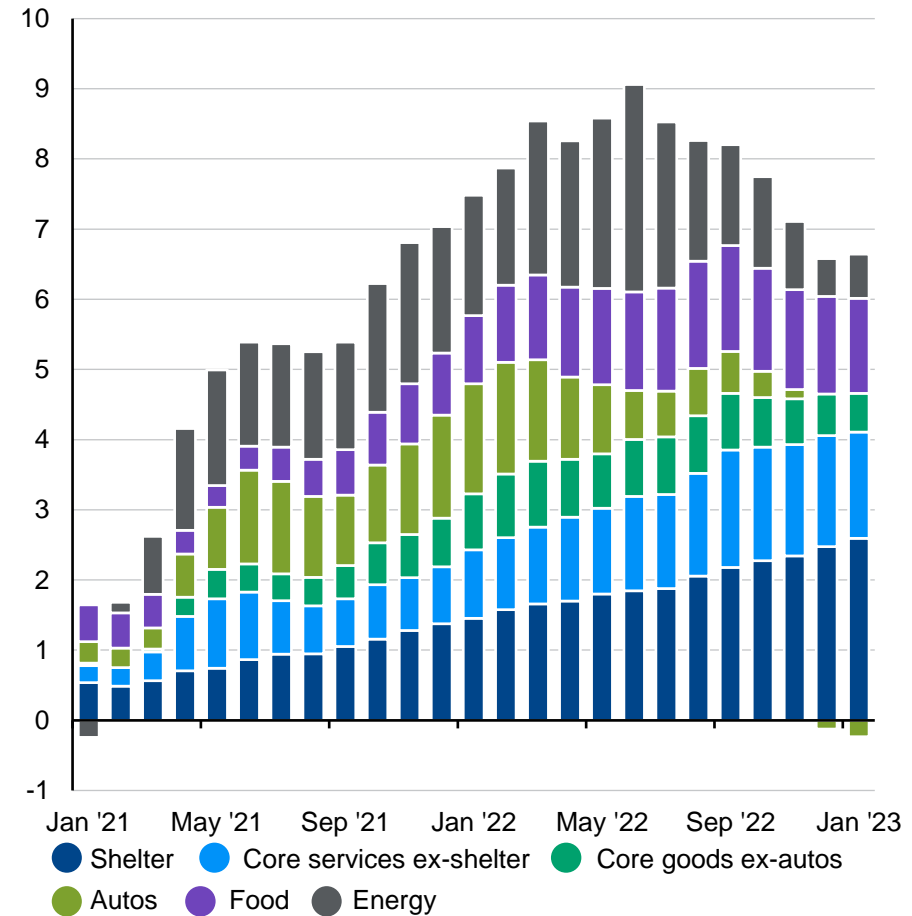
Job vacancies relative to unemployed

x, multiple



US headline inflation breakdown

% change year on year



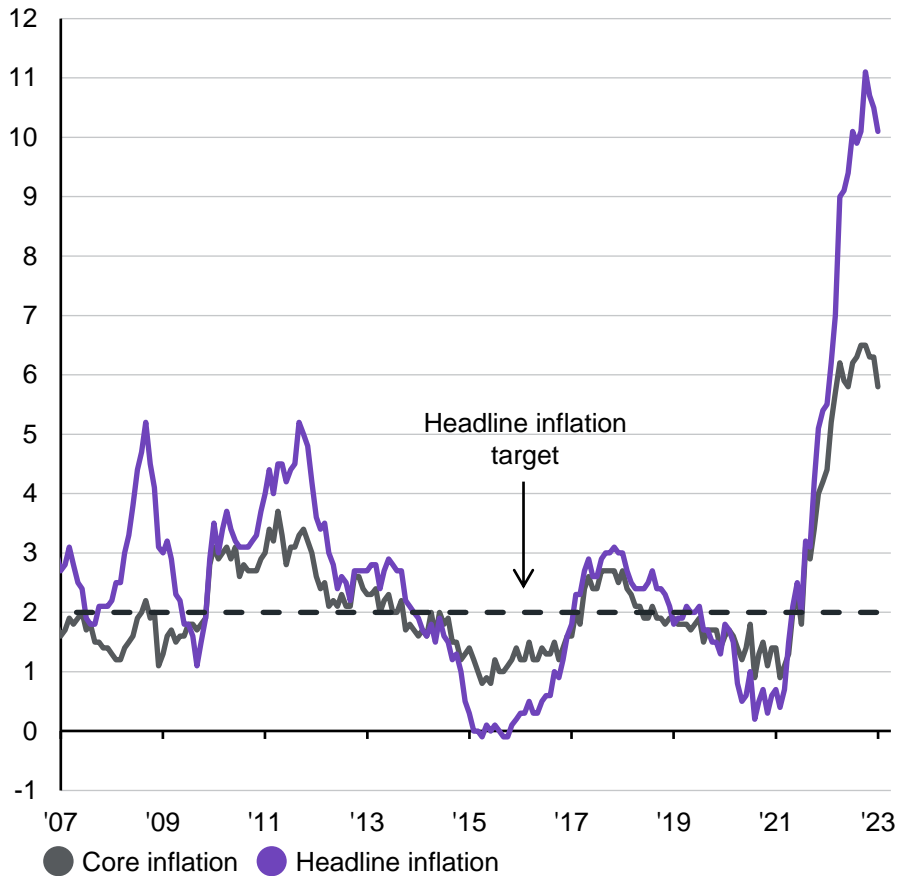
Source: (Left) BLS, Deutsche Bundesbank, ONS, Refinitiv Datastream, J.P. Morgan Asset Management. UK data is a three-month average as published. (Right) BLS, Refinitiv Datastream, J.P. Morgan Asset Management. Core inflation is defined as excluding food and energy. *Guide to the Markets - UK*. Data as of 28 February 2023.



The UK faces a stickier inflation problem

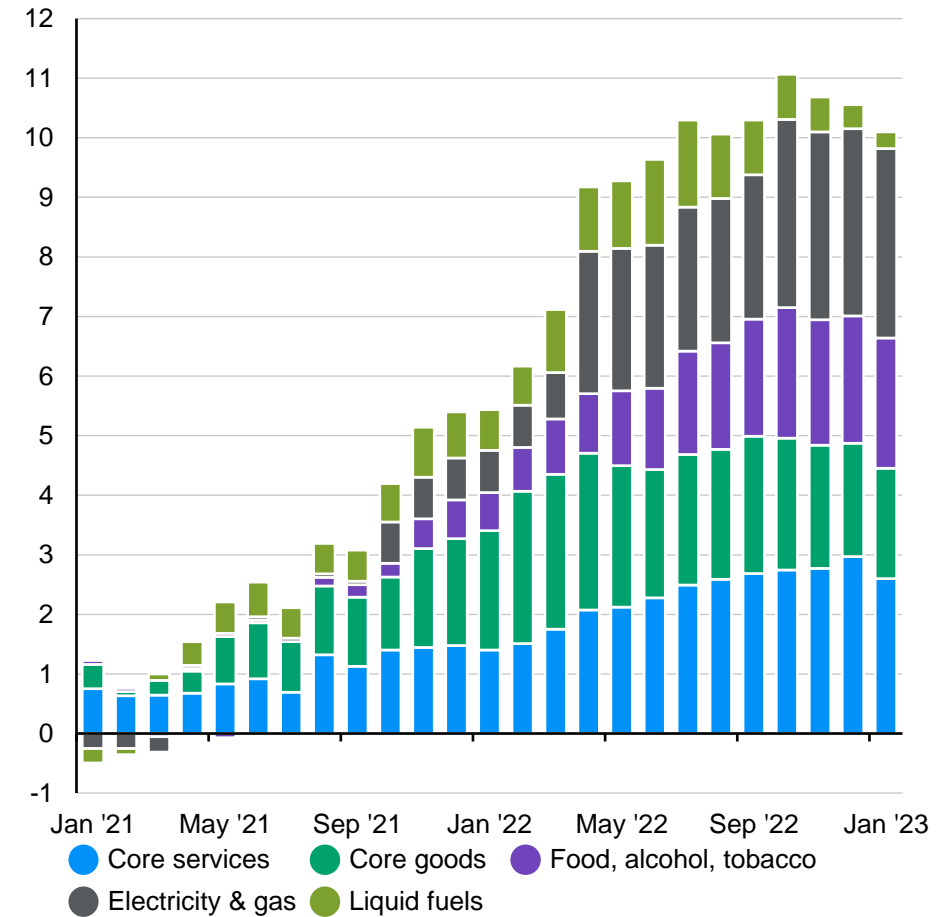
UK headline and core inflation

% change year on year



UK headline inflation breakdown

% change year on year

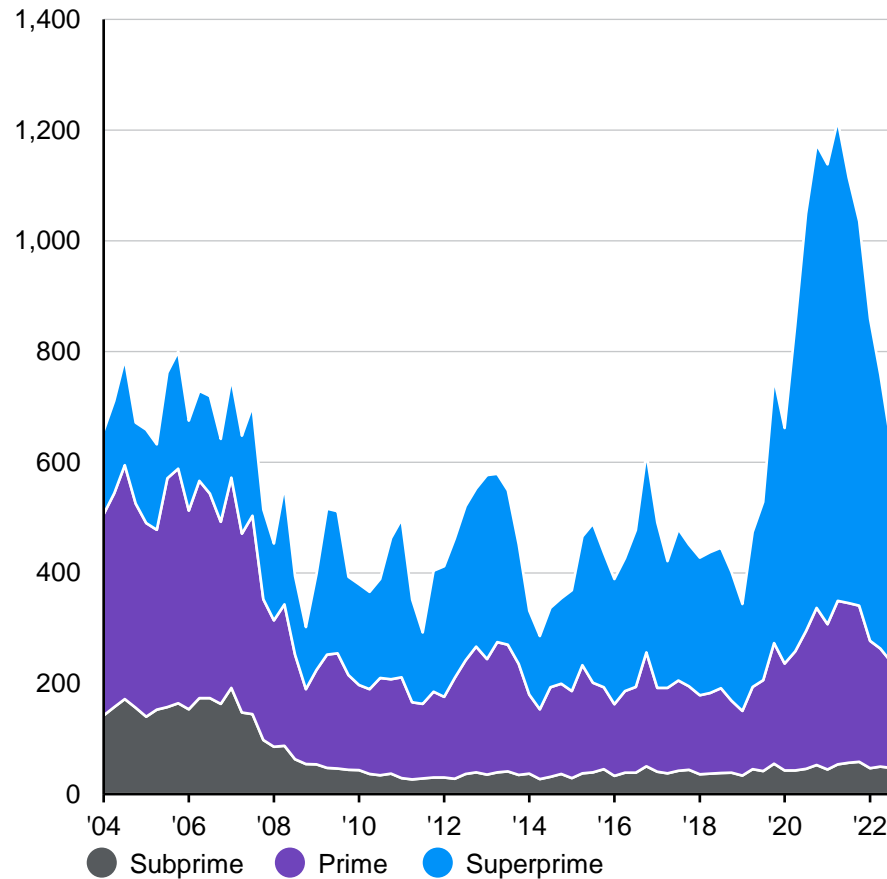




The financial system is unlikely to amplify the growth slowdown in the same way it did in 2008

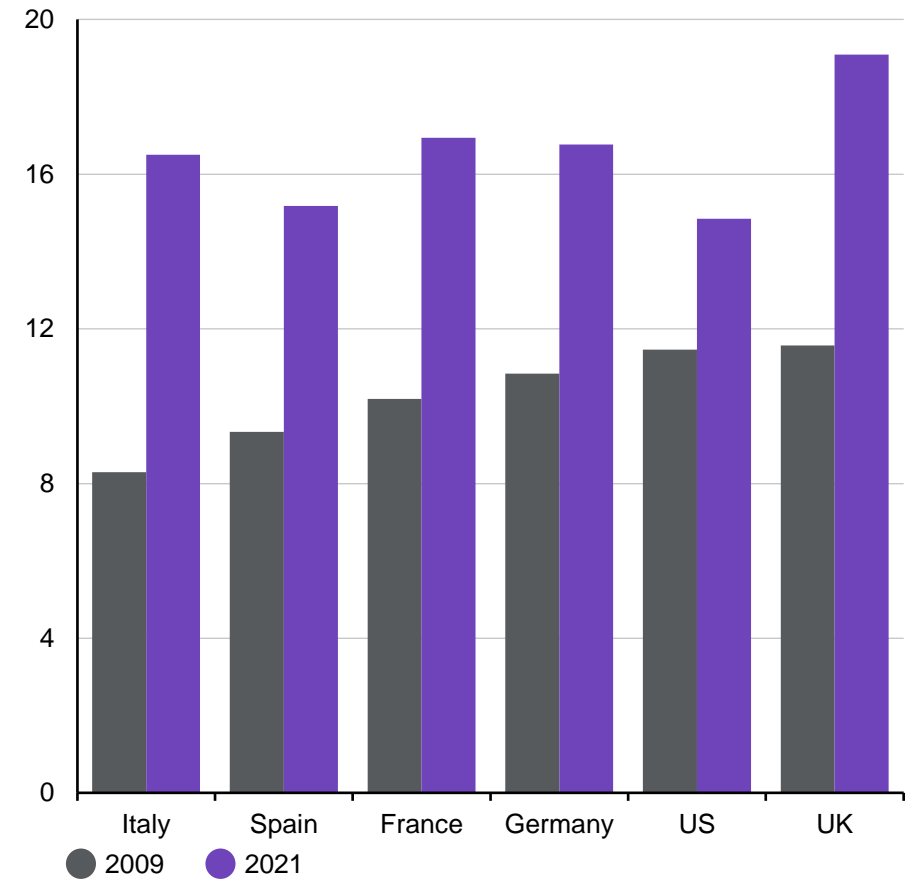
US mortgage origination by credit score

USD billions



Core tier 1 capital ratios

%, regulatory tier 1 capital to risk-weighted assets



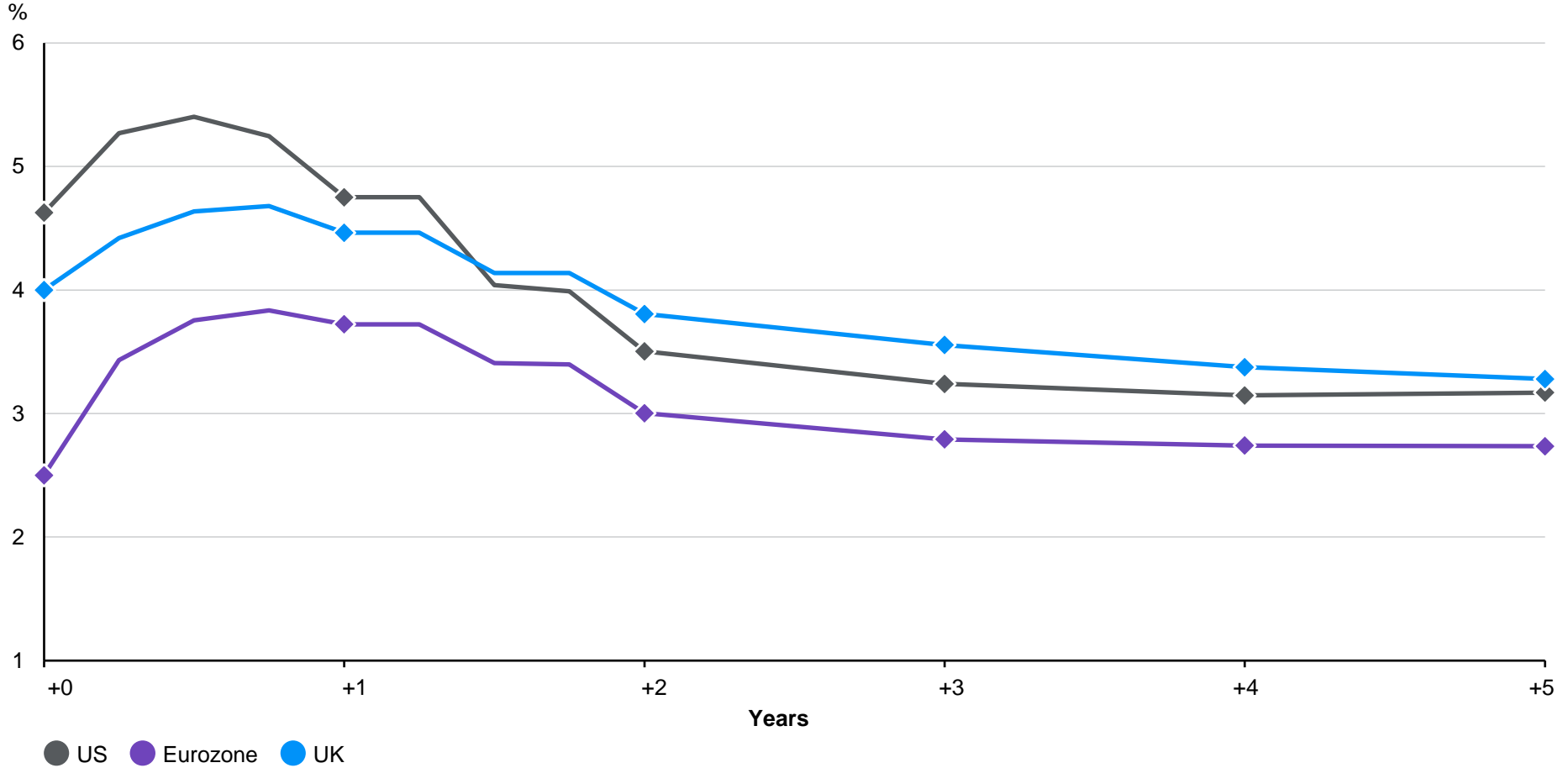
Source: (Left) Federal Reserve Bank of New York, Refinitiv Datastream, J.P. Morgan Asset Management. Mortgages are grouped by FICO score. Subprime are those with FICO scores below 659, prime those between 660 and 759 and superprime those above 760. (Right) IMF, Refinitiv Datastream, J.P. Morgan Asset Management. Core tier 1 ratios are a measure of banks' financial strength, comparing core tier 1 capital (equity capital and disclosed reserves) against total risk-weighted assets. *Guide to the Markets – UK*. Data as of 28 February 2023.



“Pivot” is the new “transitory”

Global economy

Market expectations for central bank policy rates



Source: Bloomberg, J.P. Morgan Asset Management. Expectations are calculated using OIS forwards. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 28 February 2023.

The fixed income reset





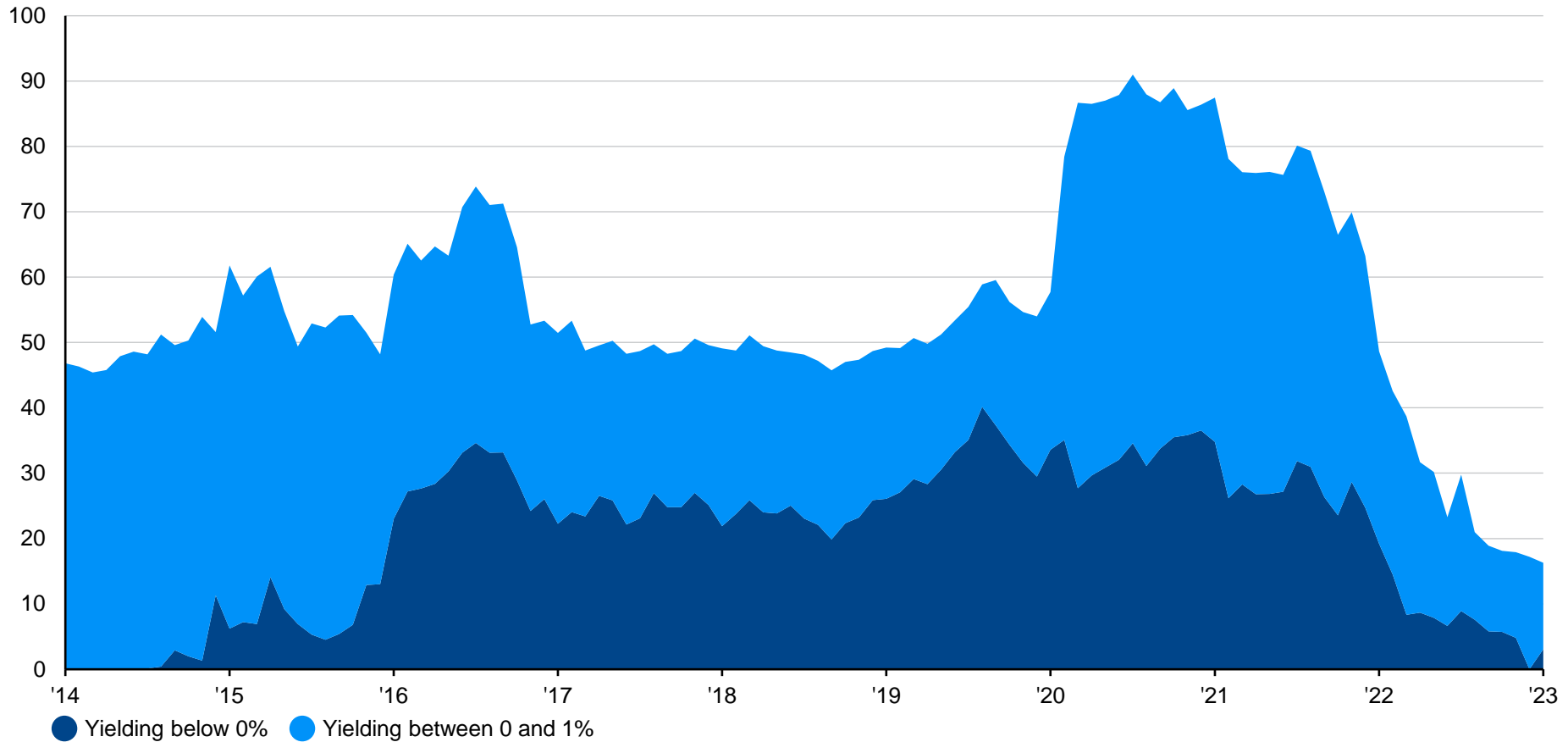
Good riddance to negatively yielding debt

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Fixed income

Global government bond yields

% of BofA/Merrill Lynch Global Government Bond Index



Source: (Left) Bloomberg, BofA/Merrill Lynch, J.P. Morgan Asset Management. Index shown is the BofA/Merrill Lynch Global Government Bond index. (Right) Bloomberg, J.P. Morgan Asset Management. Chart indicates the calculated total return achieved by purchasing US 10-year Treasuries at the current yield and selling at the end of 2023 given various changes in yield. For illustrative purposes only. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 28 February 2023.

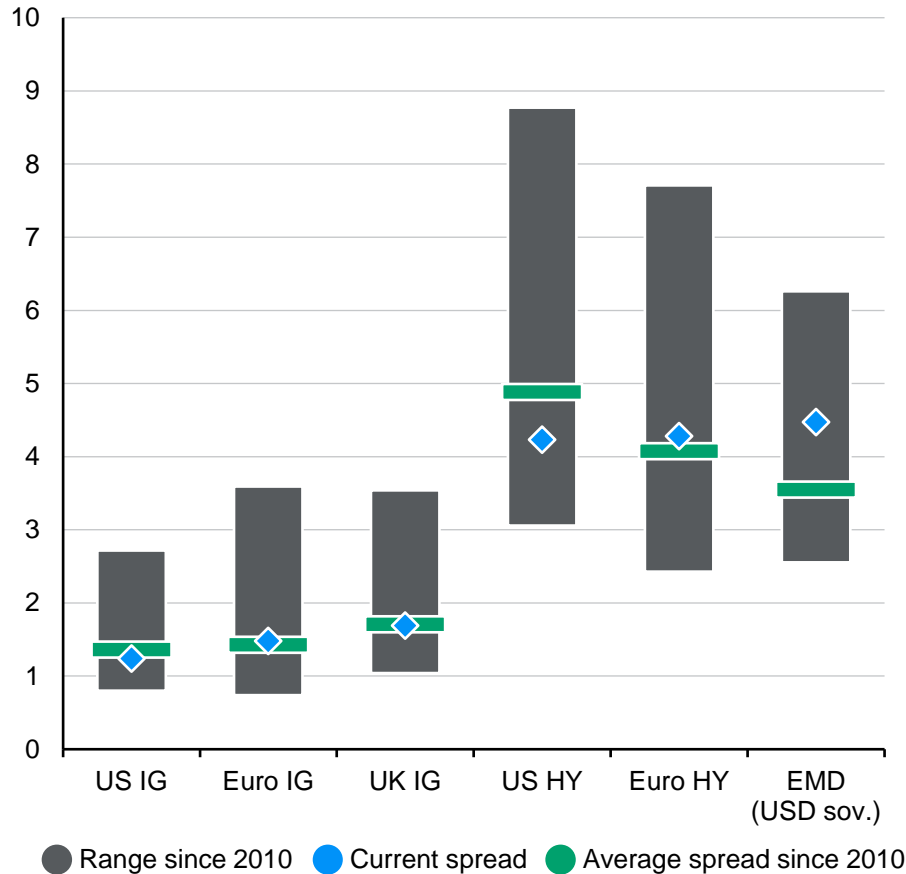


High yield spreads are offering insufficient compensation for risk

Fixed income

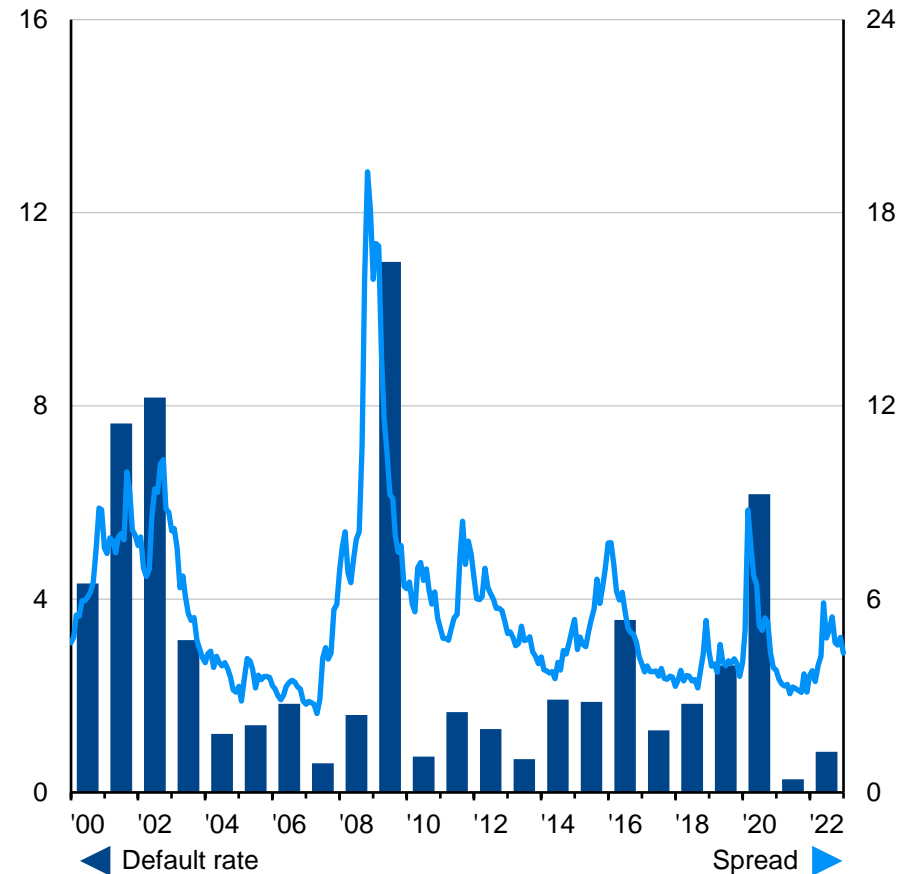
Fixed income spreads

%, option-adjusted spread



US high yield spread and defaults

%, default rate (LHS); %, option-adjusted spread (RHS)



Source: (Left) Bloomberg, Bloomberg Barclays, ICE BofA, J.P. Morgan Economic Research, Refinitiv Datastream, J.P. Morgan Asset Management. Euro IG: Bloomberg Barclays Euro Agg. – Corporate; US HY: ICE BofA US High Yield Constrained; EM Debt: J.P. Morgan EMBI Global Diversified; Euro HY: ICE BofA Euro Developed Markets Non-Financial High Yield Constrained; US IG: Bloomberg Barclays US Agg. Corporate – Investment Grade; UK IG: Bloomberg Barclays Sterling Agg.– Corporates. (Right) ICE BofA, J.P. Morgan Securities Research, Refinitiv Datastream, J.P. Morgan Asset Management. US HY: ICE BofA US High Yield Constrained. US HY default rate is defined as the par value percentage of the total market trading at or below 50% of par value and includes any Chapter 11 filing, prepackaged filing or missed interest payments. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 28 February 2023.

The outlook for equities





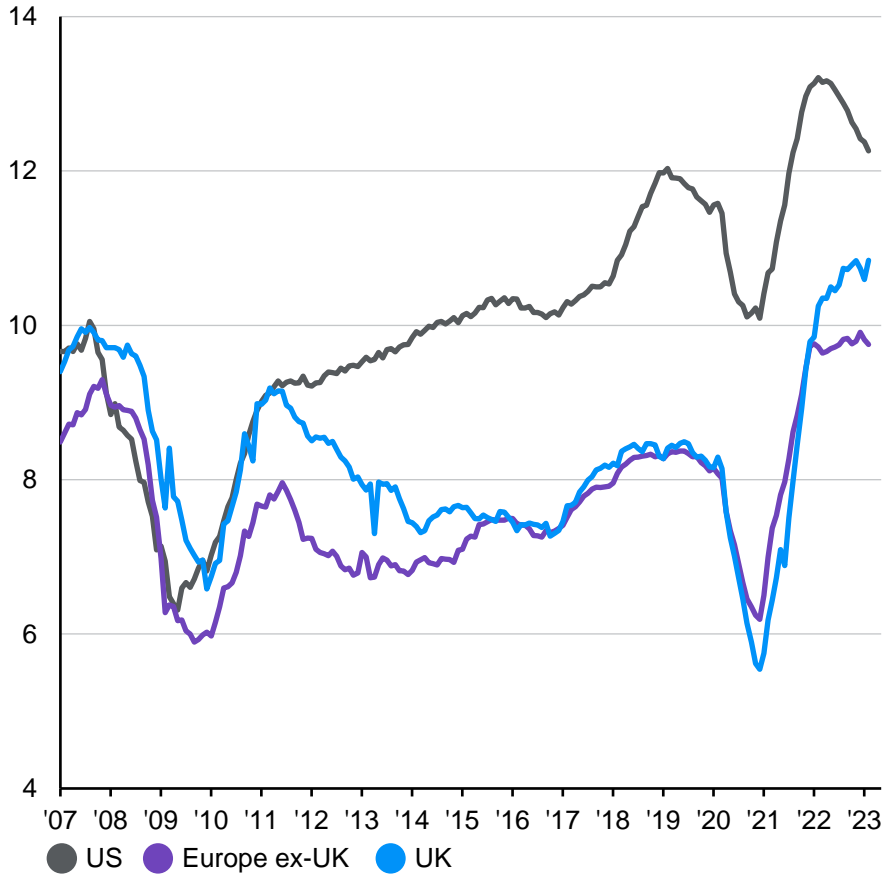
Margin pressure will squeeze earnings this year

GTM | UK | 51

Equities

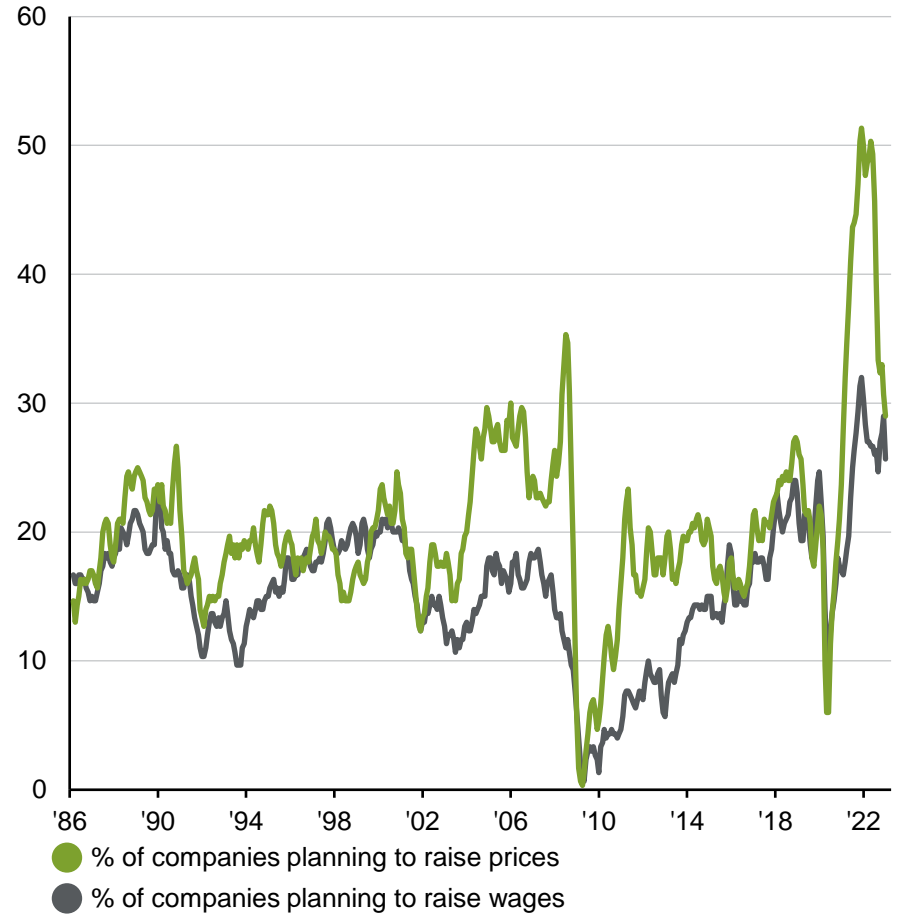
Profit margins

%, margins of 12-month trailing earnings relative to sales



US NFIB survey: Prices and wages

% of respondents, three-month moving average



Source: (Left) FTSE, MSCI, Refinitiv Datastream, S&P Global, J.P. Morgan Asset Management. US: S&P 500, Europe ex-UK: MSCI Europe ex-UK, UK: FTSE All-Share. (Right) National Federation of Independent Business, Refinitiv Datastream, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 28 February 2023.

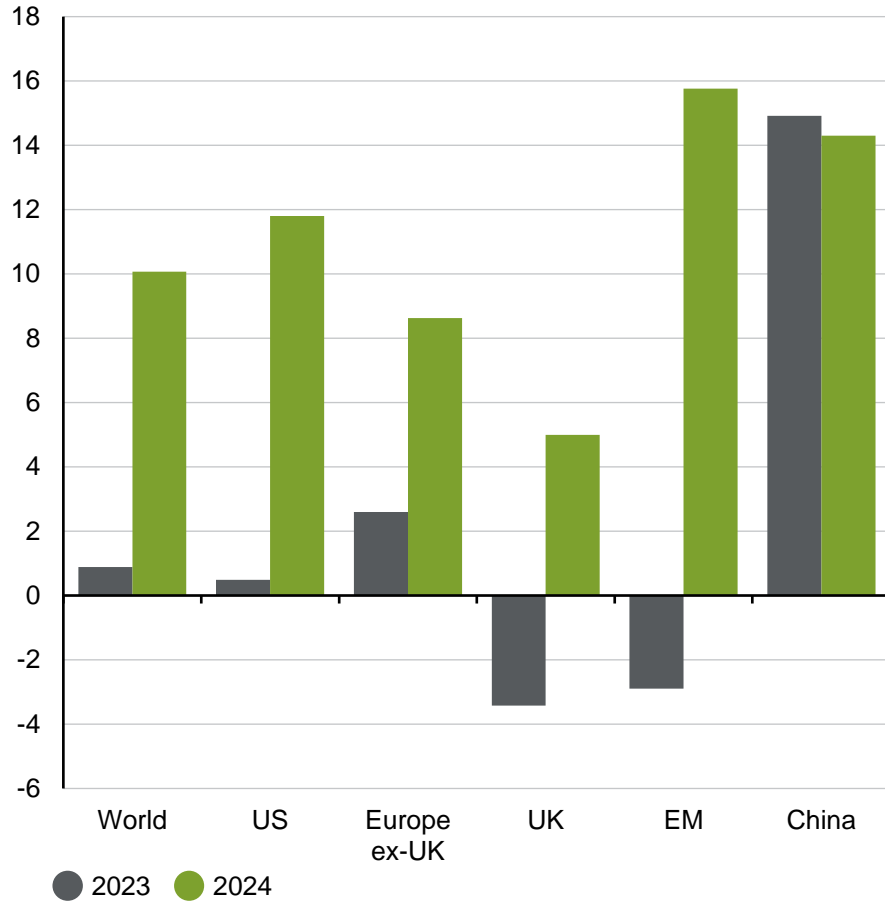


Valuation discipline remains essential

Equities

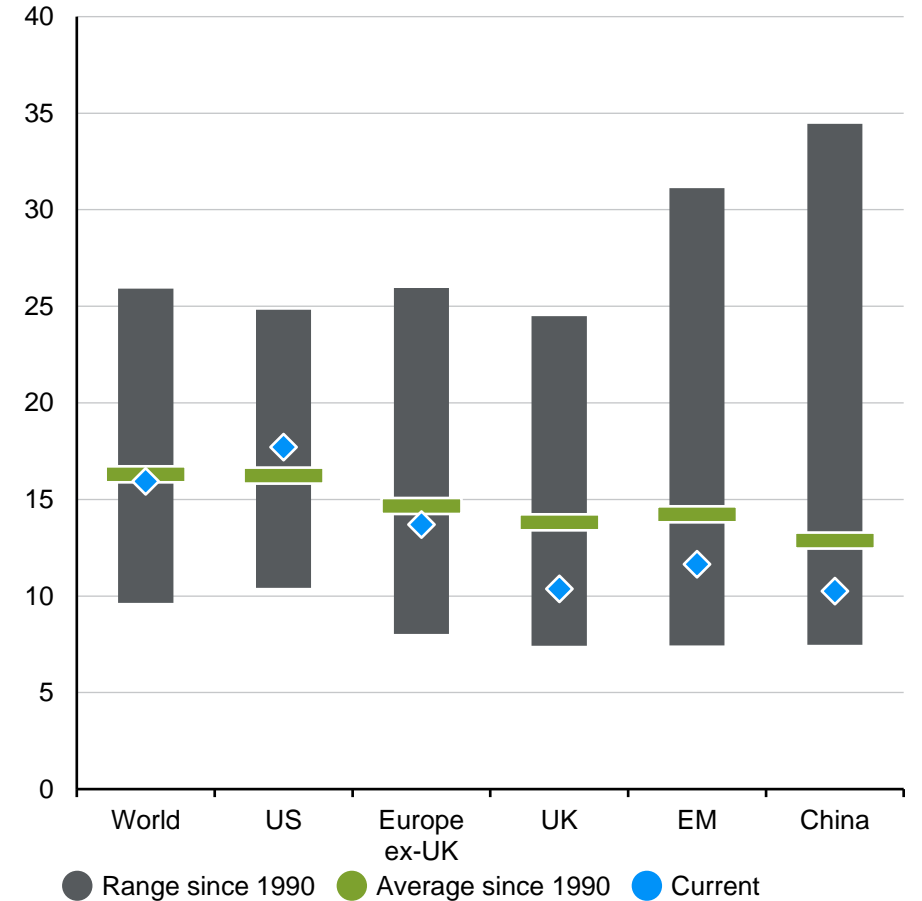
Consensus estimates for global earnings per share growth

% change year on year



Global forward P/E ratios

x, multiple



Source: (Left) FTSE, IBES, MSCI, Refinitiv Datastream, S&P Global, J.P. Morgan Asset Management. MSCI indices are used for World, Europe ex-UK, EM and China. UK is FTSE All-Share and US is S&P 500. Earnings data is based on 12-month forward estimates. (Right) IBES, MSCI, Refinitiv Datastream, S&P Global, J.P. Morgan Asset Management. Forward P/E ratio is price to 12-month forward earnings. MSCI indices are used for all regions/countries (due to data availability), except for the US, which is represented by the S&P 500. Range and average for China is since 1996, due to data availability. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 28 February 2023.

Catalysts for a recovery in EM assets

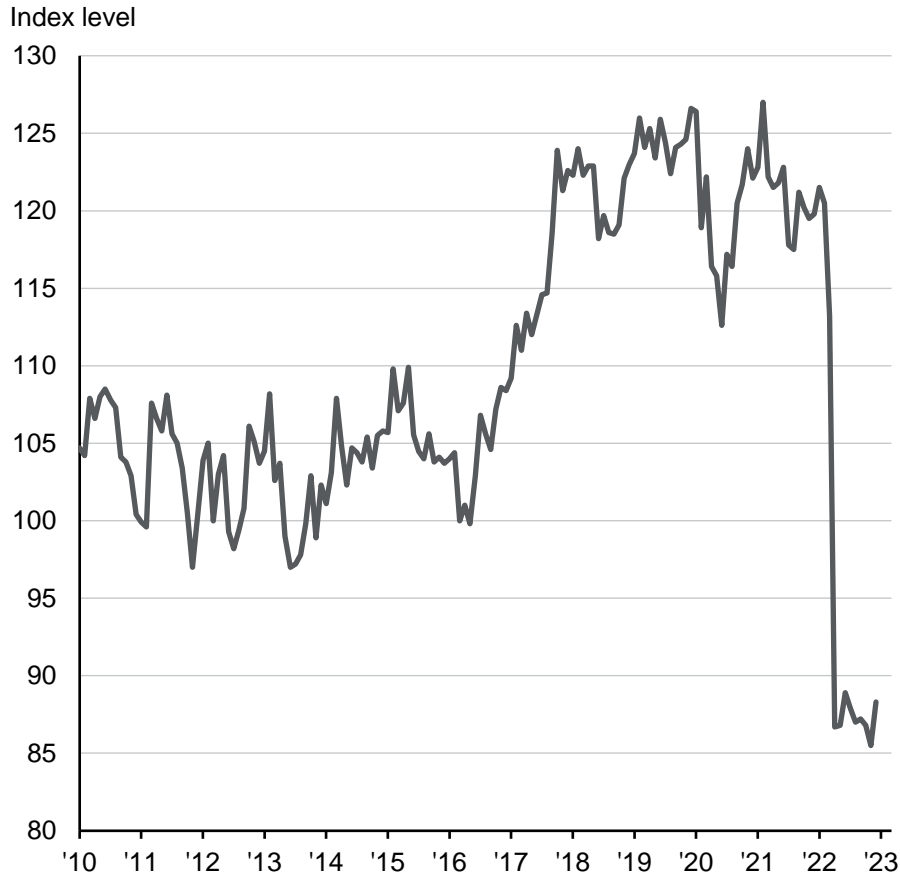




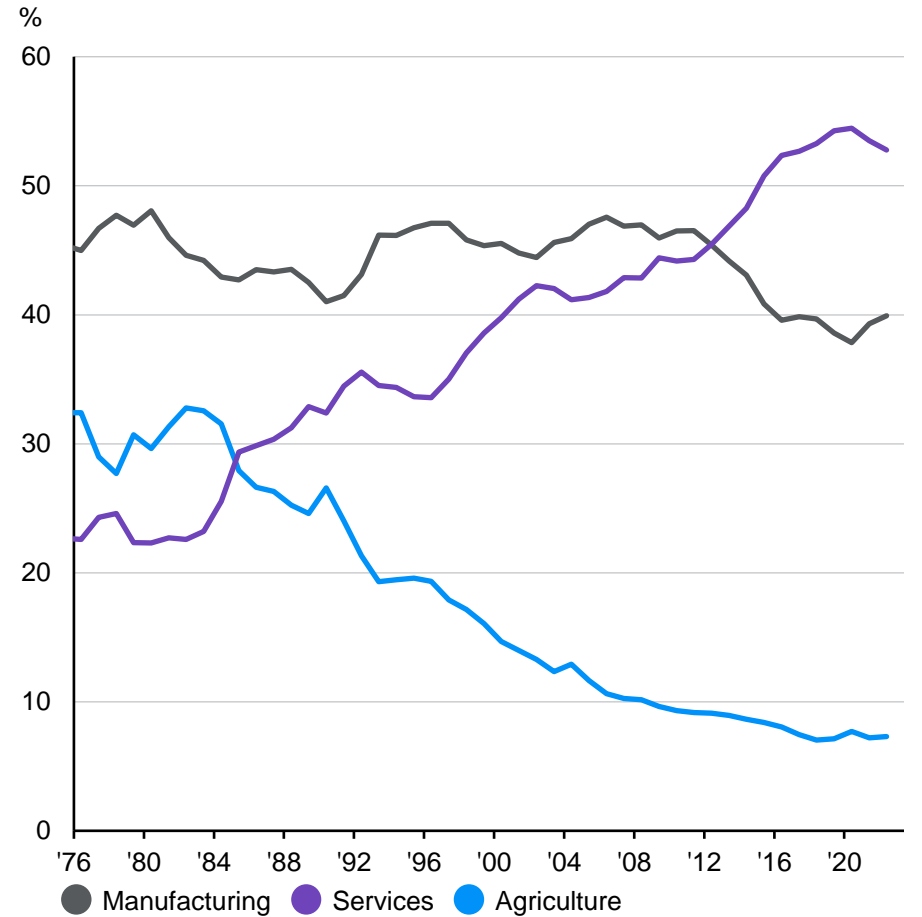
Lockdowns have had a huge impact on consumer confidence

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China consumer confidence



Share of China GDP





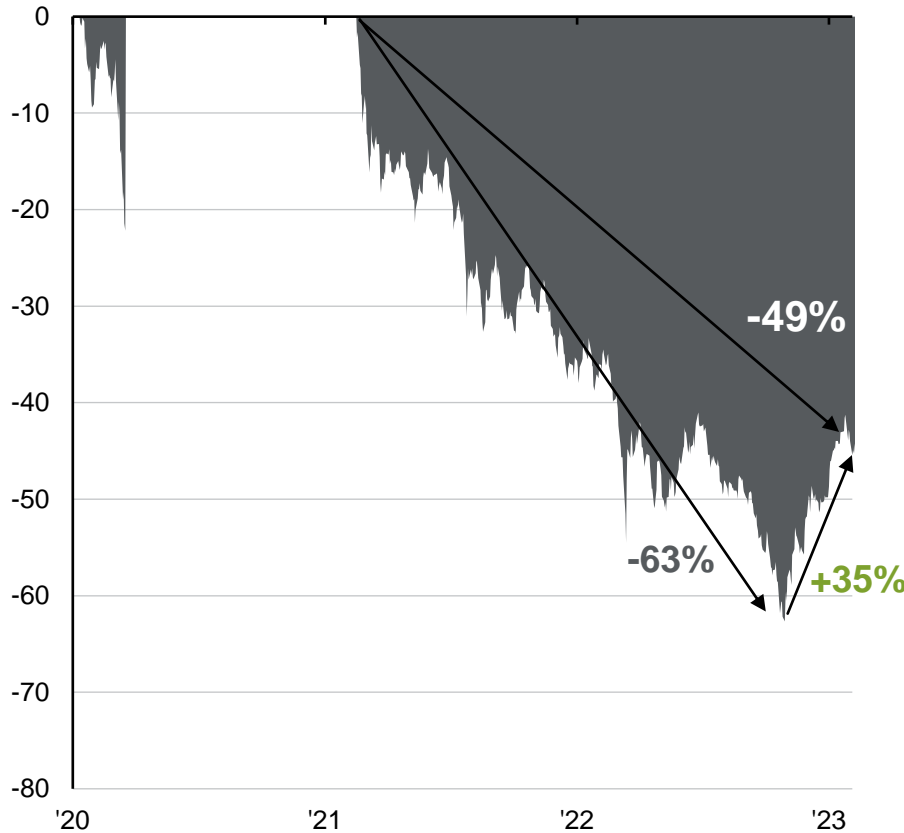
Chinese stocks are still down more than 40% from the peak

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Equities

MSCI China drawdowns

% drawdown from local peak, price return in local currency



MSCI China price-to-book ratio

x, multiple



Source: (All charts) MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Guide to the Markets - UK. Data as of 28 February 2023.

Central projections and risks





Summary views for the year ahead

CENTRAL

Moderating inflation, pausing central banks, mild recessions

Positive returns from both equities and fixed income

DOWNSIDE

A repeat of 2022: persistent inflation forcing central banks to keep hiking, resulting in a deeper downturn

Both stocks and bonds under further pressure

UPSIDE

Goldilocks: inflation fades quickly and economic growth recovers

Best scenario for risk assets

Source: J.P. Morgan Asset Management, as of March 2023. 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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Unless otherwise stated, all data as of 28 February 2023 or most recently available.
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