



Guide to the Markets







UK | October 2024

Hugh Gimber, Global Market Strategist



Learning objectives

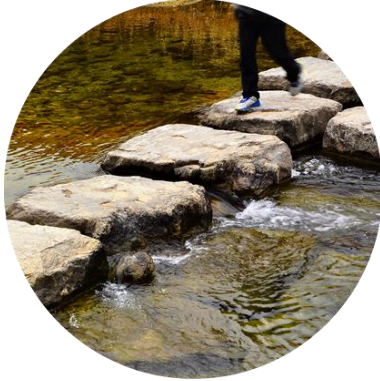
MARKET INSIGHTS LEARNING OBJECTIVES AND OUTCOMES

-  Describe the economic outlook over the next 12-18 months
-  Explain the potential impact of rate cuts on the economy and markets
-  Understand how to position equity portfolios as earnings growth broadens across sectors
-  Describe the scenarios in which core fixed income could act as a portfolio diversifier





Summary



The balance of risks is shifting



Core bonds are diversifying again



Shifting gears in equity performance



Big unknowns, big implications

The balance of risks for the global economy is shifting

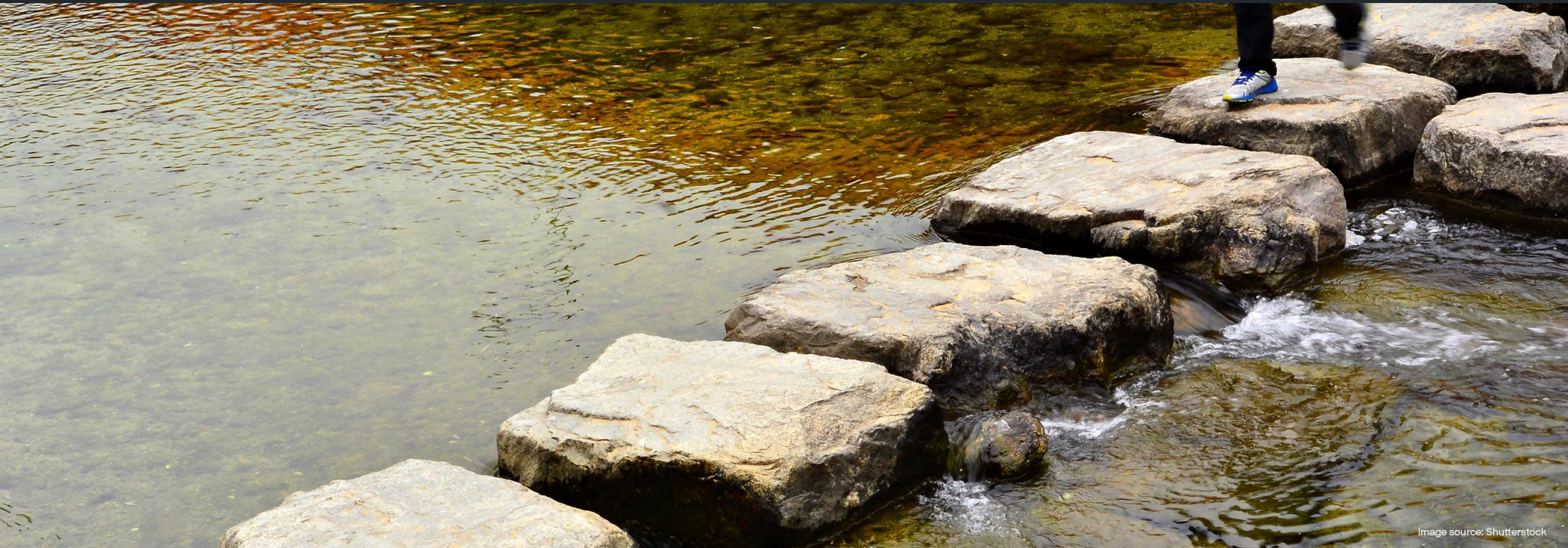
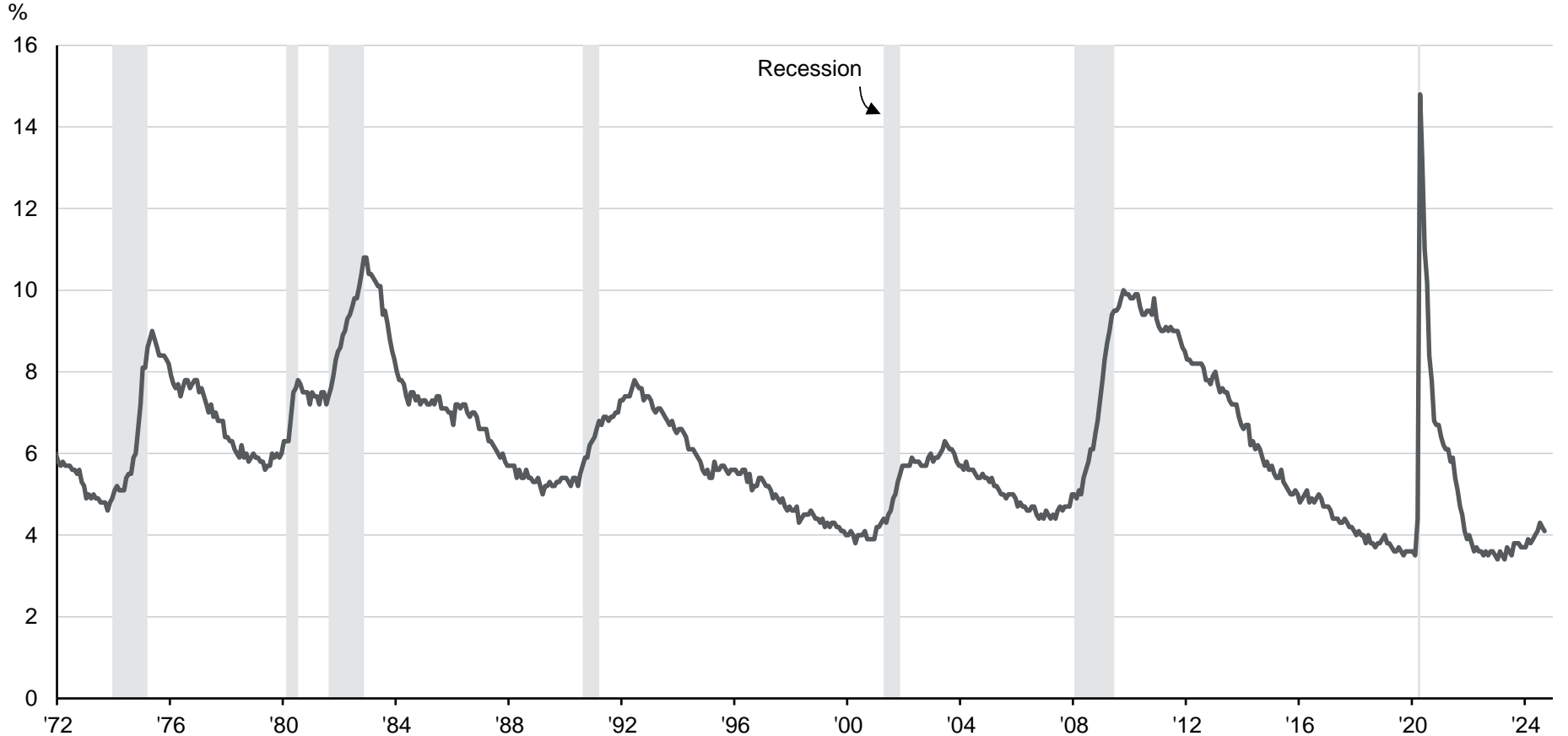


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In the US, recession risks have resurfaced

US unemployment rate



Source: BLS, LSEG Datastream, J.P. Morgan Asset Management. Periods of recession are defined using US National Bureau of Economic Research (NBER) business cycle dates. *Guide to the Markets - UK*. Data as of 14 October 2024.



Inflation risks have eased

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Global economy

US goods and services inflation

% change year on year

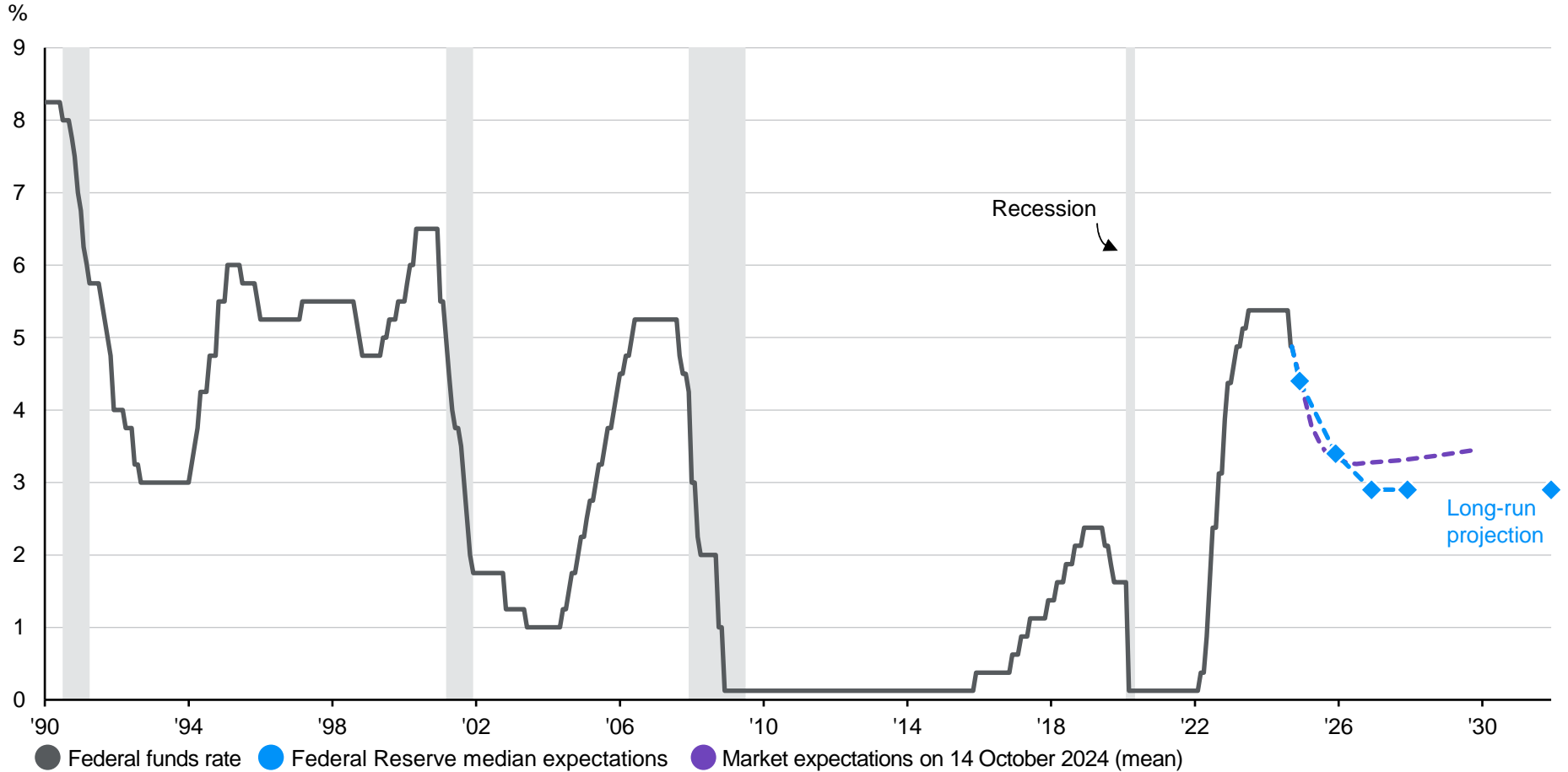




The Fed seems keen to get to neutral ASAP

Global economy

Federal Reserve policy rate expectations



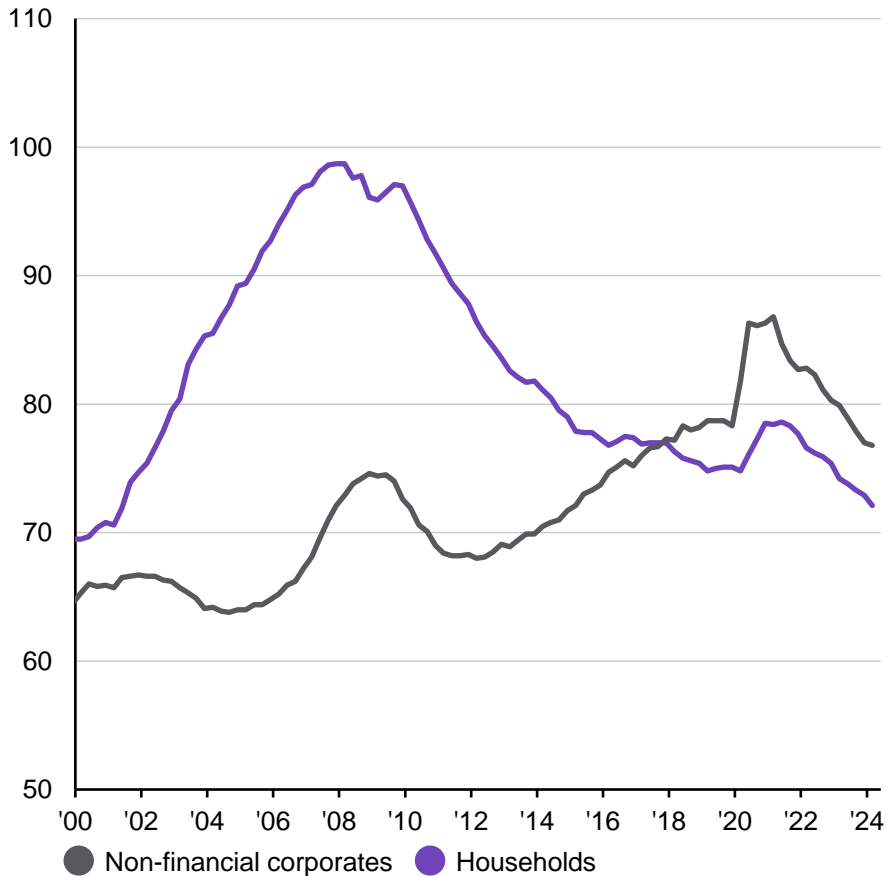
Source: Bloomberg, BLS, Federal Reserve, J.P. Morgan Asset Management. Market expectations are calculated using OIS forwards. The long-run projection represents the committee's median assessment of where the federal funds rate would be expected to converge to under the appropriate monetary policy and in the absence of further shocks to the economy. Periods of recession are defined using US National Bureau of Economic Research (NBER) business cycle dates. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 14 October 2024.



There hasn't been the big boom that normally precedes big busts

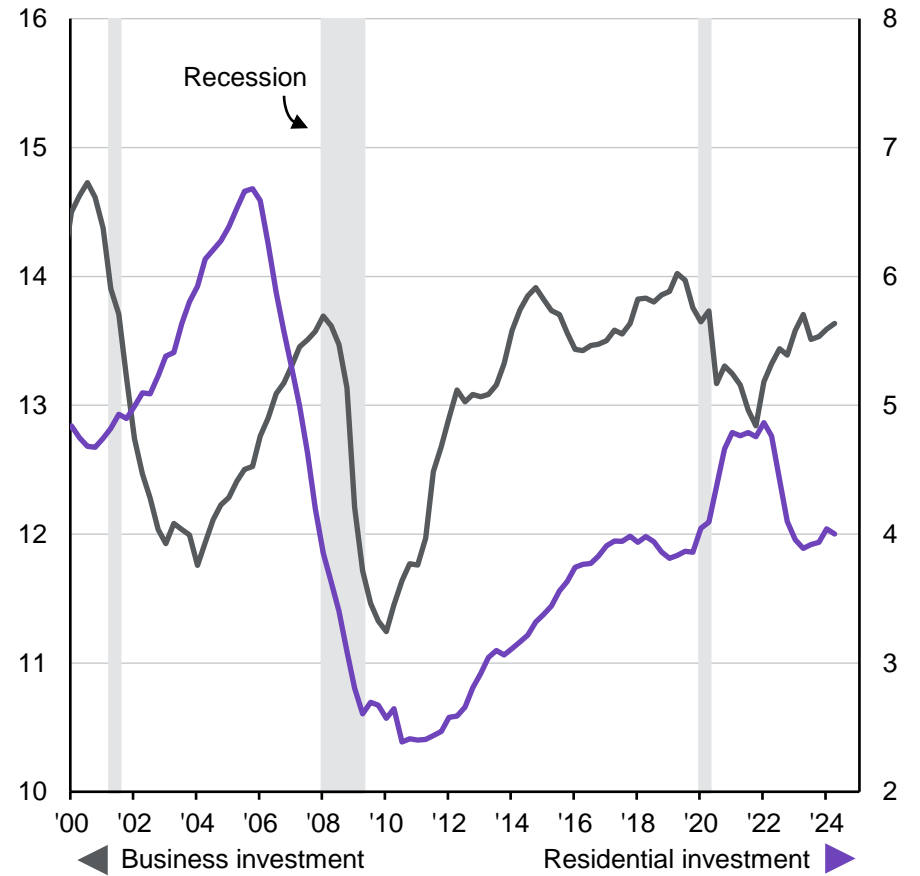
US debt

% of nominal GDP



US residential and business investment

% of nominal GDP

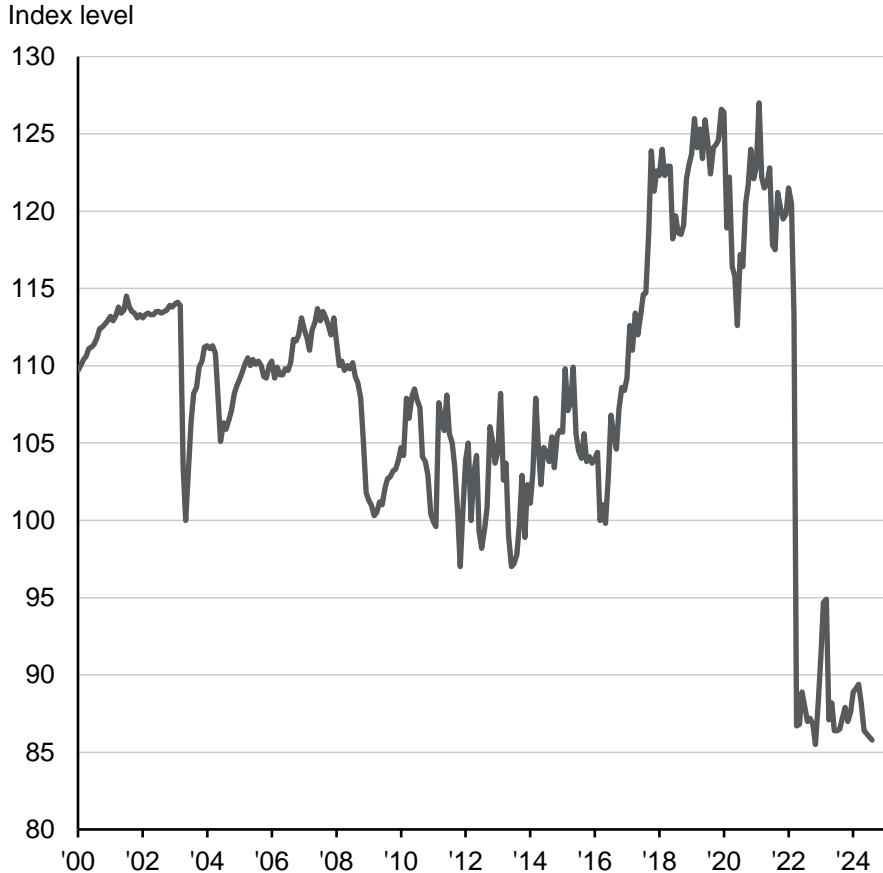


Source: (Left) Bank for International Settlements, LSEG Datastream, J.P. Morgan Asset Management. (Right) BEA, LSEG Datastream, J.P. Morgan Asset Management. Periods of recession are defined using US National Bureau of Economic Research (NBER) business cycle dates. *Guide to the Markets - UK*. Data as of 14 October 2024.

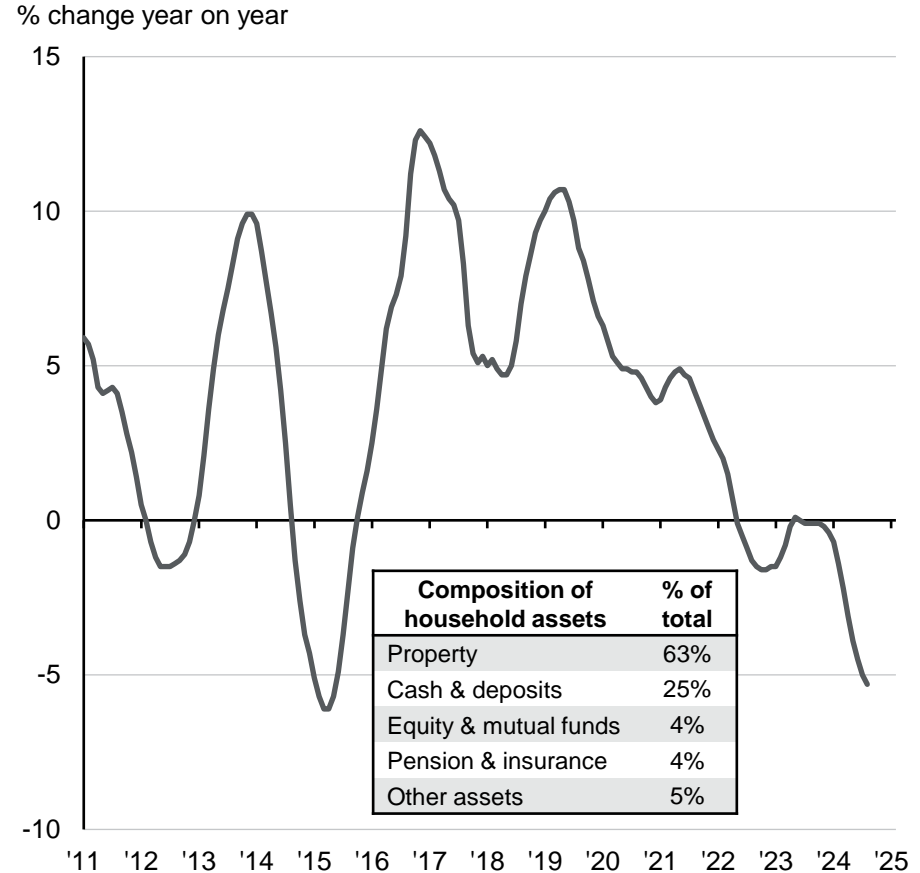


China's ongoing weakness has prompted a more significant response

Chinese consumer confidence



China new residential property prices



Composition of household assets	% of total
Property	63%
Cash & deposits	25%
Equity & mutual funds	4%
Pension & insurance	4%
Other assets	5%

Source: (Left) LSEG Datastream, National Bureau of Statistics of China, J.P. Morgan Asset Management. (Right) CEIC, Goldman Sachs Investment Research, LSEG Datastream, National Bureau of Statistics of China, NIFD, Wind, J.P. Morgan Asset Management. The index shows the change year on year in new house prices in 70 medium and large Chinese cities. *Guide to the Markets - UK*. Data as of 14 October 2024.



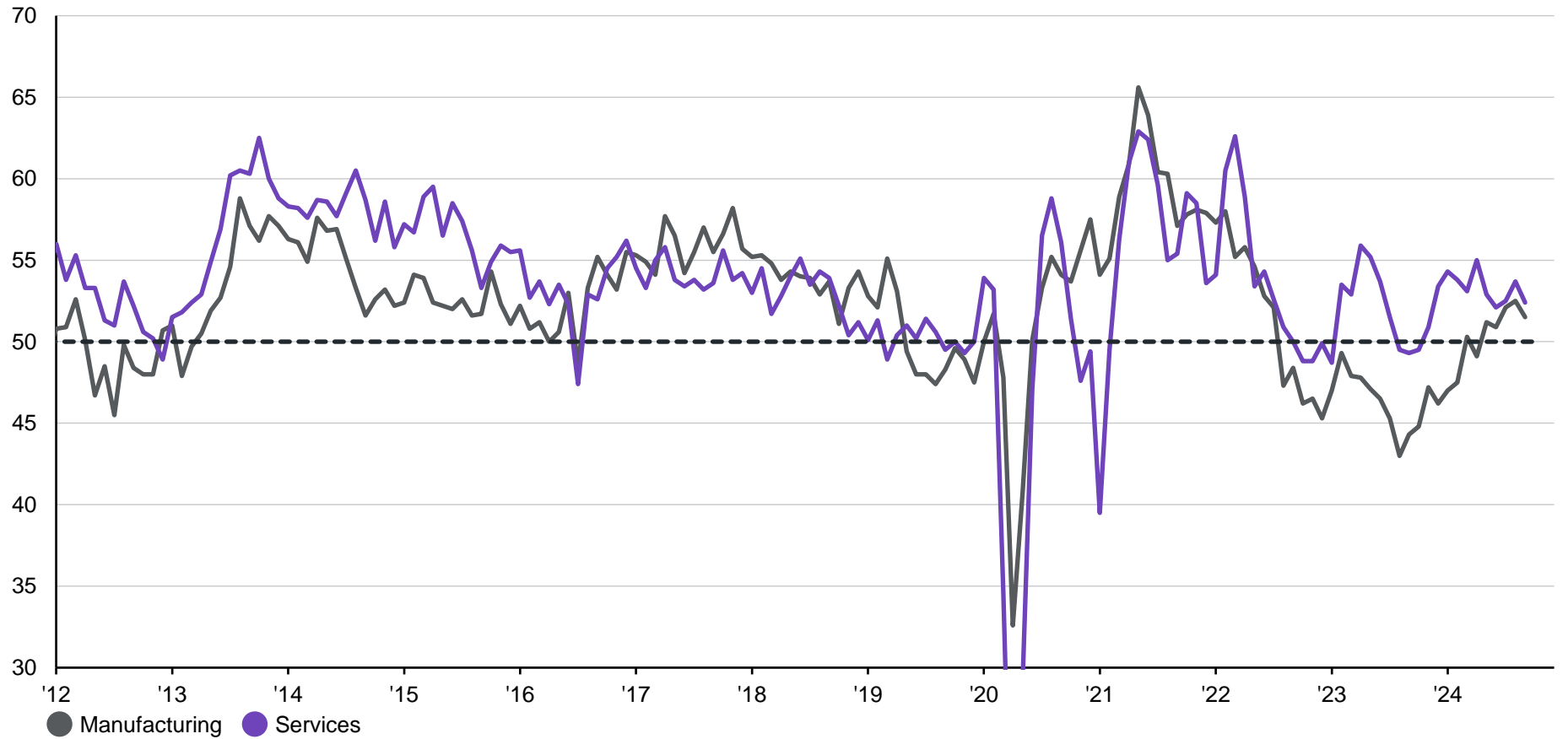
UK activity is on the up

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Global economy

UK Purchasing Managers' Indices (PMI)

Index level



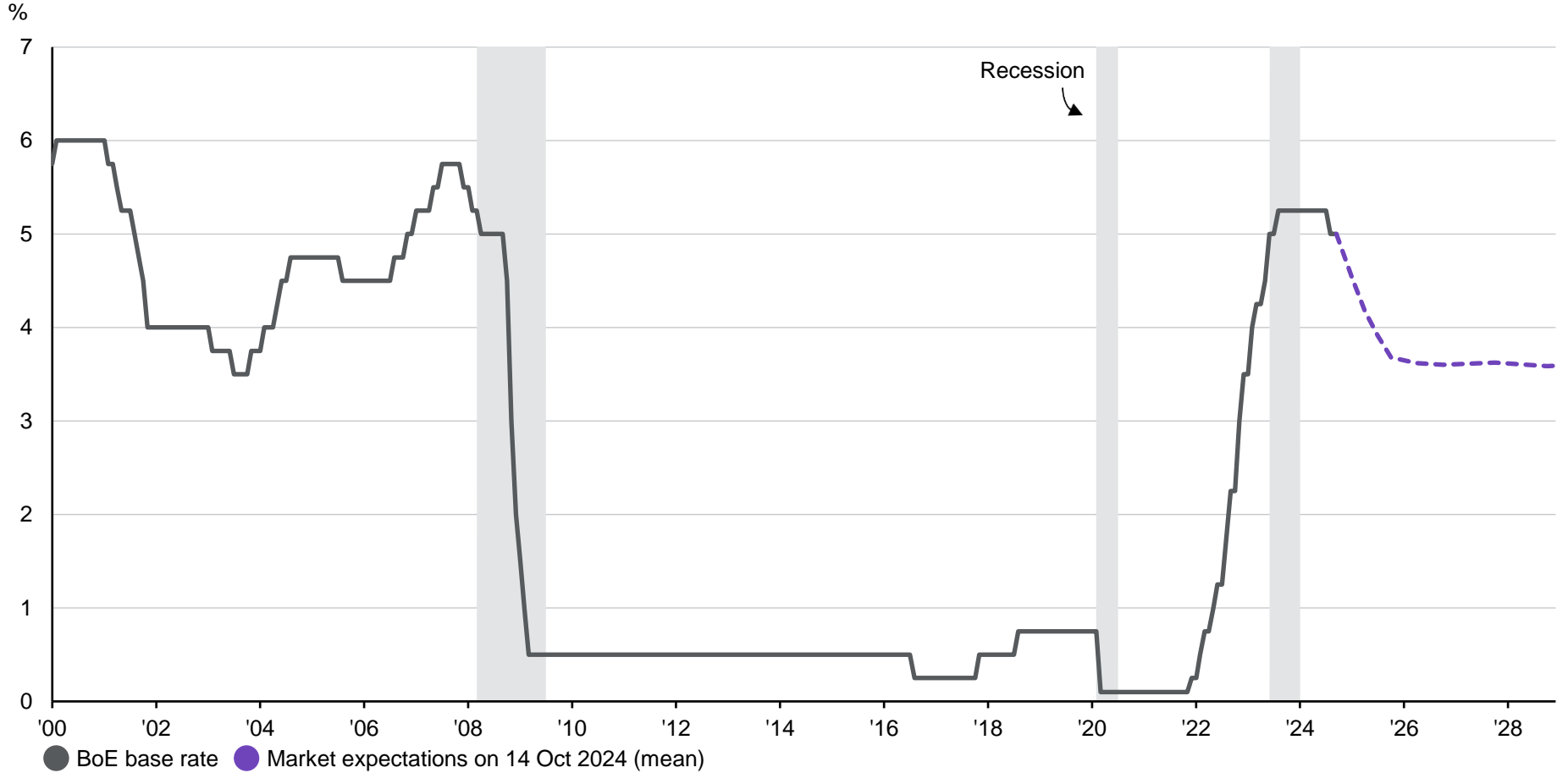
Source: Bloomberg, S&P Global, J.P. Morgan Asset Management. A PMI score of 50 indicates that economic activity is neither expanding nor contracting, above 50 indicates expansion. *Guide to the Markets - UK*. Data as of 14 October 2024.



UK rates should continue to fall

Global economy

Bank of England policy rate expectations



Source: Bank of England, Bloomberg, J.P. Morgan Asset Management. Market 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 14 October 2024.



New Chancellor, same problems

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Global economy

UK tax revenue and spending

% of GDP



Core bonds are diversifying again



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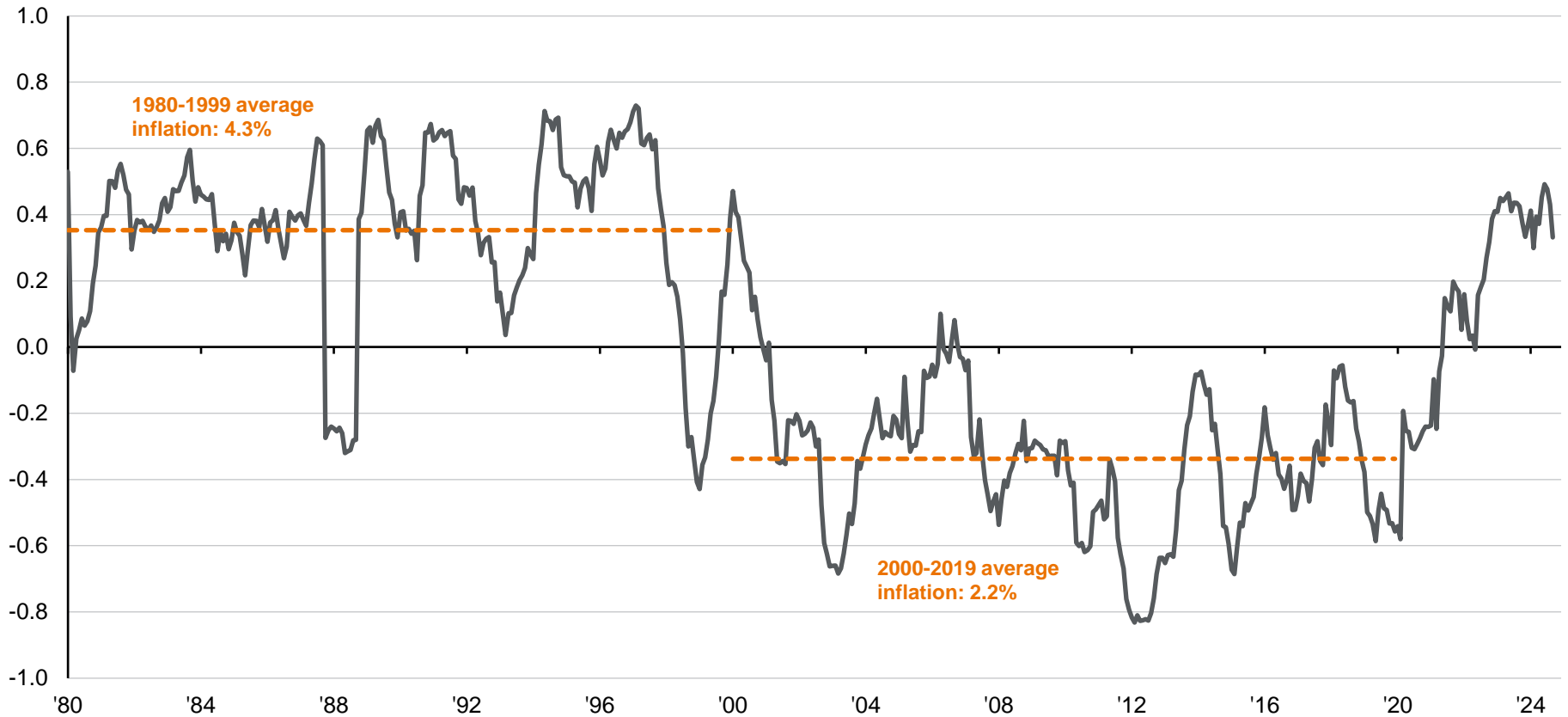


The switch from inflation to recession risk restores the negative stock-bond correlation

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S&P 500 / US 10-year Treasury correlations and US inflation

Rolling 1-year correlation based on weekly returns; % change year on year



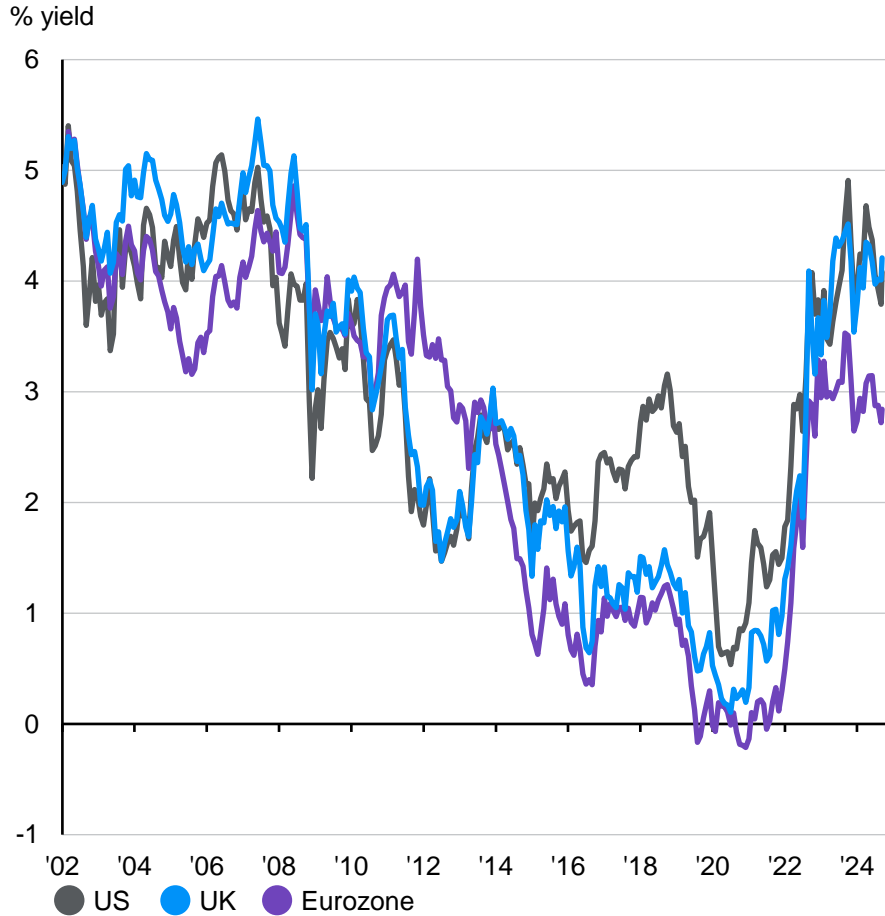
Other assets

Source: BLS, LSEG Datastream, S&P Global, J.P. Morgan Asset Management. US inflation refers to headline CPI. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 14 October 2024.

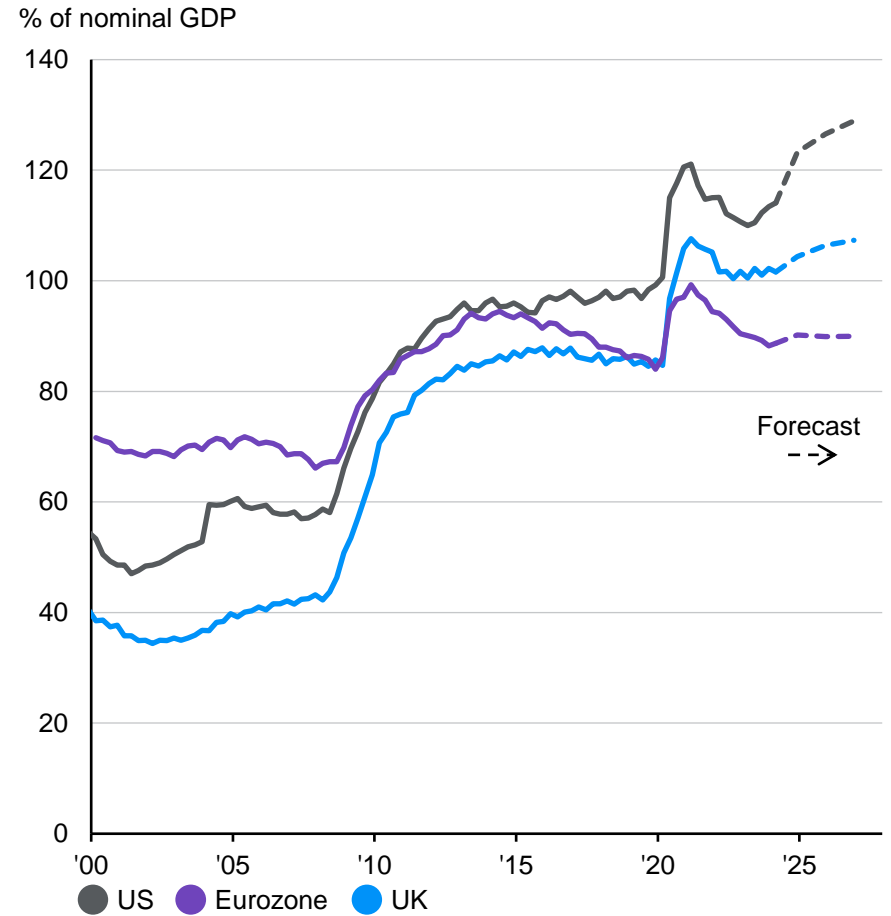


Trump-related inflation risk speaks to European duration

Nominal 10-year government bond yields



Government debt



Source: (Left) LSEG Datastream, J.P. Morgan Asset Management. Eurozone is a GDP-weighted average of the French, German, Italian and Spanish 10-year government bond yields. (Right) Bank for International Settlements, Eurostat, IMF, LSEG Datastream, J.P. Morgan Asset Management. Debt refers to gross debt at face value. Dotted lines represent IMF forecasts. *Guide to the Markets - UK*. Data as of 14 October 2024.

Shifting gears in equity performance

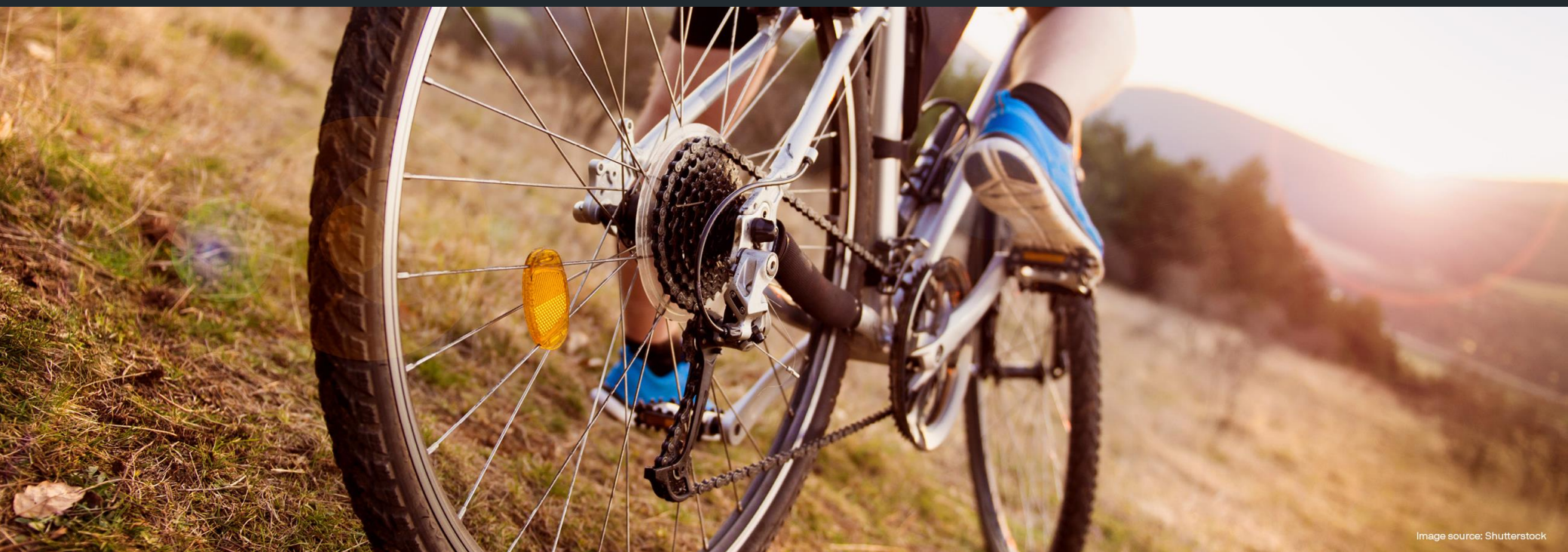


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Tech needs to live up to very elevated expectations

Equities

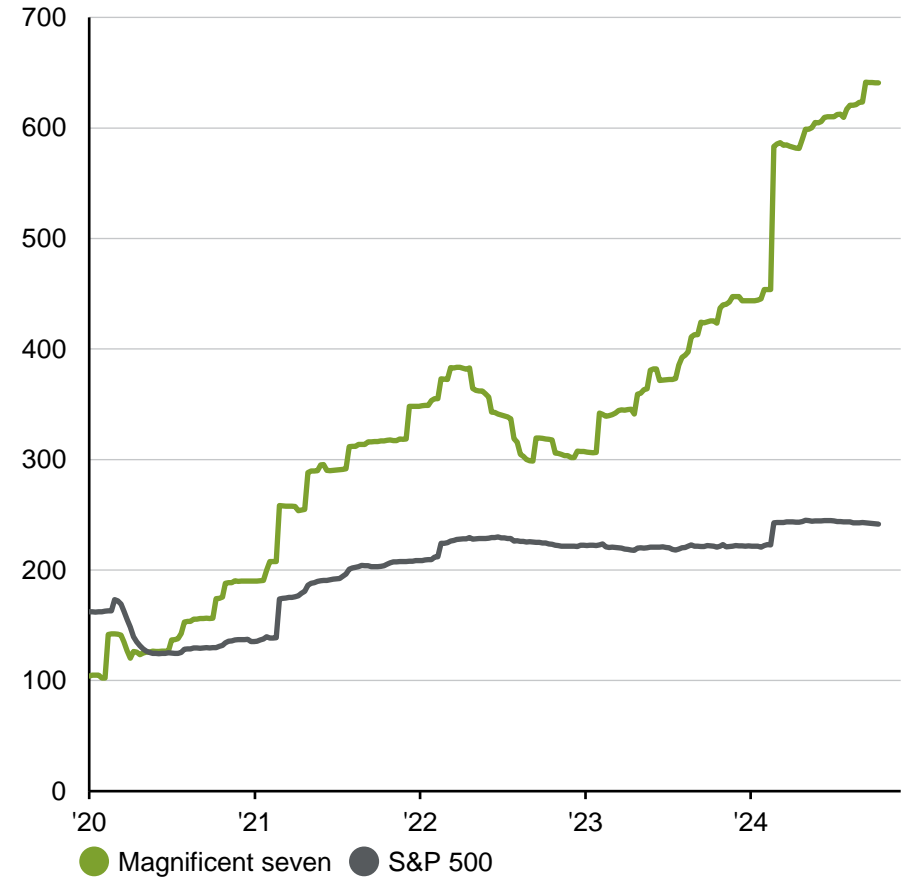
Forward P/E ratio of the S&P 500 top 10 vs. the rest

x, multiple



12-month forward earnings expectations

Next 12 months' earnings per share estimates, USD



Source: (Left) FactSet, S&P Global, J.P. Morgan Asset Management. The top 10 stocks are based on the 10 largest index constituents at the start of each month. (Right) Bloomberg, S&P Global, 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 14 October 2024.



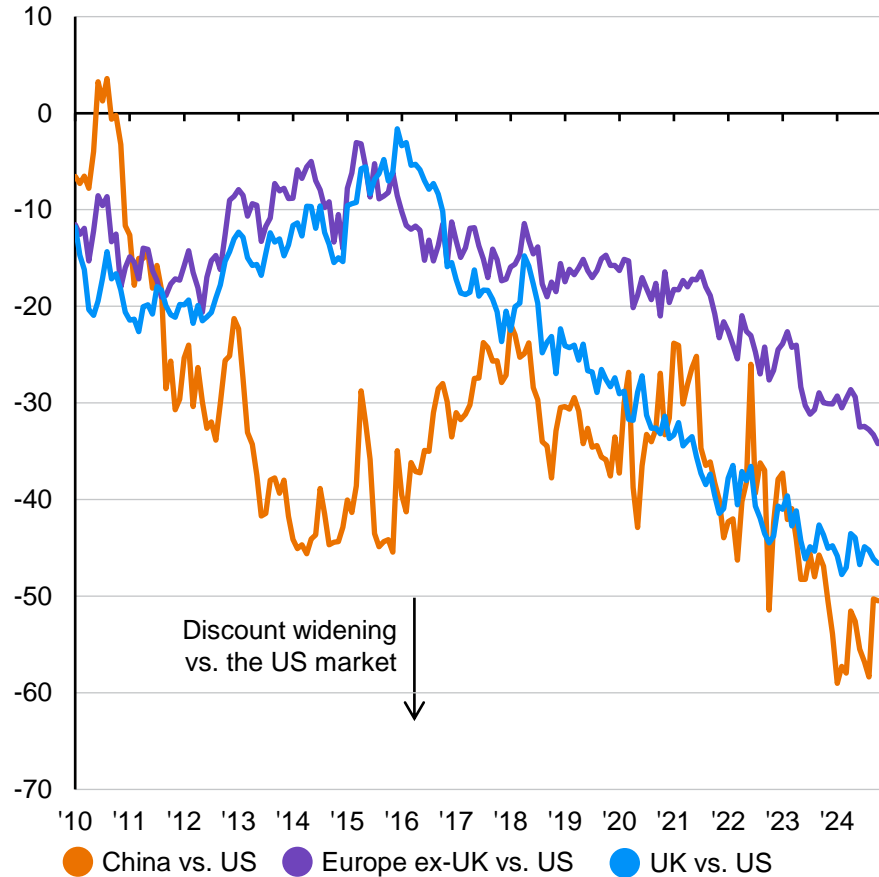
If we're right on Europe's recovery, European stocks are too cheap

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Equities

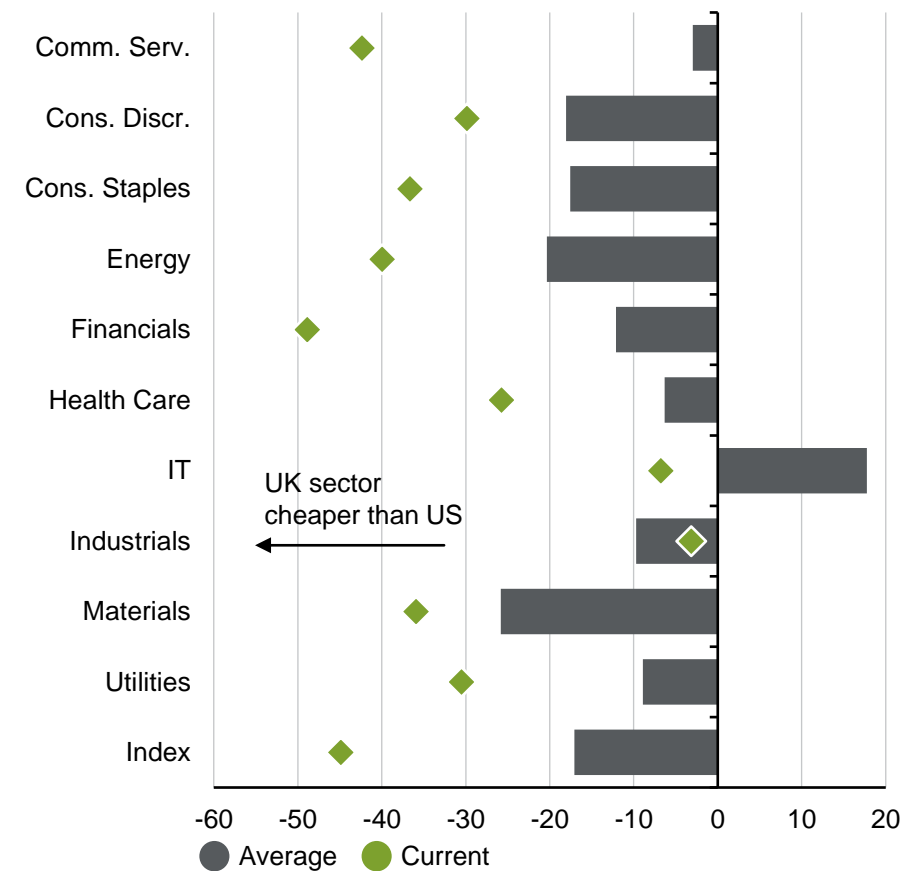
Relative equity valuations

%, relative discount/premium based on 12-month forward P/E ratios



MSCI UK relative valuation vs. the US

%, relative discount/premium based on 12-month forward P/E ratios



Source: (Left) FTSE, IBES, LSEG Datastream, MSCI, S&P Global, J.P. Morgan Asset Management. US: S&P 500; Europe ex-UK: MSCI Europe ex-UK; UK: FTSE All-Share; China: MSCI China. Valuation is price to 12-month forward earnings. (Right) LSEG Datastream, MSCI, S&P Global, J.P. Morgan Asset Management. The chart shows the current percentage discount of the index or sector 12-month forward P/E ratio vs. the equivalent for the S&P 500, and the average since 1995. Communication Services average is calculated using data from 1995 to 2000 inclusive and from 2005 to date, due to sector composition changes. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 14 October 2024.

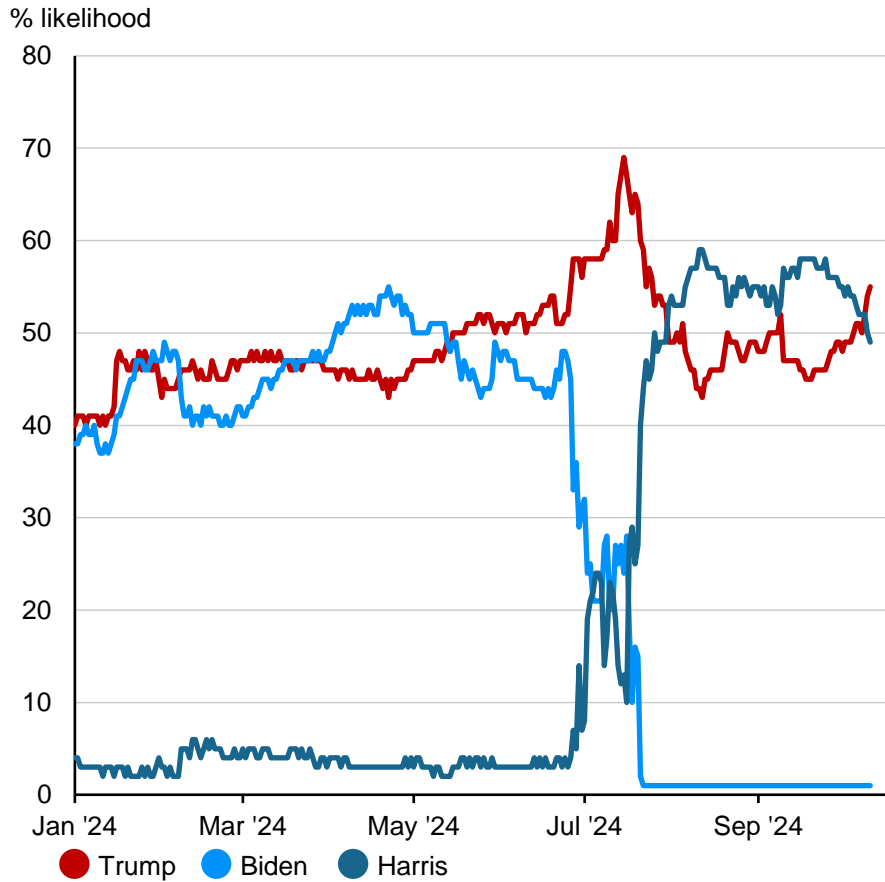
Big unknowns, big implications



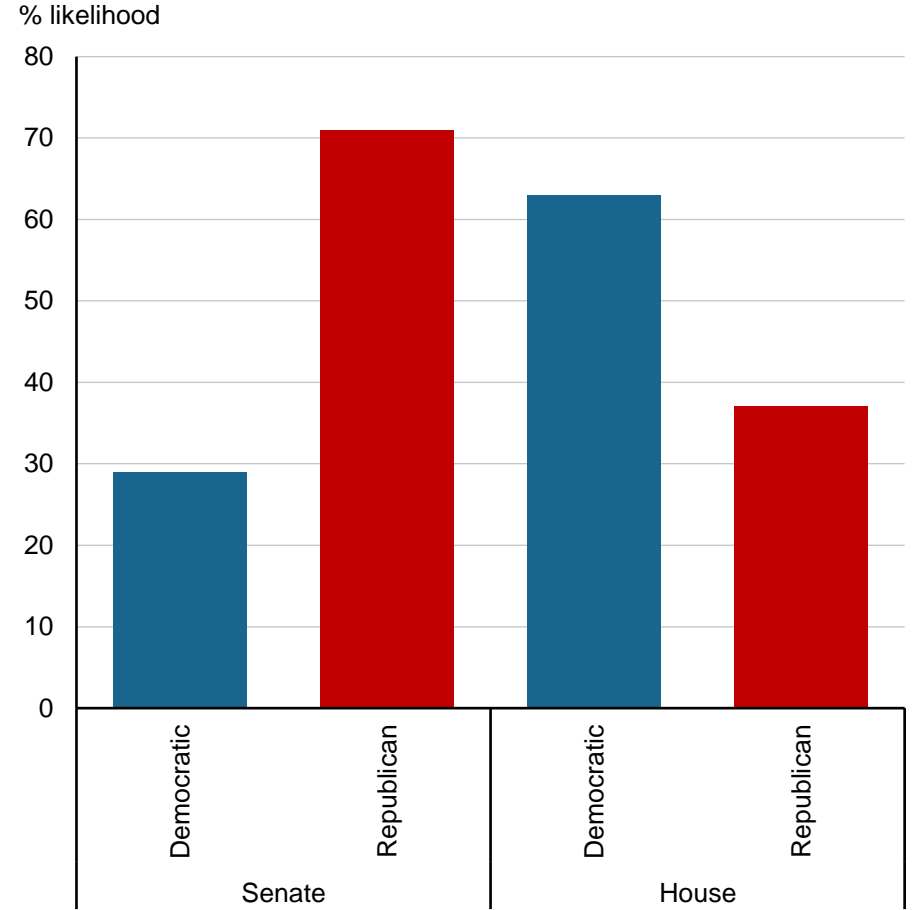


Too close to call

Market-implied probabilities for the 2024 presidential election winner



Market-implied probabilities for control of Congress



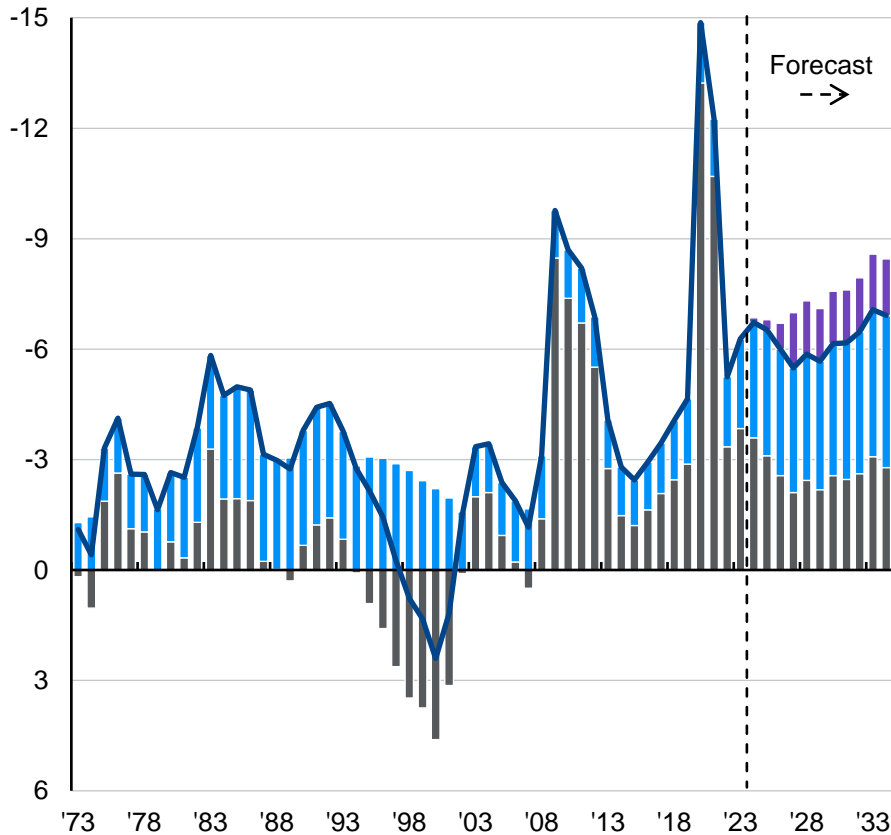
Source: (All charts) Bloomberg, PredictIt, J.P. Morgan Asset Management. President Biden withdrew from the race on 21 July 2024. Guide to the Markets - UK. Data as of 14 October 2024.



Washington, we have a problem

Composition of the US federal deficit

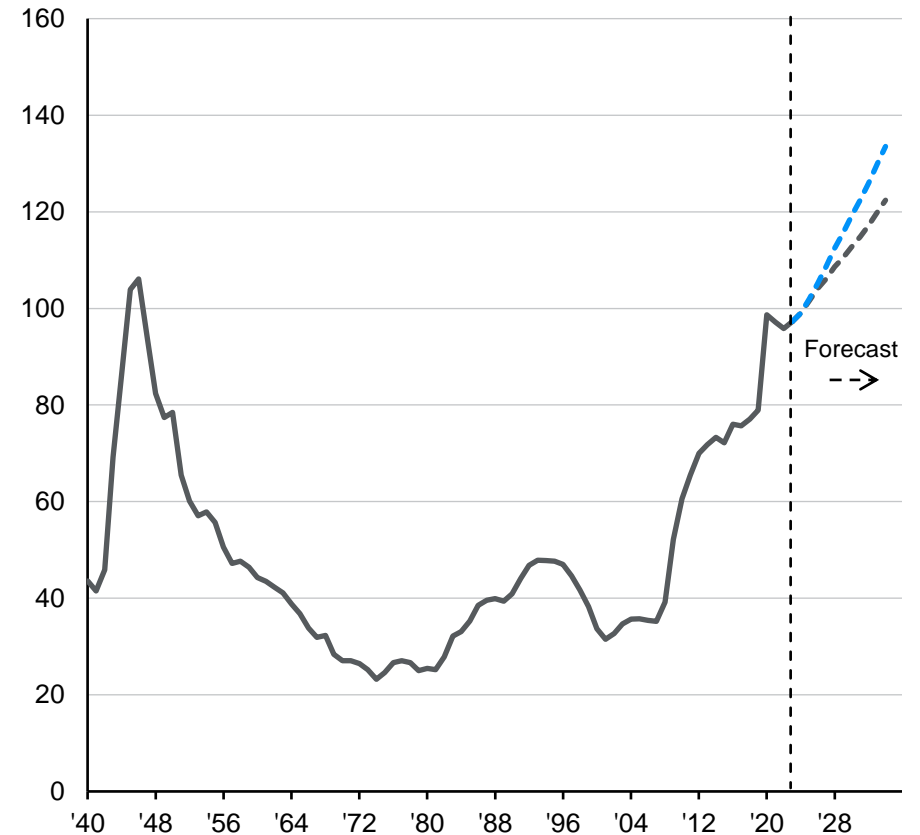
% of GDP



- Primary deficit or surplus
- Net interest outlays
- Change in deficit if TCJA* is extended
- Total deficit or surplus

US federal debt

% of GDP



- CBO baseline
- Forecast if TCJA* is extended

Source: (All charts) BEA, CBO, US Treasury, J.P. Morgan Asset Management. Forecasts are based on the Congressional Budget Office's (CBO's) latest budget and economic outlooks and internal J.P. Morgan Asset Management estimates. *TCJA refers to the Tax Cuts and Jobs Act of 2017, parts of which will expire on 31 December 2025 unless extended. Years shown are fiscal years. *Guide to the Markets - UK*. Data as of 14 October 2024.



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US election 2024: EMEA investor guide

Our regularly updated election insights provide investors with the information they need as the election story evolves ahead of 5 November.



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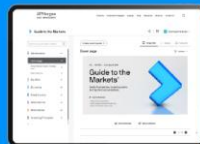
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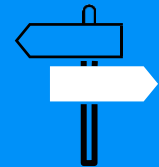
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Karen Ward, Chief Market Strategist, EMEA

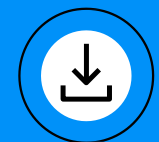
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