



# Guide to the Markets

UK | June 2023

**Karen Ward**, Chief Market Strategist EMEA





## Big themes

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- **Short-term: markets are hopeful Goldilocks is on her way back**
  - This narrative could be disrupted by persistent inflation, or further banking turmoil
- **Medium-term: the pandemic and energy crisis have changed the regime**
  - Austerity is over
  - Stable, ultra-low inflation is over
  - Zero/negative interest rates are over
  - Performance led by assets that require a zero discount rate is over
- **Investment implications:**
  - Make good use of fixed income now yields have reset, staying quality for now
  - Consider medium-term rotation from Growth to Value and better diversification by region
  - Think beyond bonds for diversification, making use of alternatives for inflation protection

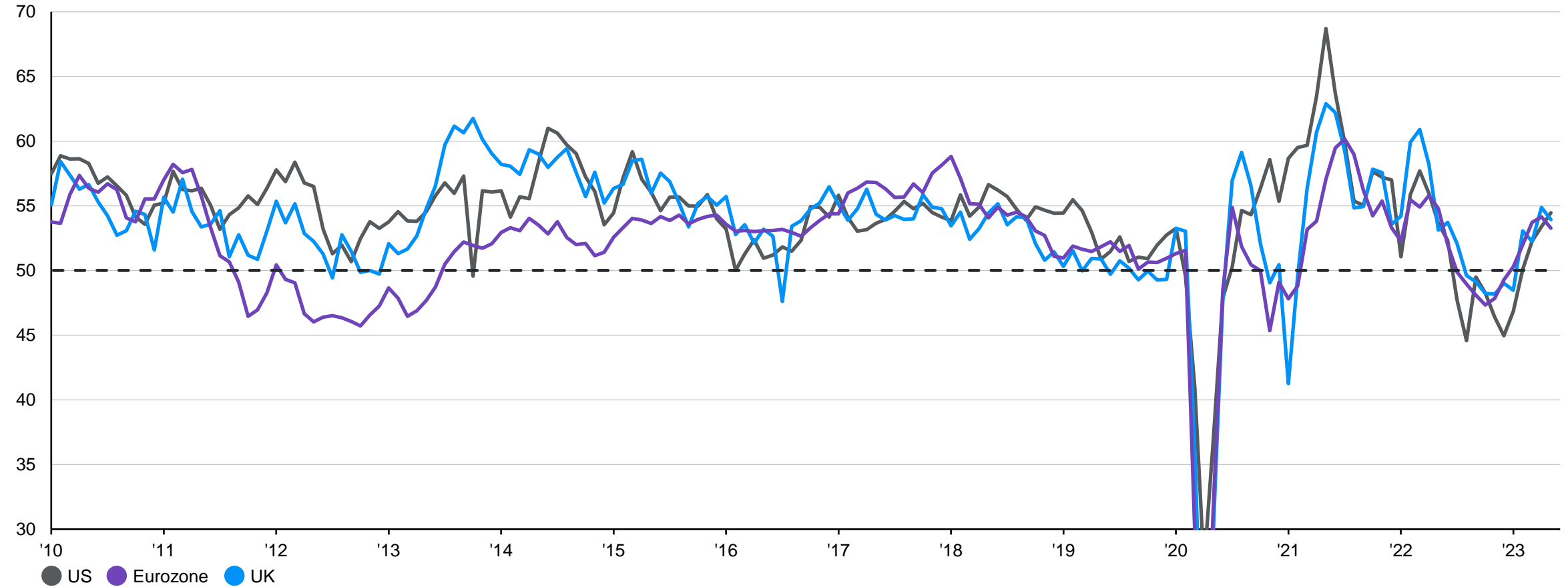


# Economies are proving remarkably resilient

Global economy

## Composite Purchasing Managers' Index (PMI)

Index level



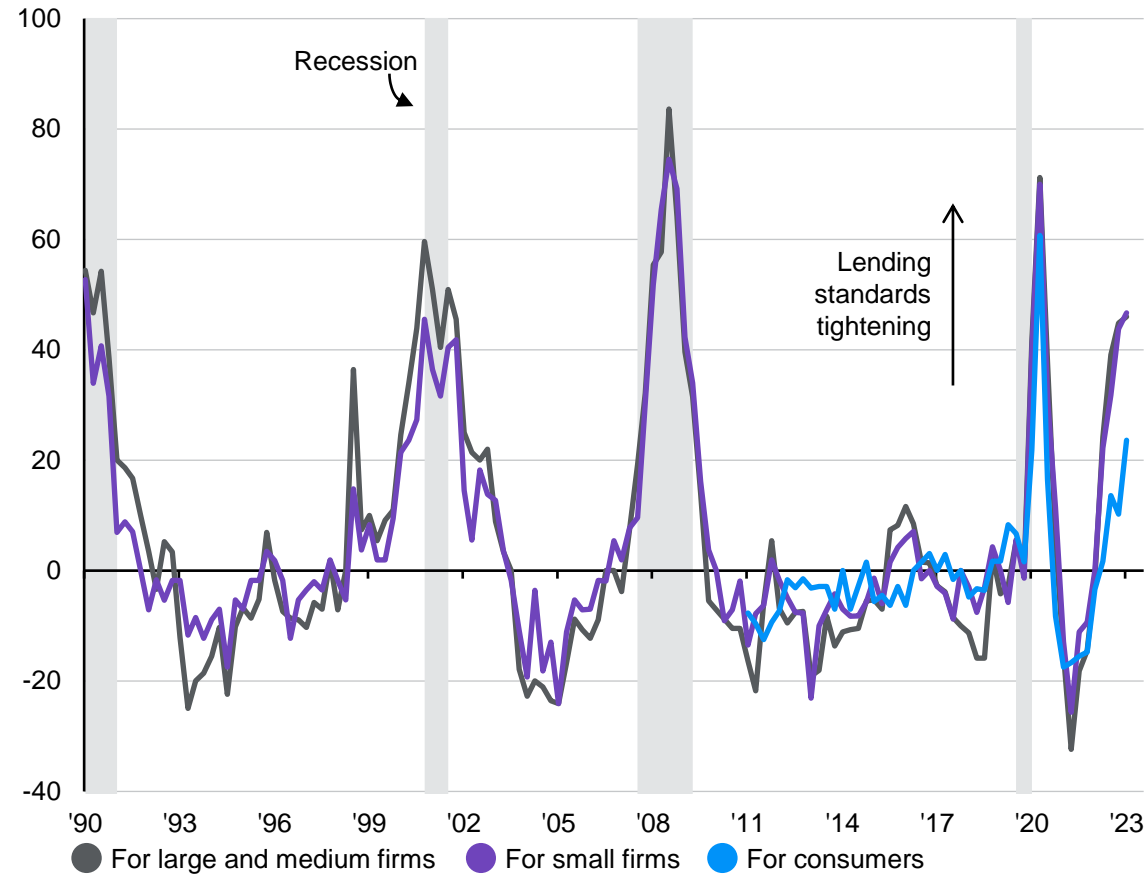


# Tighter credit conditions now pose a risk

Global economy

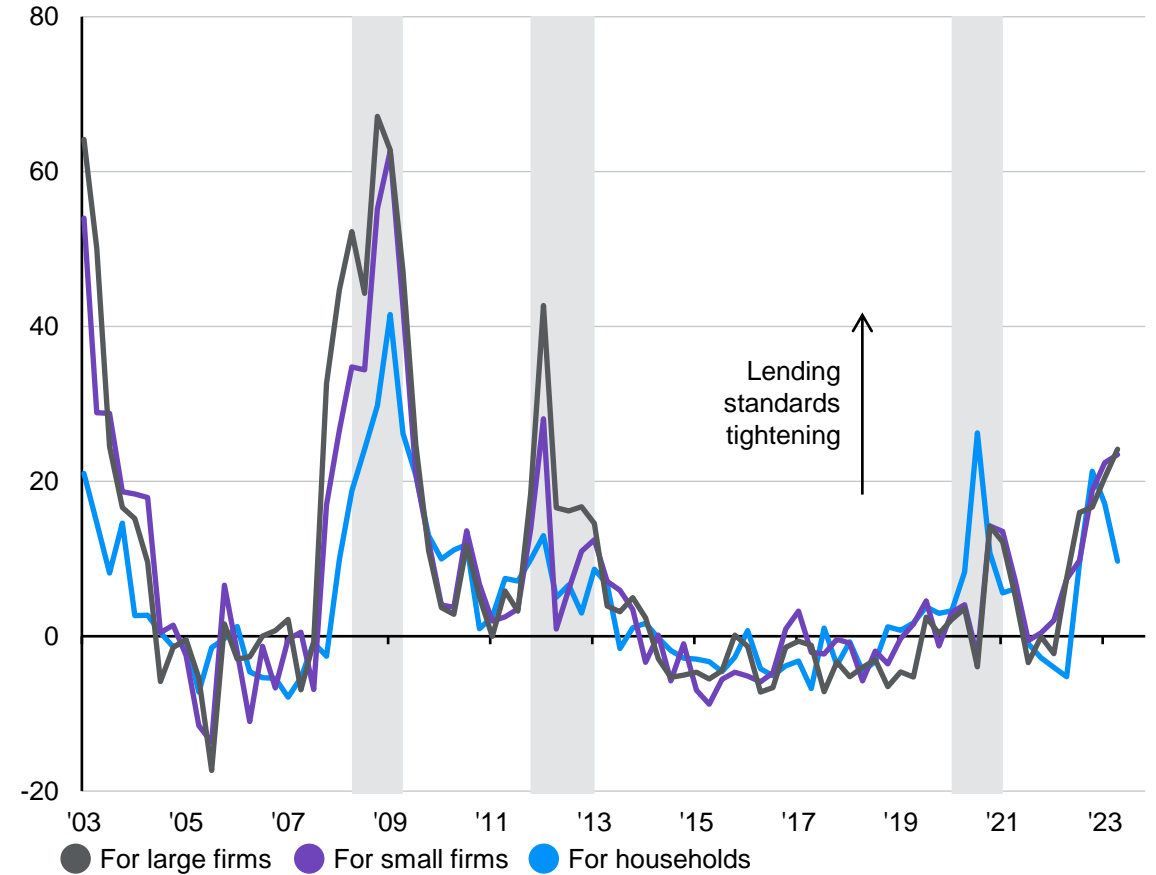
## US credit conditions

% of banks tightening lending standards



## Eurozone credit conditions

% of banks tightening lending standards



Source: (Left) Federal Reserve, Refinitiv Datastream, J.P. Morgan Asset Management. Data is from the Senior Loan Officer Opinion Survey. Periods of "recession" are defined using US National Bureau of Economic Research (NBER) business cycle dates. (Right) European Central Bank, Refinitiv Datastream, J.P. Morgan Asset Management. Data is from the Euro Area Bank Lending Survey. *Guide to the Markets – UK*. Data as of 31 May 2023.



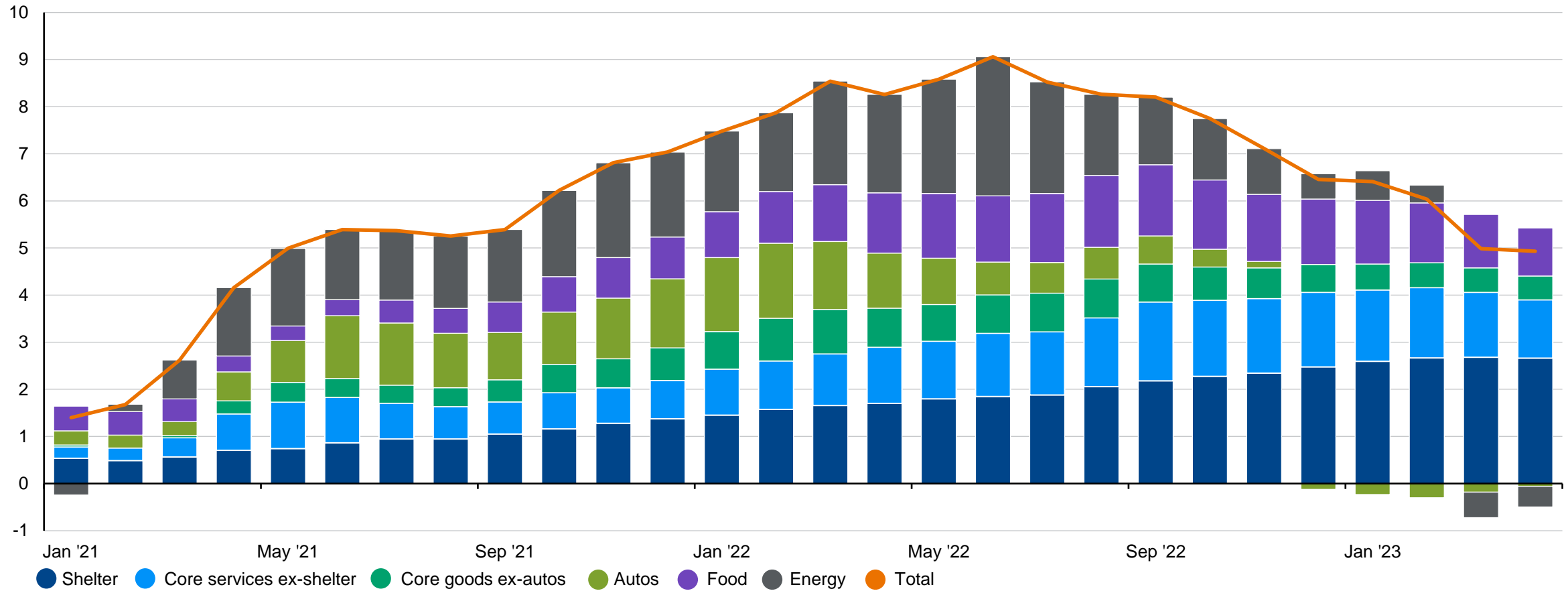
# Headline inflation is easing in the US

GTM UK 19

Global economy

## US headline inflation breakdown

% change year on year

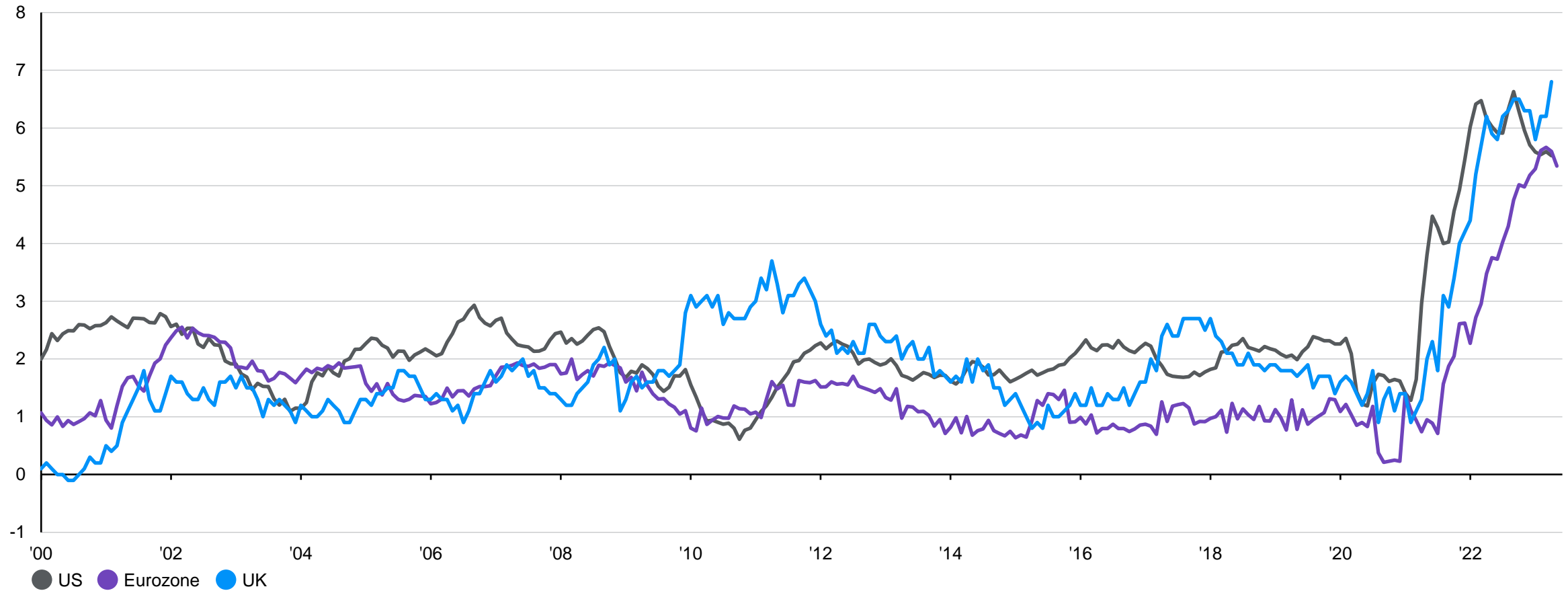




## But core remains sticky everywhere

### Core inflation

% change year on year

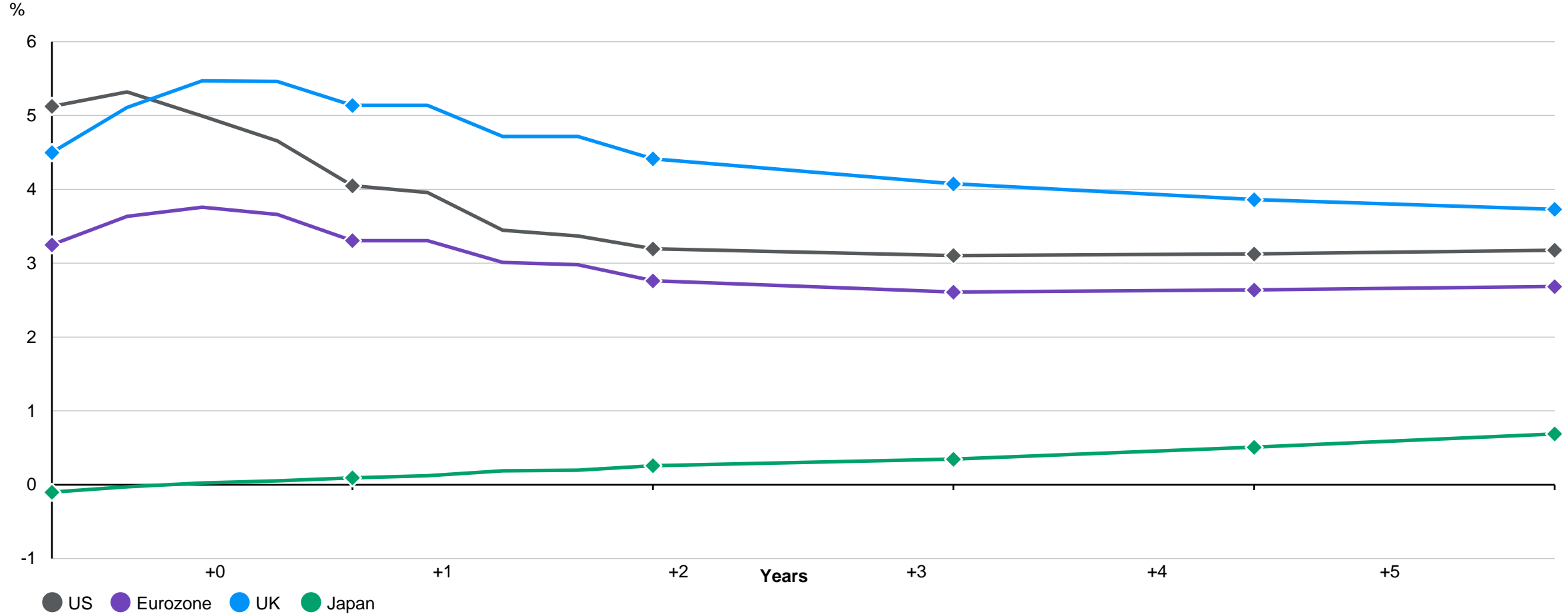




# This central banks should be able to pause

Global economy

### Market expectations for central bank policy rates



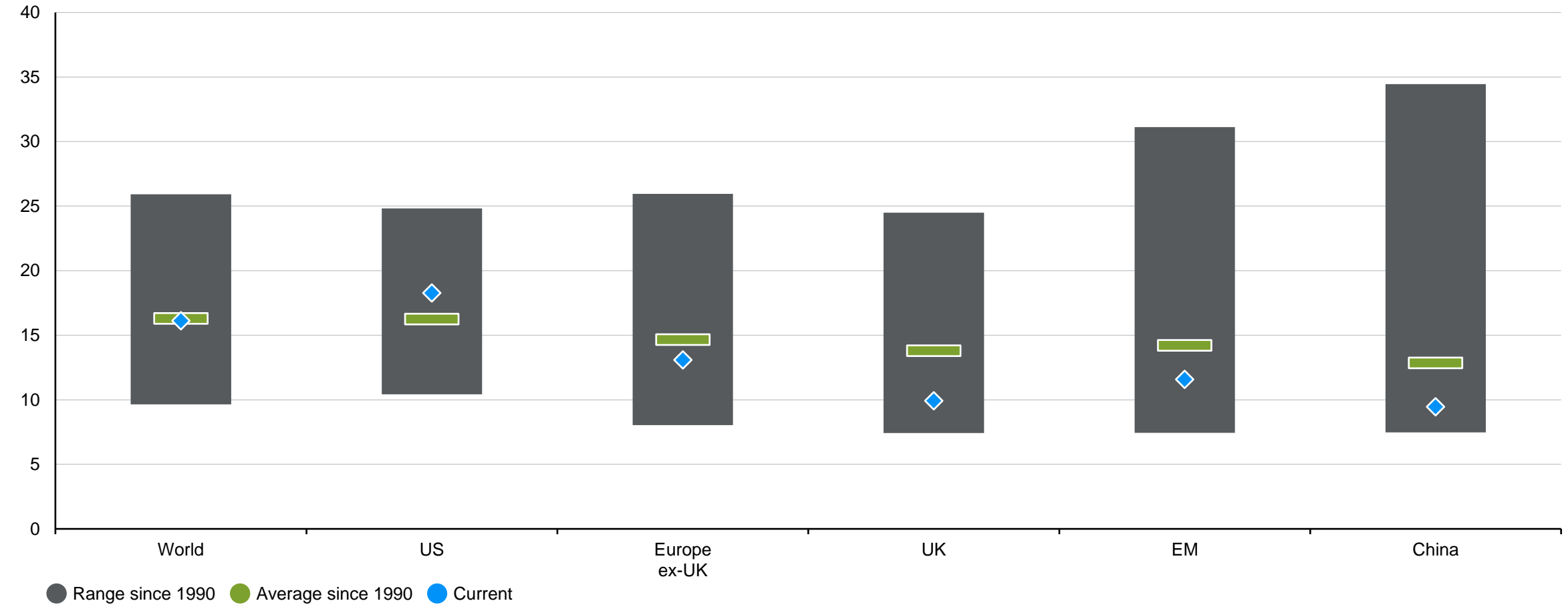


# Look for balance between stocks and bonds, and between regions

Equities

### Global forward P/E ratios

x, multiple



Source: 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 31 May 2023.



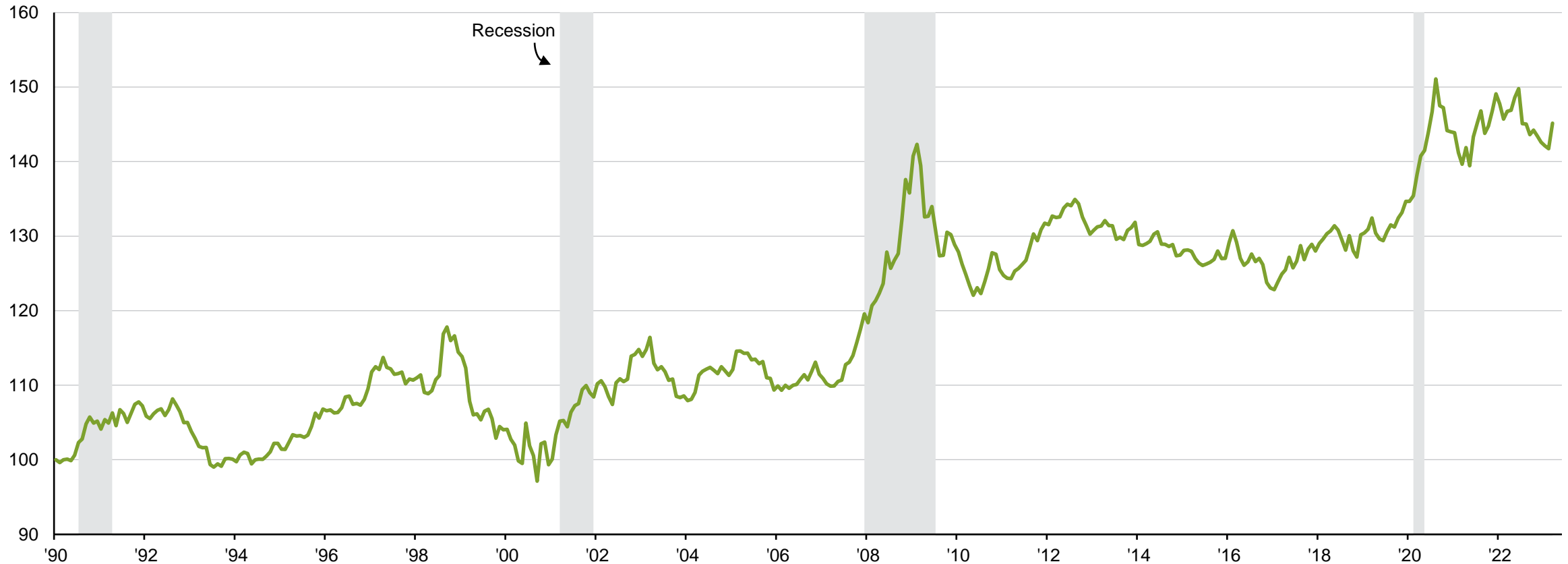


# Quality matters during recessions

Equities

## S&P 500 Quality vs S&P 500 relative performance

Relative total return index level, rebased to 100 in January 1990



Source: J.P. Morgan Asset Management Quantitative Beta Solutions, S&P Global, J.P. Morgan Asset Management. S&P 500 Quality index is the top quartile quality stocks in the S&P 500 determined by JPMAM Quantitative Beta Strategies based on measures of profitability, financial risk and earnings quality. 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 31 May 2023.

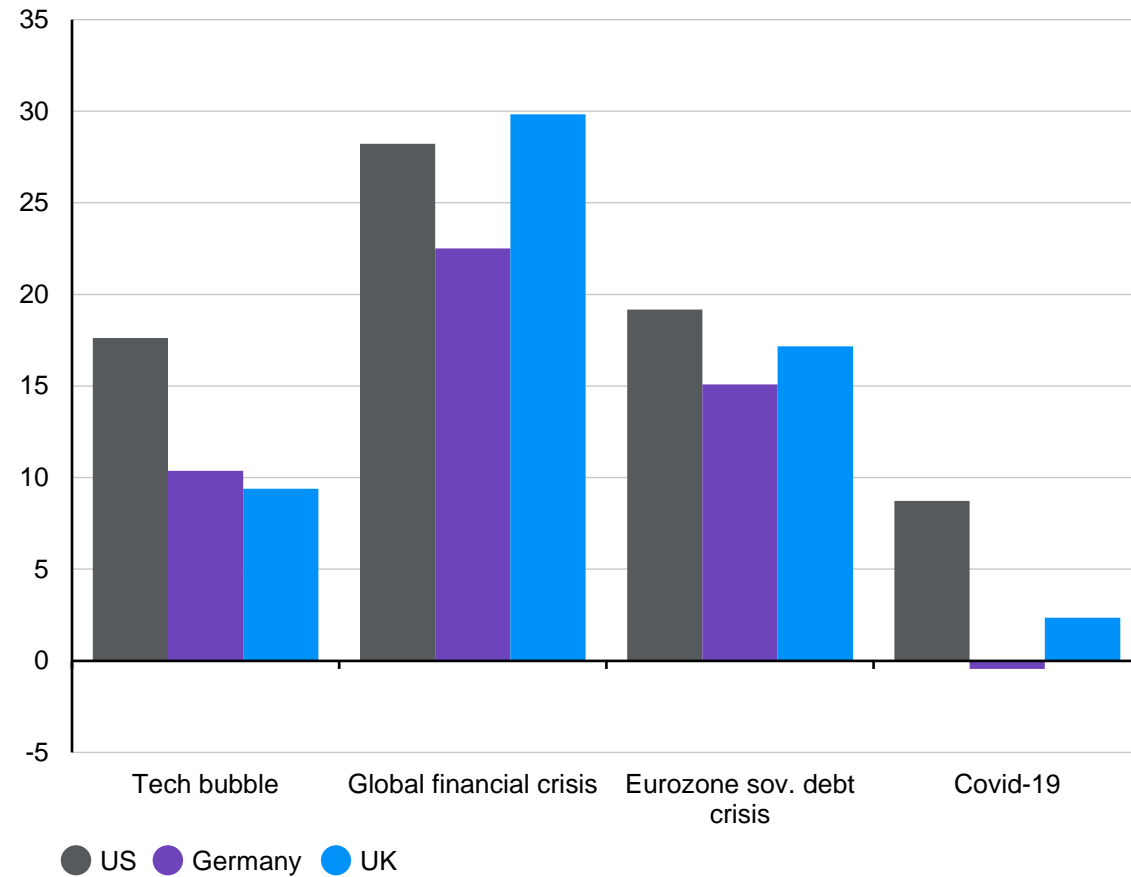


# Government bonds offer diversification potential

Fixed Income

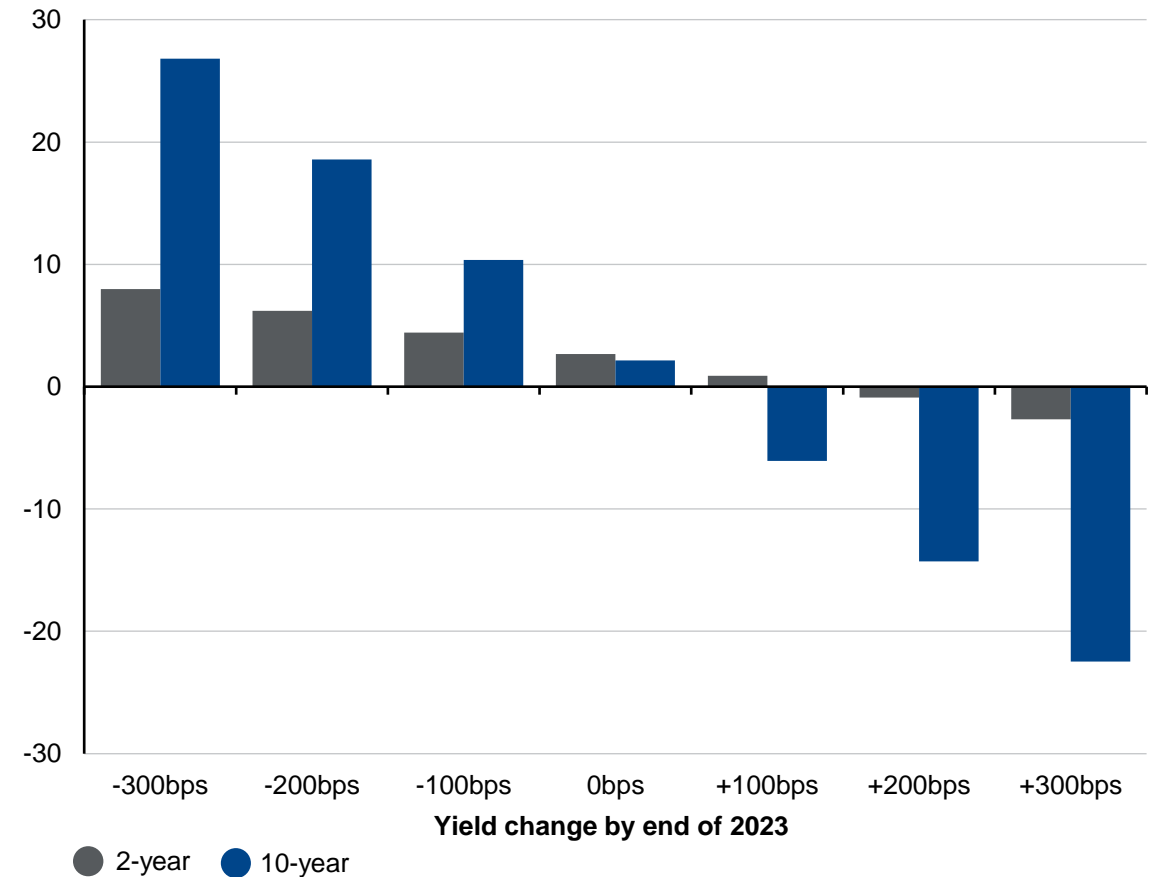
## Historical returns from 10-year govt. bonds during shocks

%, total return over the period when stocks were falling



## Total return scenarios for US Treasuries

%



Source: (Left) Refinitiv Datastream, J.P. Morgan Asset Management. Returns are shown over the period when MSCI World was falling in local currency terms. Tech bubble: 24 Mar '00 to 21 Sep '01; Global financial crisis: 13 Jul '07 to 9 Mar '09; Eurozone sovereign debt crisis: 18 Feb '11 to 3 Oct '11; Covid-19: 19 Feb '20 to 23 Mar '20. (Right) Bloomberg, J.P. Morgan Asset Management. Chart indicates the calculated total return achieved by purchasing US 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 31 May 2023.



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Unless otherwise stated, all data as of 31 May 2023 or most recently available.

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