

Equity Strategy

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Bonds are oversold, yields are likely to get capped by peaking inflation, peaking inflation expectations, as well as by activity weakness...

- **We argued last [week](#) that bonds are likely becoming oversold**, as Fed and inflation sentiment have moved to extremes. We believe that we are already starting a disinflation phase, as inflation remains a lagging indicator of growth. More concrete signs of peaking inflation, as well as of the peaking inflation expectations, and finally the weakness in activity all suggest bond yields should be capped going forward – see pages 6-12. **This is driving our call from last week to look for a rebound in the Growth style - Tech.**
- On the activity side, real M1, our lead indicator, keeps pointing to further PMI softness – page 15. Earnings have been very resilient, but are likely to finally show a rollover in Q3. Here, we think that the activity reset is what investors need to see in order to start looking through, “bad data might be seen as good”. In addition, while near term is staying challenging, **the backtest of ISM new orders/inventories ratio from these levels has historically almost always seen meaningfully higher markets over the next 12 months.** The one exception was 1973, but then Fed funds moved to double digit territory, something which we believe we will stay far from this time around. Overall:
 - 1) **Activity momentum is likely to stay weak near term, but a deep retrenchment, or a prolonged period of balance sheet adjustment, is unlikely**, in our view. House prices are likely to level off from highs, but not fall much. Strong banks balance sheets will help keep credit flowing. Labour market is set to weaken, but will remain resilient in the longer term context. Eurozone gas prices likely have two way risk from here, not just the upside risk. JPM assessment is that even with zero supply from Russia going forward, there will not be a need for outages, and under normal winter conditions, at the worst point the gas storage will still be at 30%+ full this winter. The Chinese activity hurdle rate from here is very easy.
 - 2) Money markets are pricing Fed terminal rate at 4.6%, but that might not be delivered on in the end, and might not need to be delivered on in order for Fed to achieve their aims. **As activity softens towards contraction, Fed is likely to become more data dependent.** USD is at 20-25 year highs, and is now above the levels implied by regional rate differentials – page 35.
 - 3) **European earnings revisions are staying stubbornly in positive territory**, and have opened up a gap with weakening PMIs – page 38. This is unprecedented, but could continue to a large extent. **Our view is that earnings will see weakness, recession is our base case, but they should hold up much better this time around than during past downturns.** Our latest projections are for 10% fall in European EPS in 2023 – page 40.
 - 4) **International equities have derated to a discount to historical averages, at 9-11x forward P/Es**, and still offer significant cushion vs bond yields – page 48, which also remain meaningfully below their long term averages, bar UK. Even with earnings repricing, the international equity multiples are not demanding. US is relatively less attractive in this respect.
 - 5) **Sentiment metrics are at record lows**, and positioning appears very light. Seasonals turn much more favourable in Oct-Dec period.

...UK remains a regional OW, given extreme valuation discount, as well as a tailwind for exporters from weak FX... keep OW FTSE100 vs FTSE250...

- Big picture, we looked for regional convergence this year. While FX moves are very significant, and USD returns remain relatively stronger for the US, we continue to believe that in local currency terms International equities will be trading less poorly than the US. The onset of geopolitical volatility weakened the risk-reward for Eurozone in particular, but we think the fundamental case for regional convergence remains.
- **OW UK.** We do not think the positive relative case for large cap UK stocks has changed, despite the unhelpful fiscal developments in the past few weeks. Last November we upgraded UK to OW, after 6 years of a cautious stance, taking advantage of its prolonged underperformance. The UK is still trading at a record discount vs other regions, it offers the highest dividend yield globally, and exporters benefit significantly from weak GBP. We believe that BoE will be successful in stabilising the UK bond market volatility. Within UK, we held **OW FTSE100 vs FTSE250** pair trade over the past year, and still believe this trade should be active.
- **EM remains hostage to USD, and to poor China sentiment.** The investor bearishness on China is very significant, but on the positive side China market has done poorly ever since February 2021, the regulatory uncertainty appears to be reducing, the big tail risk of zero COVID lockdowns is in the open, with some easing in restrictions likely, especially as the upcoming party congress moves behind us, there is a probable further stimulus ahead, with accelerating M2, and the activity hurdle rate into year end is exceptionally easy.
- **Eurozone remains in the shadow of geopolitics.** We acknowledge that our fundamental constructive stance on Eurozone is unlikely to work as long as Russia-Ukraine headlines dominate the narrative, with potential for further significant escalation not insignificant, but we believe that Eurozone screens attractive. On P/E relative metric, **Eurozone is trading at a record discount to the US.** We think that ECB will be successful in keeping peripheral spreads under control. Within Eurozone, we prefer domestic plays to exporters, and periphery to core.
- **Neutral Japan**, but looking increasingly attractive. Japan is likely to perform better into yearend, as reopening gains traction, and as the shift to growth focus by policymakers is realised. We believe a move away from YCC is also needed for more favourable sentiment on Japan to sustain, which could be forthcoming. A weak Yen is typically a tailwind for Japanese stocks, but dilutes the performance in the common currency.
- **Neutral US.** The US is trading at relative P/E and EPS highs, but should be acting as a safe haven during the extremes of the geopolitical uncertainty.
- **UW parts of RoW**, focused on Switzerland, HK and New Zealand.

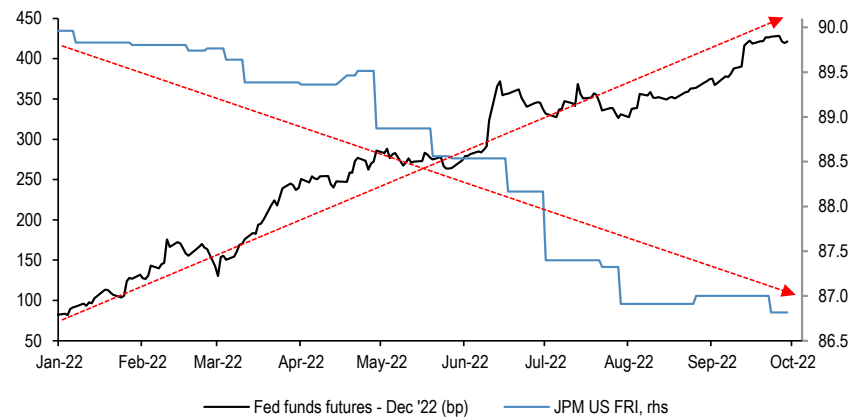
...while Value was our key OW entering the year, we called last week for a renewed tactical bounce in Growth style, and Tech in particular

- Our fundamental positioning entering the year was to be long Value vs Growth. Parts of Growth have done very poorly in the past 12 months, as yields repriced – page 59, and have derated. We do not see the convergence trade as over longer term, but after Value had another strong spell in Aug/Sept – see page 60, we think that Growth style can pick up again, and Tech sector in particular. This is especially if yields do not move further higher from here.
- Parts of Value remain a fundamental buy, in particular the Banks, but we acknowledge that Banks are not likely to perform as long as geopolitics is dominating, and while bond yields are stalling. Fundamentally though, Banks are seeing improving NIMs, and already show a substantial gap they opened up with bond yields – page 164. They still look very cheap, on 0.5x P/B, their balance sheets are resilient this time around, with no need for dilution, even if provisioning increases. Dividends are returning to the sector with a healthy, and well covered, 6.1% yield. Russia exposure appears limited in terms of its impact on Banks' capital base.
- We upgraded **Energy** last August, given its 20% underperformance during the summer of '21 – page 142, and the sector had a very strong run over the past year. Short term, there could be tactical profit taking in the sector, as returns have been front loaded, and as Brent has stalled. **Mining** had a weaker recent spell on China concerns, but we think China stimulus will ramp up, and iron ore prices could stabilise into seasonally stronger Oct-Feb period; we stay OW.
- **Consumer** exposure has also been hit by geopolitics and by purchasing power squeeze, but we find it fundamentally attractive, given resilient consumer balance sheets. We are OW Autos and Travel.
- We held an OW Tech in 2020, as well as the whole of 2019, but took profits in Hardware and Software at the start of November '20. We continue to believe that Tech fundamentals are supportive, through strong balance sheets, significant buybacks and structural tailwinds, making this a very different setup to 2001, but the relative outperformance was dramatic and the cyclical backdrop for Tech is less positive, especially if real rates are rising – see pages 171-173. Tactically though, we advise to buy Semis and Payments, post their 50% weakness.
- **We are UW traditional Defensives**, which should not have legs to their bounce beyond the geopolitical dislocation – Real Estate, Staples and Healthcare, on stretched valuations, mixed earnings delivery, and likely not as harsh earnings recession for the rest of the market, but are **OW Defensive Value sector – Telecoms**.
- Out of key themes, we highlight: beneficiaries of the likely easing in supply chain dislocations – **JPDEUSC**, Winners from the retooling/decarbonisation of European Industry/Structures – **JPDEURTL**, EM plays – **JPDEEMEX**, and Winners and losers of rising bond yields – **JPDERBYB** and **JPDERBYL**.

Growth - Policy trade-off is likely to improve as we move into year end... bonds are now oversold...

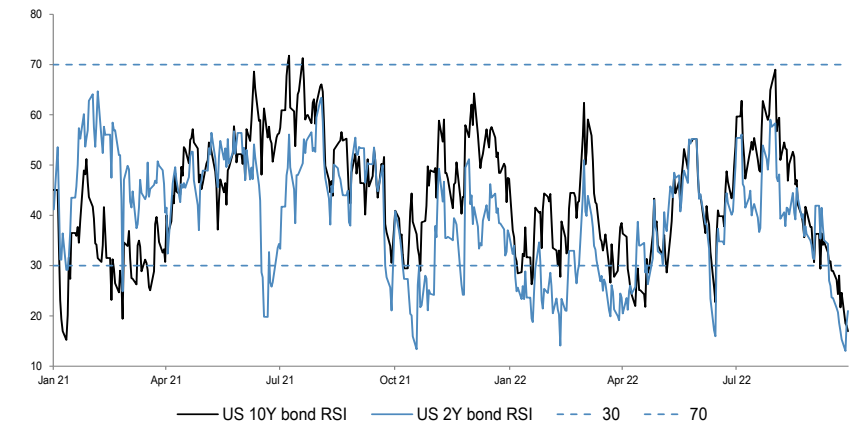
- So far ytd, equities endured a challenging trade-off, as the activity outlook was downgraded, while at the same time central banks rate projections were revised meaningfully higher. Into year end we believe there is likely to be some easing in these headwinds. Bond yields had a significant move higher over the past year, pressuring equity valuations, but we note bonds appear oversold now.

Move in Fed Funds futures and US FRI ytd



Source: Bloomberg Finance L.P.

US 10Y and 2Y Bond RSI

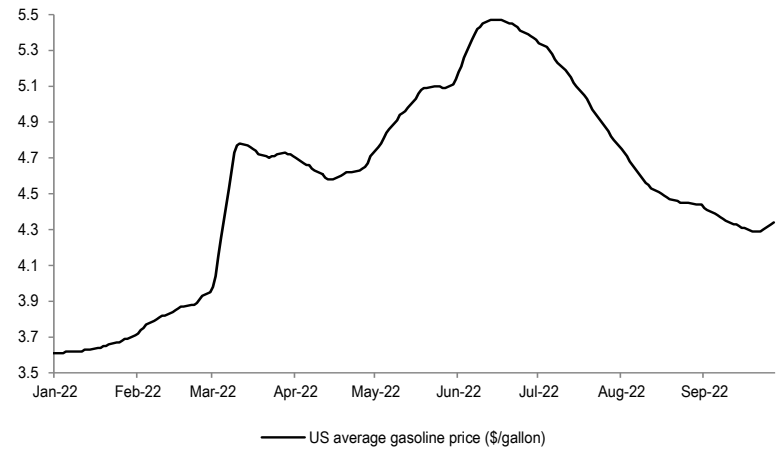


Source: Bloomberg Finance L.P.

...inflation will likely show more concrete signs of rolling over...

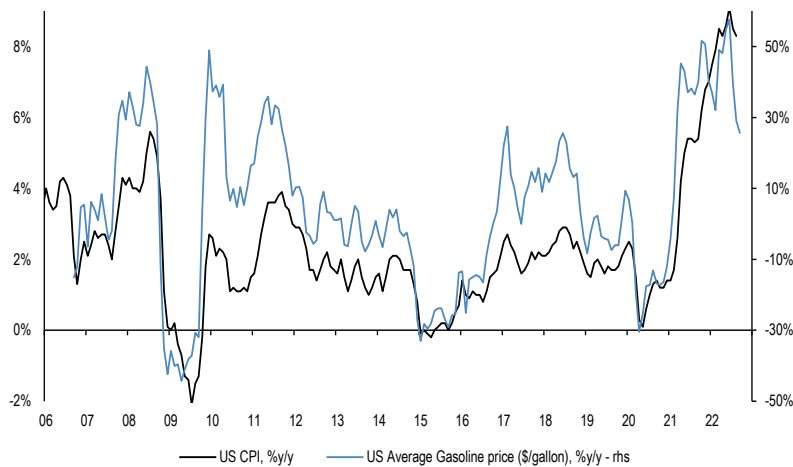
- Inflation is still set to move materially lower. We do not believe that the recent increased Fed hawkishness should be extrapolated. Gasoline prices have moved down, and remain tied to the headline CPI, as does Brent.

US gasoline price



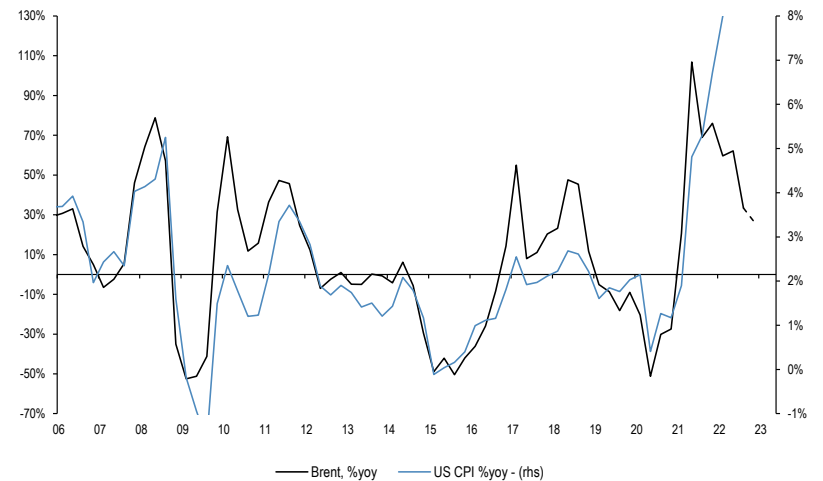
Source: Bloomberg Finance L.P.

US CPI and Average Gasoline price (\$/gallon)



Source: Bloomberg Finance L.P.

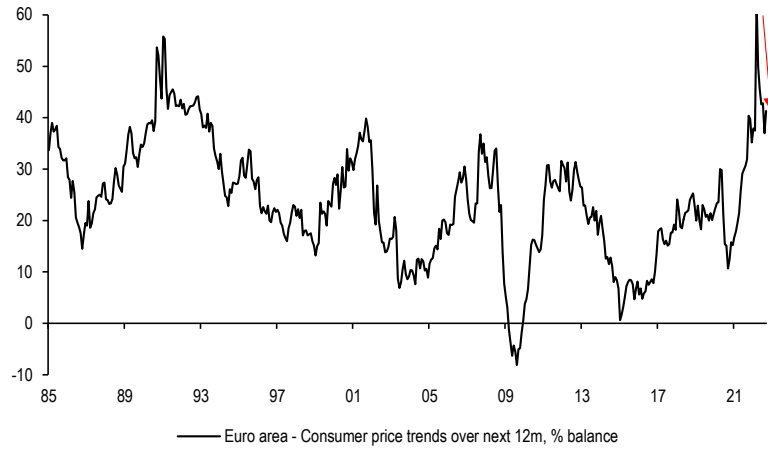
US headline CPI vs Brent*



Source: Bloomberg Finance L.P., JPMorgan, *assuming JPM forecasts

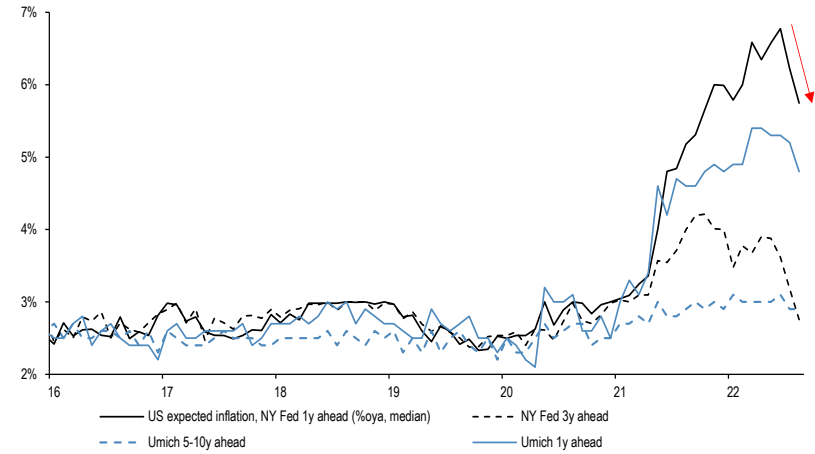
...inflation expectations are peaking...

Euro Area: consumer price trends over next 12 months



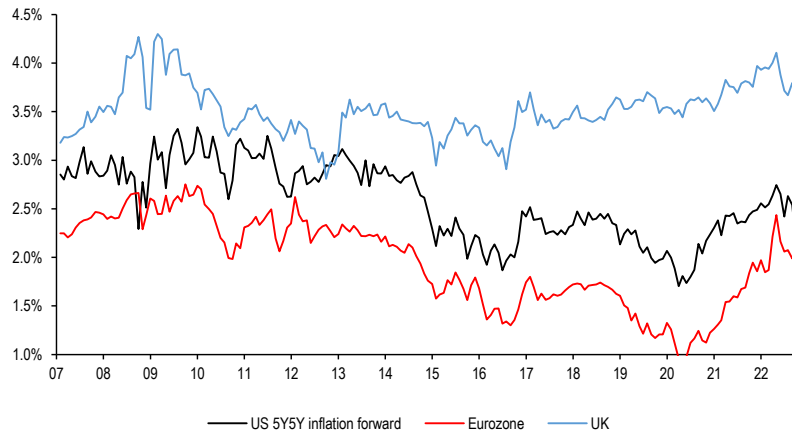
Source: E.C., J.P. Morgan

US expected inflation, consumer surveys



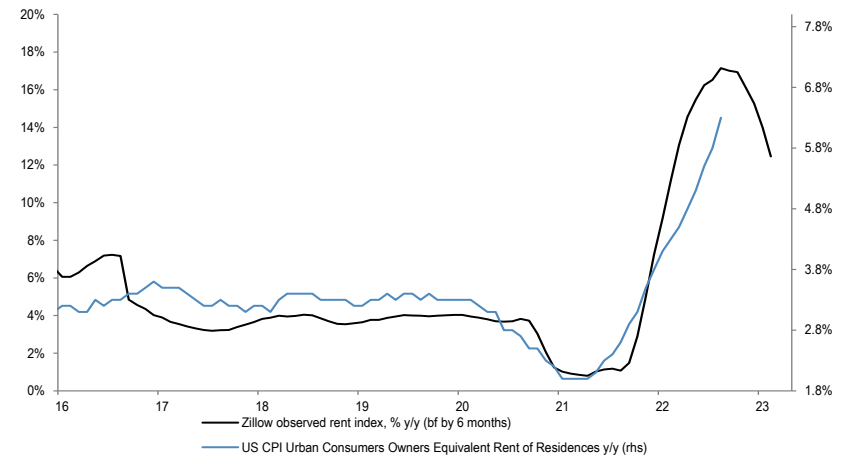
Source: Umich, FRBNY, J.P. Morgan

US, Eurozone and UK inflation forwards



Source: Bloomberg Finance L.P.

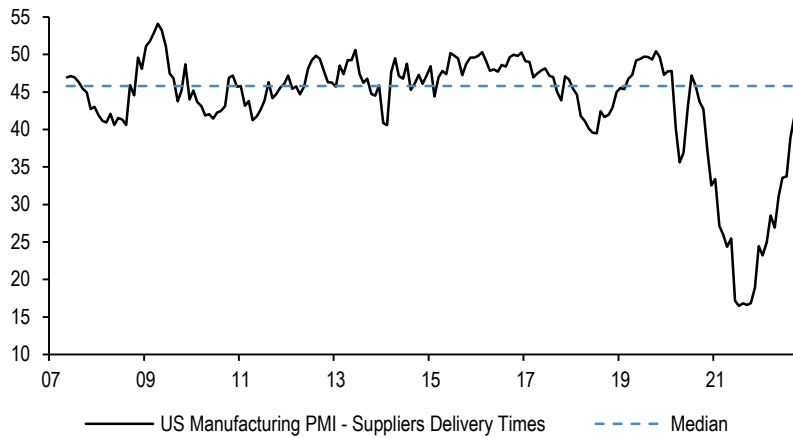
Zillow rent index vs US core CPI – rent component



Source: Bloomberg Finance L.P.

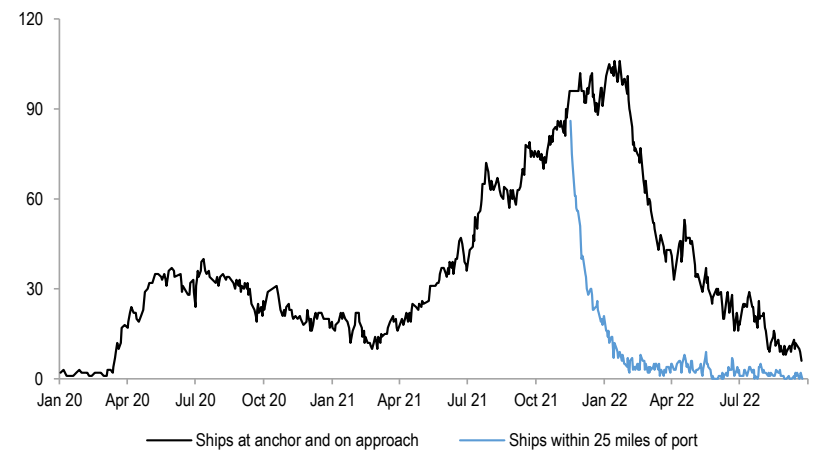
...pricing indicators are moving down, and supply dislocations are easing... perhaps the participation rate could show further improvement...

US Manufacturing PMI - Suppliers Delivery Times



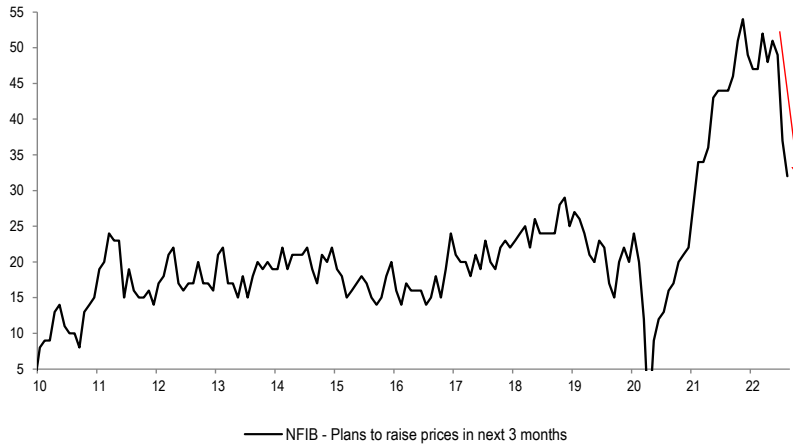
Source: J.P. Morgan

Container ships outside the Ports of Los Angeles/ Long Beach



Source: J.P Morgan Economics Research

NFIB survey - Plans to raise prices in the next 3 months



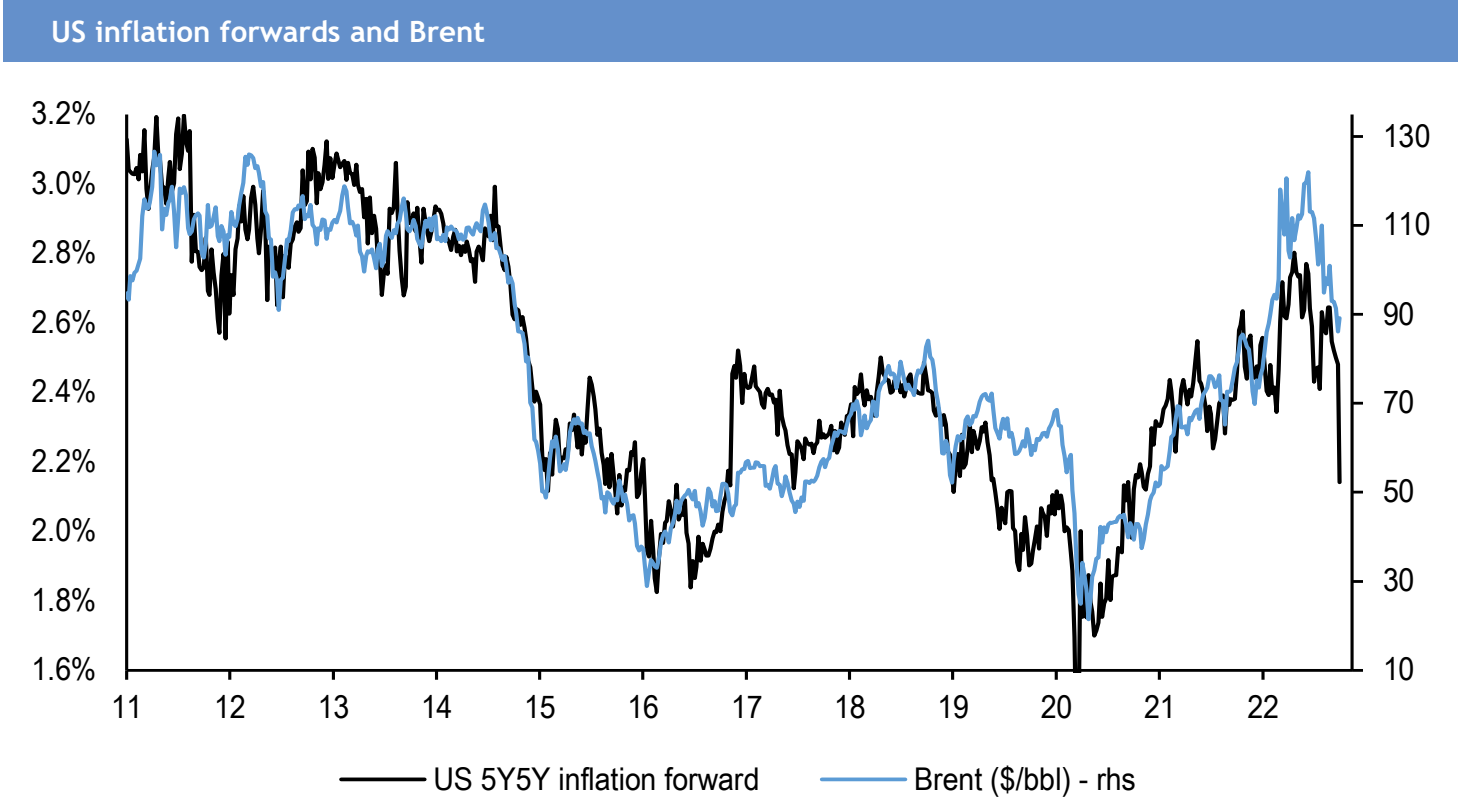
Source: J.P. Morgan

US labour force participation rate



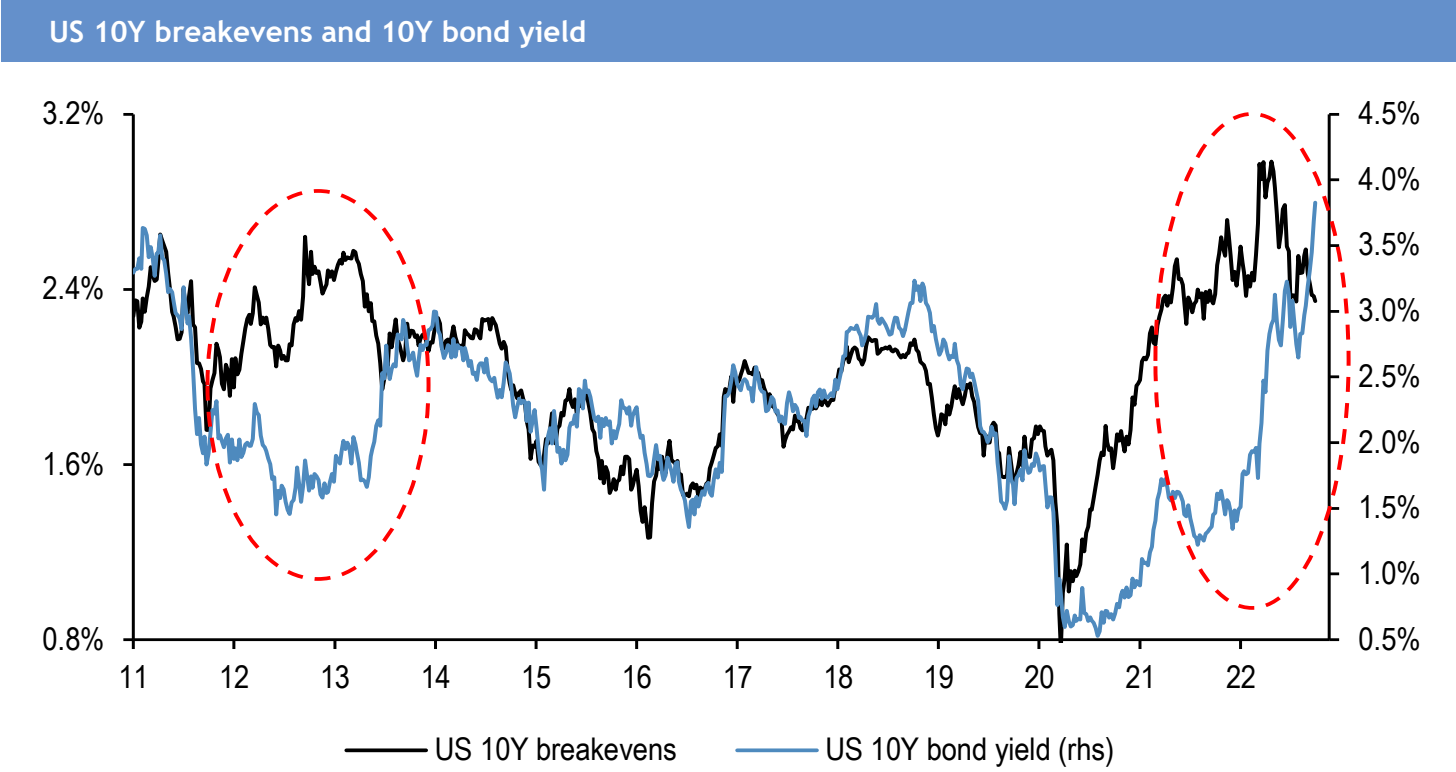
Source: Bloomberg Finance L.P.

...inflation forwards are now capped by the oil price, and are moving down...



Source: Bloomberg Finance L.P.

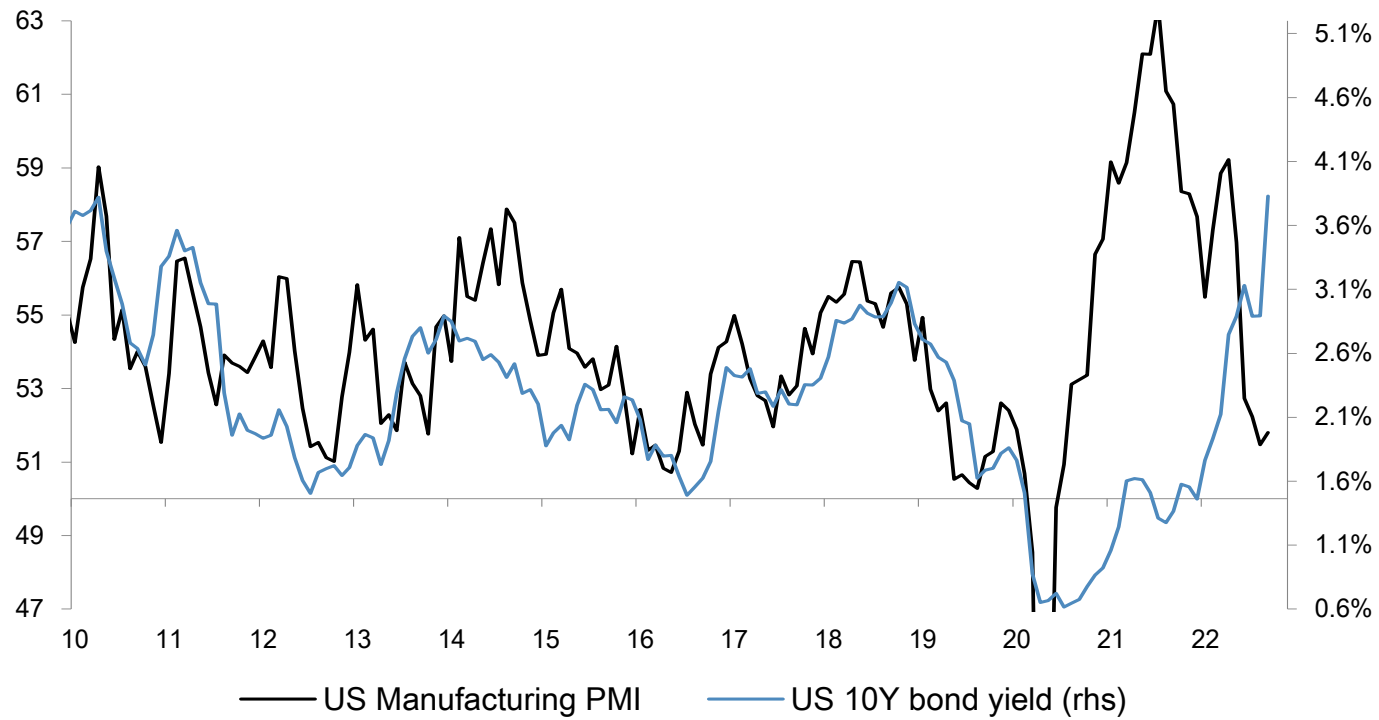
...the gap between breakevens and bond yields that was in force for 2 years has fully closed...



Source: Bloomberg Finance L.P.

...bond yields should also be capped from here by activity weakness

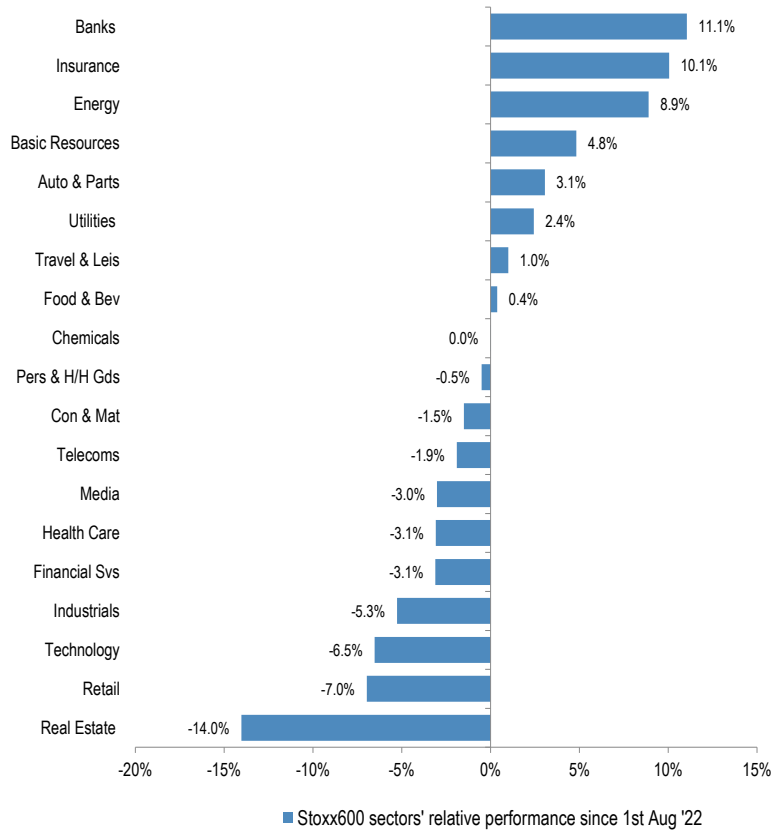
US Manufacturing PMI and bond yields



Source: Bloomberg Finance L.P.

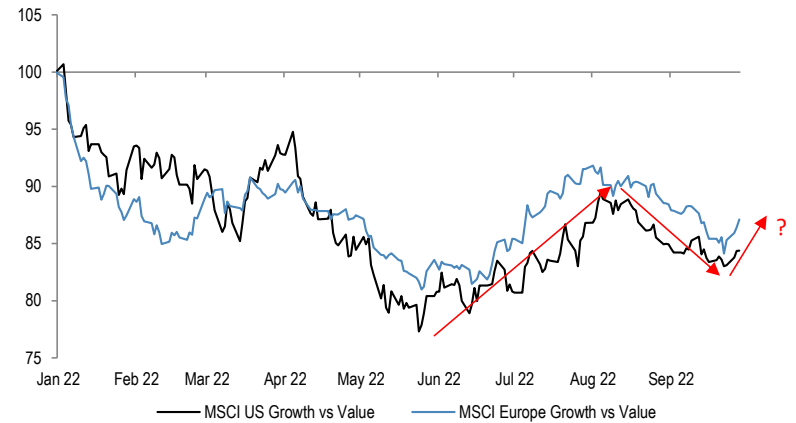
In August and September, Value - Financials and Commodities - lead again... we see this as a good entry point for a renewed tactical bounce in Growth and Tech

Stoxx600 sectors relative performance since the start of August



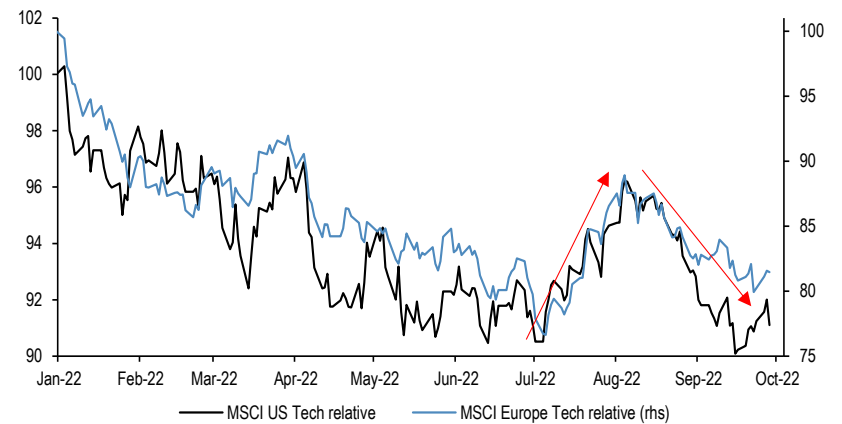
Source: Bloomberg Finance L.P. *COB 22nd September '22

US and European Growth vs Value



Source: Datastream

MSCI US and Europe Tech relative ytd



Source: Datastream

Fundamentally: 1) A period of activity contraction is upon us, but it doesn't need to be deep, nor prolonged...

- The current geopolitical dislocation and the squeeze on consumer incomes has dented what would otherwise have been a recovery year, as COVID dislocations eased.
- We are likely to embark on a period of contraction ahead, but we are unlikely to have a painful spell of balance sheet adjustment, in our view.

JPM GDP forecasts, by region

	Real GDP		
	% oya		
	2021	2022E	2023E
United States	5.7	1.7	0.9
Eurozone	5.2	3.2	0.4
United Kingdom	7.4	3.4	0.3
Japan	1.7	1.6	1.5
Emerging Markets	7.2	3.3	3.2
Global	5.9	2.7	1.8

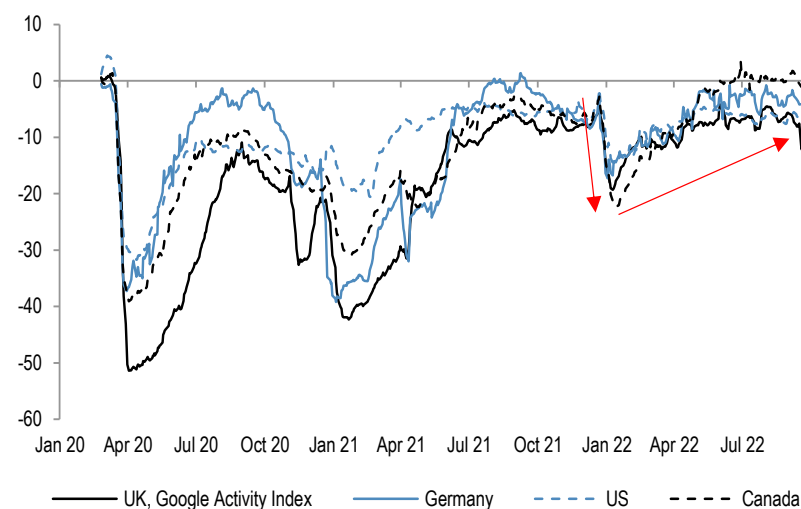
Source: Bloomberg Finance L.P., S&P Global

J.P.Morgan global manufacturing PMI

JPM Global manufacturing PMI summary								
	Jan'22	Feb'22	Mar'22	Apr'22	May'22	Jun'22	Jul'22	Aug'22
Global PMI	53.2	53.7	52.9	52.3	52.3	52.2	51.1	50.3
Output	51.3	52.2	50.9	48.6	49.6	52.5	50.0	49.4
Future output	65.3	66.5	62.5	61.8	60.7	59.3	58.7	60.1
New orders	52.2	53.7	51.4	50.5	50.9	50.1	48.9	48.2
Export orders	49.7	51.0	48.1	48.2	47.9	49.5	48.0	47.0
Employment	51.0	51.6	52.1	51.5	51.6	51.4	50.4	50.4
Output prices	60.9	61.3	62.3	63.8	61.5	60.5	58.3	56.7
Fin goods inventory	48.6	48.1	48.6	48.8	48.8	50.0	50.5	50.5
Orders/Fin goods	1.07	1.12	1.06	1.04	1.04	1.00	0.97	0.95

Source: J.P. Morgan

Google Activity Index for DM countries

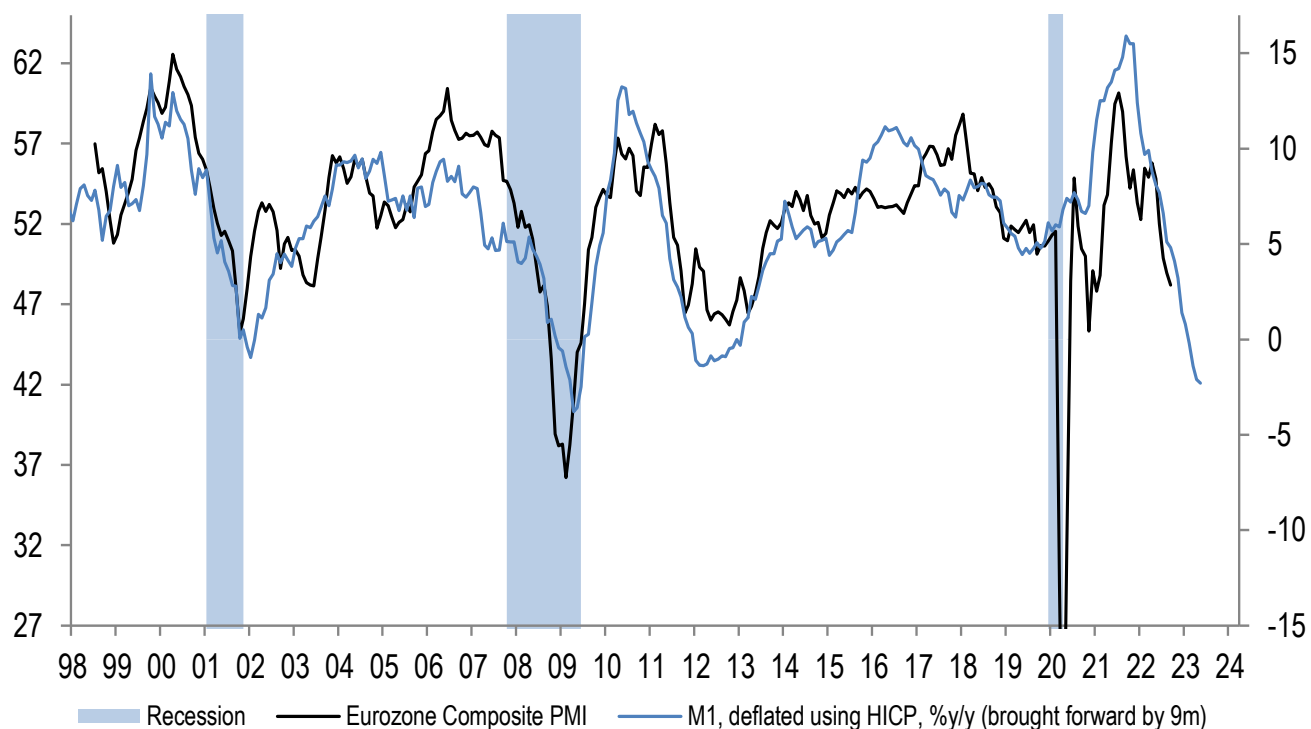


Source: J.P. Morgan

...our real M1 lead indicator is pointing to continued PMIs weakness ahead...

- Eurozone M1, a key lead indicator, is pointing to further downside to PMIs. Most clients we speak to believe PMIs will move deeper into contraction territory, and are reluctant to step into the market until this materializes. In a sense, bad news on this front might be needed in order to start looking through.

Eurozone M1 growth (deflated by HICP) vs PMI

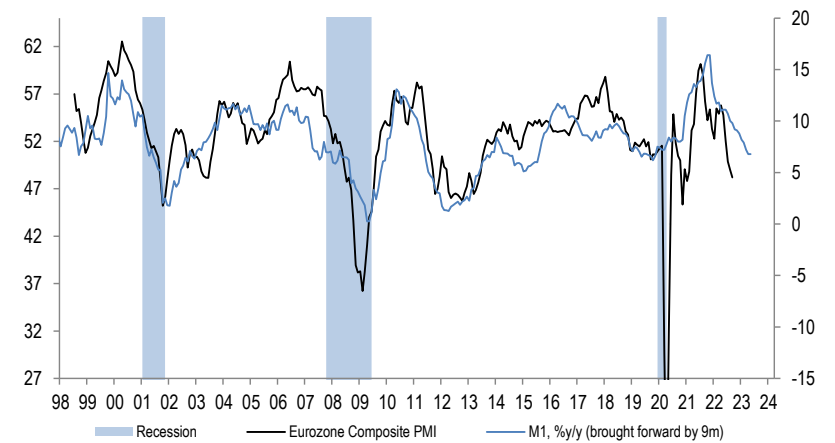


Source: Bloomberg Finance L.P. , S&P Global

...however, other lead indicators are less negative, such as nominal M1 and orders/inventories ratio... from these levels, market tended to be up

- The nominal M1, without CPI adjustment, shows no further downside to PMIs.
- The new orders to inventories ratio for US ISM was in July near the bottom of its historical observations, in the 2nd percentile over the last 70+ years. This suggests that mean reversion is increasingly likely.
- Historically, when ISM new order to inventories ratio hit levels similar to those, the 12 month forward returns were strongly positive over the last 70+ years. Only in 1973 equities were down, but then Fed funds moved to double digit.

Eurozone nominal M1 growth vs composite PMI



Source: Bloomberg Finance L.P., S&P Global

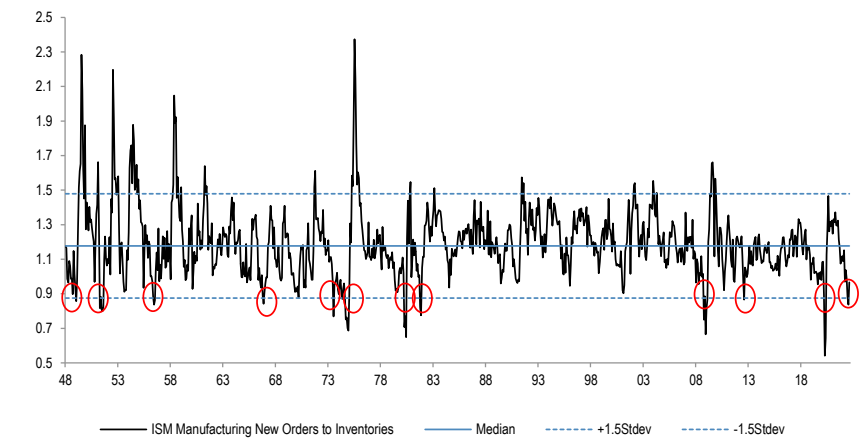
SPX performance when New Orders to Inventories hits 0.84 for the first time

SPX Performance when New Orders to inventories hits 0.84 or below for the first time

	+1m	+3m	+6m	+12m
Apr 51	-1%	0%	8%	7%
Jun 51	0%	7%	6%	11%
Jun 56	5%	2%	0%	4%
Jul 73	-1%	6%	-9%	-20%
Sep 74	10%	3%	30%	27%
Apr 80	4%	16%	30%	31%
Oct 81	2%	-3%	-3%	12%
Oct 08	-4%	-7%	-6%	21%
Dec 08	-3%	-13%	6%	28%
Apr 20	3%	16%	25%	50%
Jul 22	11%			
Average	2%	3%	9%	17%
Median	2%	2%	6%	16%
% positive	55%	60%	70%	90%

Source: Bloomberg Finance L.P. *0.84

ISM Manufacturing New Orders to Inventories

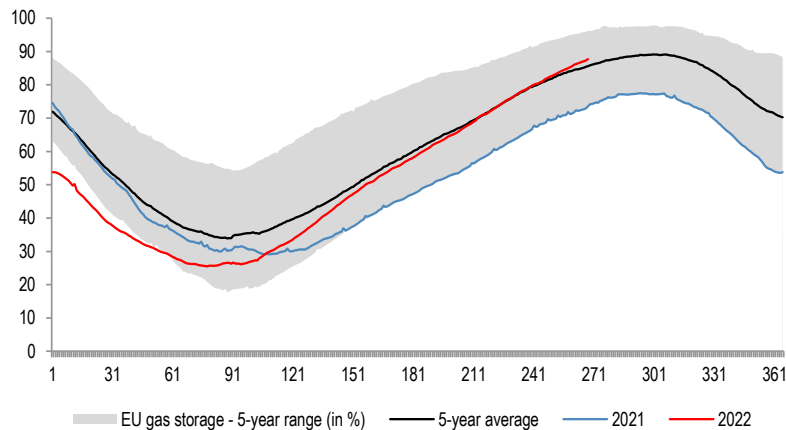


Source: Bloomberg Finance L.P.

Gas price and availability are the wild cards, but our call is for no shortages, and for lower gas price from here

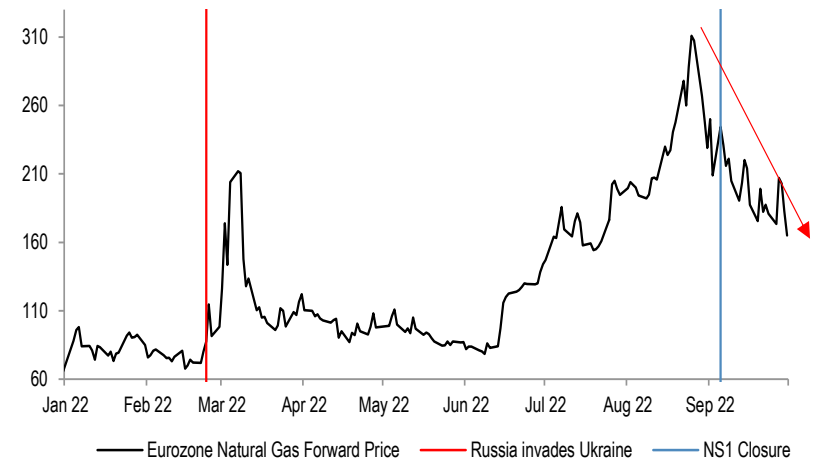
- Gas storages have been filling ahead of expectations, and JPM assessment is that there likely won't be a need for outages, even if Russian supply doesn't resume.

EU natural gas storage, % full



Source: J.P.Morgan [Commodities Research](#)

EU natural gas price

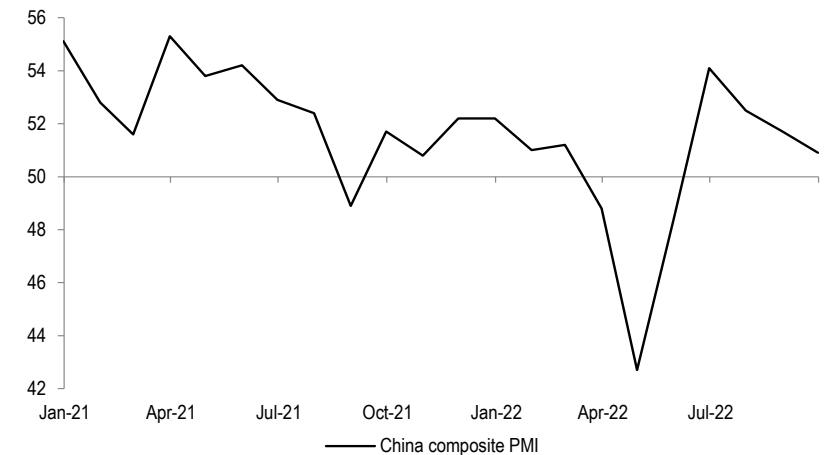


Source: Bloomberg Finance L.P.

Post party congress, we expect better China dataflow, especially relative to current downbeat projections... base effects are much easier now...

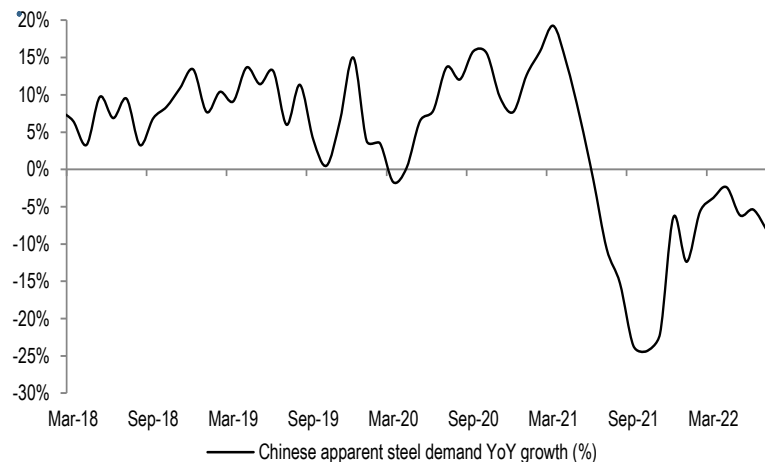
- The sentiment with respect to China is very downbeat these days. We think that post the party congress some restrictions will start to ease, allowing better traction of the easing policy.
- The hurdle rate is very easy from here.

China composite PMI



Source: Bloomberg Finance L.P.

China steel demand



Source: J.P. Morgan Metals & Mining Research

JPM's quarterly China GDP growth forecast, q/q saar

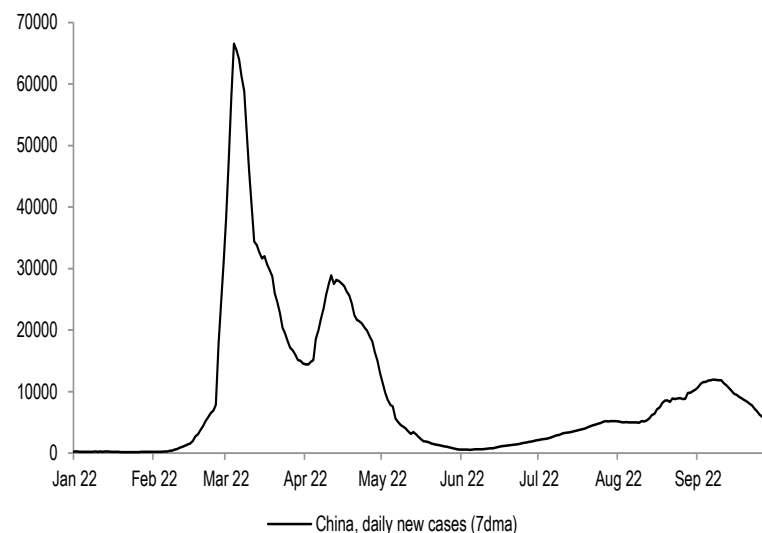


Source: J.P. Morgan

...China policy direction will continue on an easing path

- China's policy stance has moved from being restrictive at the start of last year towards accommodative more recently. This should help improve the risk-reward for China equities, and stabilize the growth outlook. Notably, Chinese M2 has rebounded strongly.
- Zero-COVID policy remains a key risk. The upcoming introduction of local mRNA vaccines should limit the need for future restrictions, though.

China COVID Cases



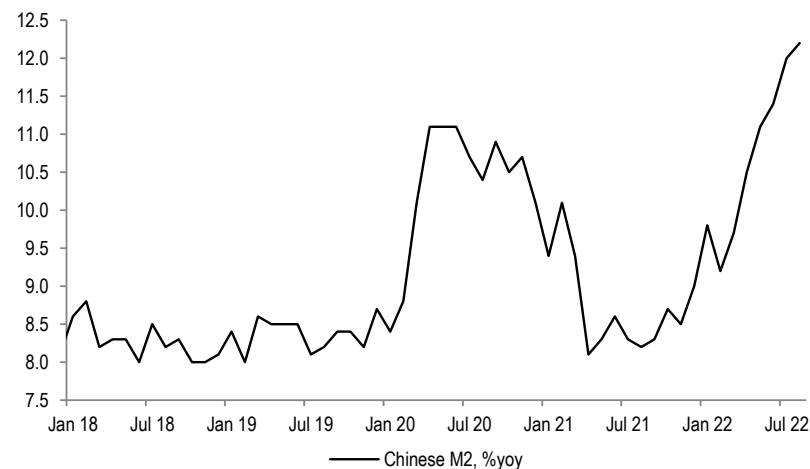
Source: Bloomberg Finance L.P.

China credit impulse



Source: Bloomberg Finance L.P.

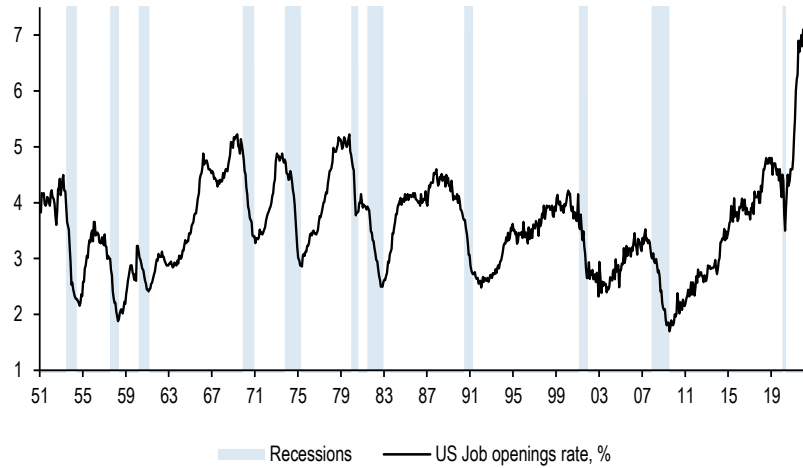
Chinese M2



Source: Bloomberg Finance L.P.

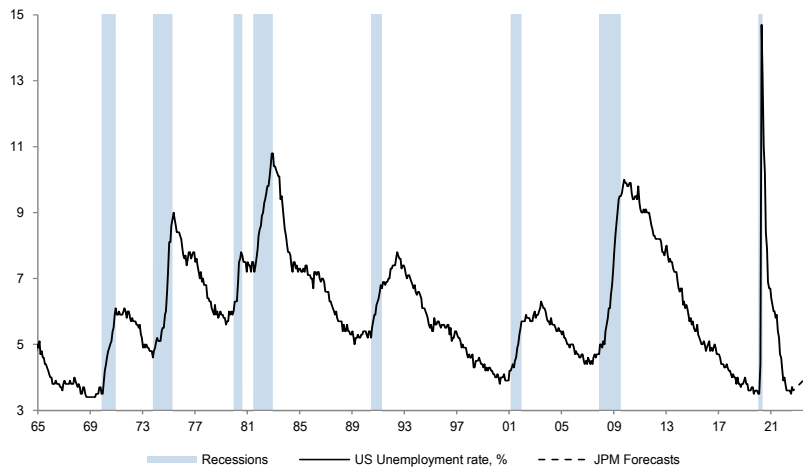
Global labour markets have been extremely tight... some weakness might be welcome, as it would take the pressure off Fed

US job vacancies rate



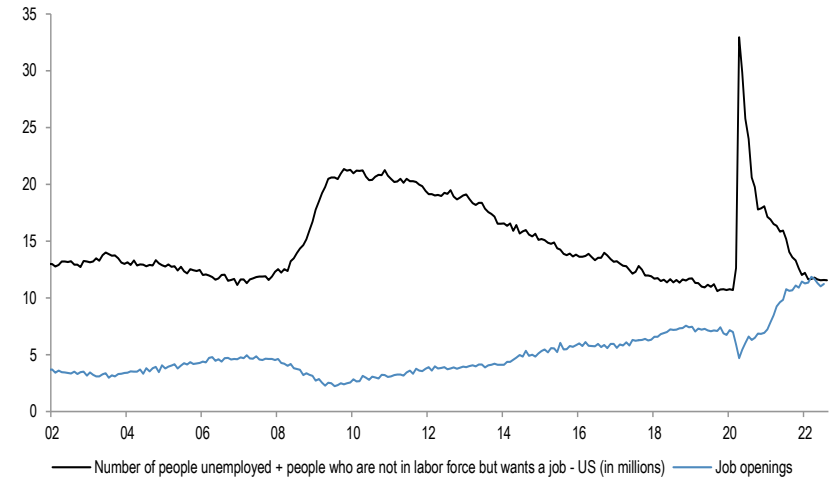
Source: Barnichon, SF Fed, J.P. Morgan

US unemployment rate



Source: J.P. Morgan

US job openings and unemployed population



Source: J.P. Morgan

Eurozone unemployment rate



Source: JPMorgan

Jobless claims, a coincident signal, have entered recession territory... interestingly, market would be higher on a 12 months horizon from here

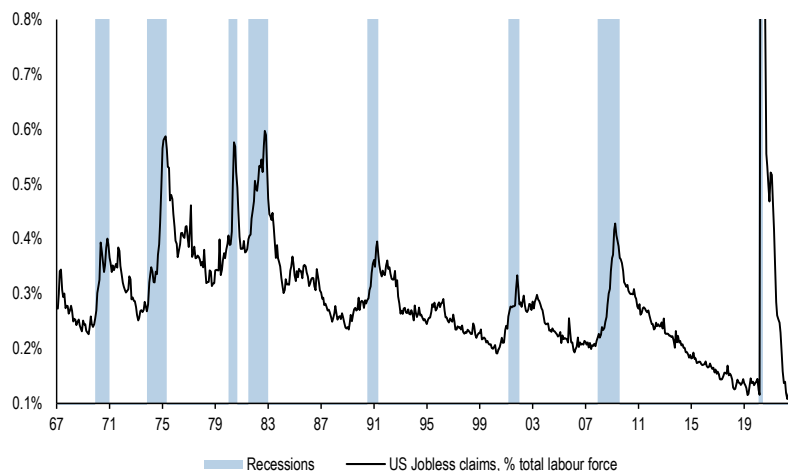
- In the past, whenever jobless claims moved 10% or higher than the prevailing 3 month moving average, we have ended up in a recession. There have been no false signals with this indicator. Unlike the shape of the yield curve, or the money supply, which are leading indicators, this one is more coincident.
- However, the forward equity returns, over the next 12 months from the point when the signal is triggered, reveals that S&P500 tended to be up 11% on average from that point.
- Additionally, claims as a share of the labour force are still very low in a historical context.

SPX performance when Jobless claims signal hits 10%

	SPX Performance when Jobless claims hit 10% compared to last 3 month average					
	-3m	-1m	+1m	+3m	+6m	+12m
Feb-70	-4%	2%	0%	-19%	-9%	8%
Mar-74	0%	0%	-2%	-9%	-24%	-15%
May-80	-2%	5%	3%	10%	26%	19%
Dec-81	7%	3%	-5%	-11%	-13%	11%
Dec-90	1%	7%	-4%	15%	16%	16%
Mar-01	-6%	-9%	-7%	2%	-8%	-8%
Oct-08	-13%	-14%	-12%	-15%	-23%	-7%
Aug-19	5%	-3%	2%	7%	1%	20%
Mar-20	-22%	-15%	13%	18%	30%	56%
Aug-22	8%	7%	-8%	-	-	-
Median	-1%	1%	-3%	2%	-8%	11%
Average	-3%	-2%	-2%	0%	-1%	11%
% of times +ve	40%	60%	40%	56%	44%	67%

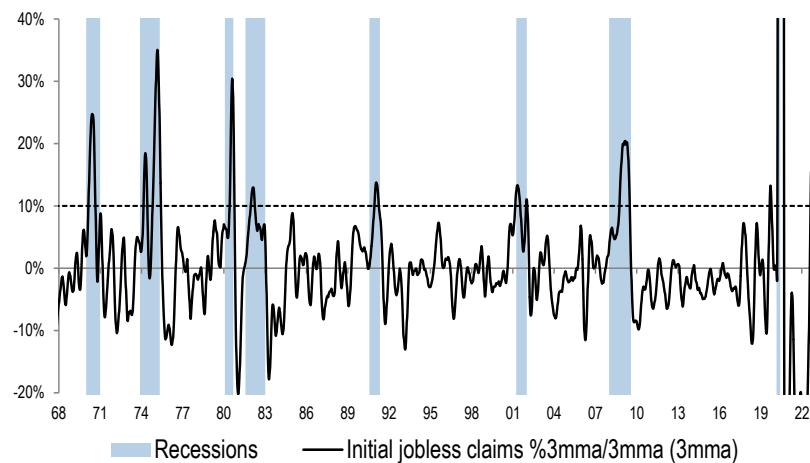
Source: Bloomberg Finance L.P.

US jobless claims, % total labour force



Source: Bloomberg Finance L.P.

US jobless claims and recessions



Source: Bloomberg Finance L.P.

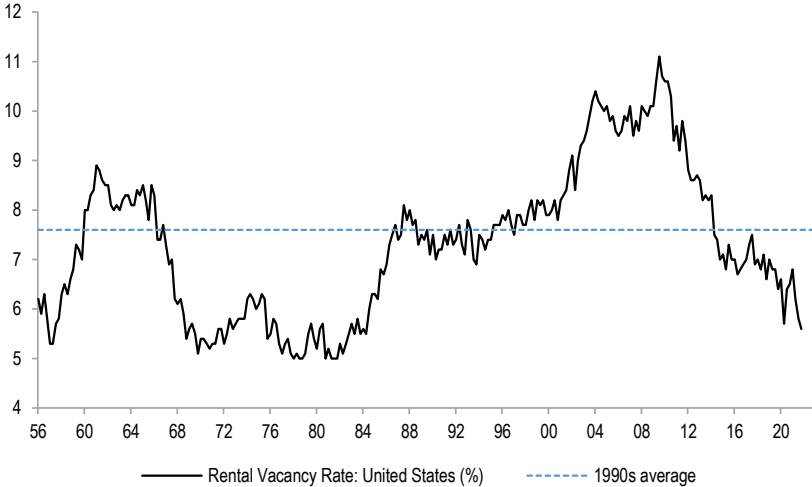
House prices are peaking, but are unlikely to move down much, as inventories are low... consumer leverage is not significant

US savings rate



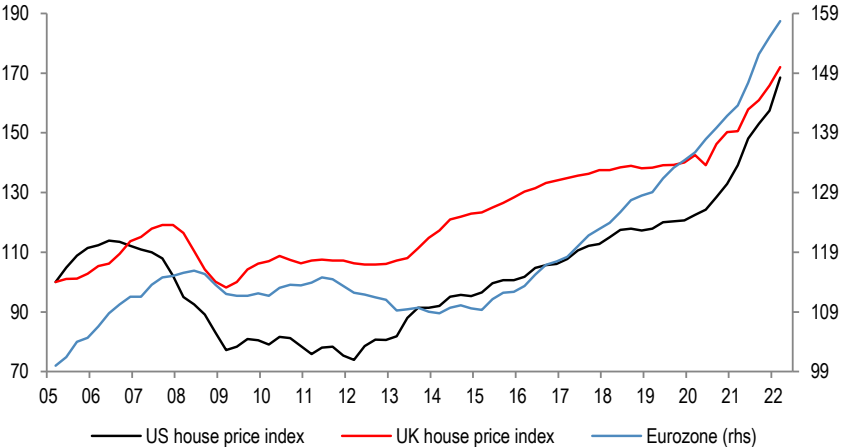
Source: Bloomberg Finance L.P.

US rental vacancy rate



Source: Bloomberg Finance L.P.

US, UK and Eurozone house prices



Source: Bloomberg Finance L.P.

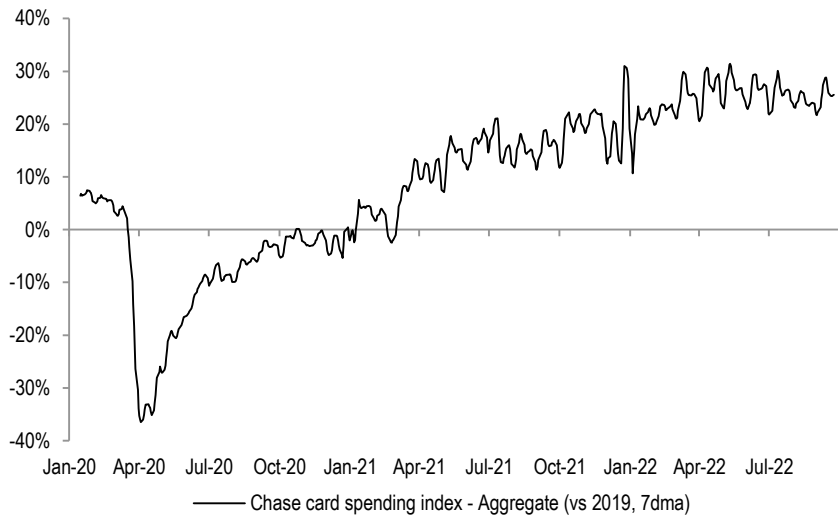
US household leverage (%)



Source: FRB

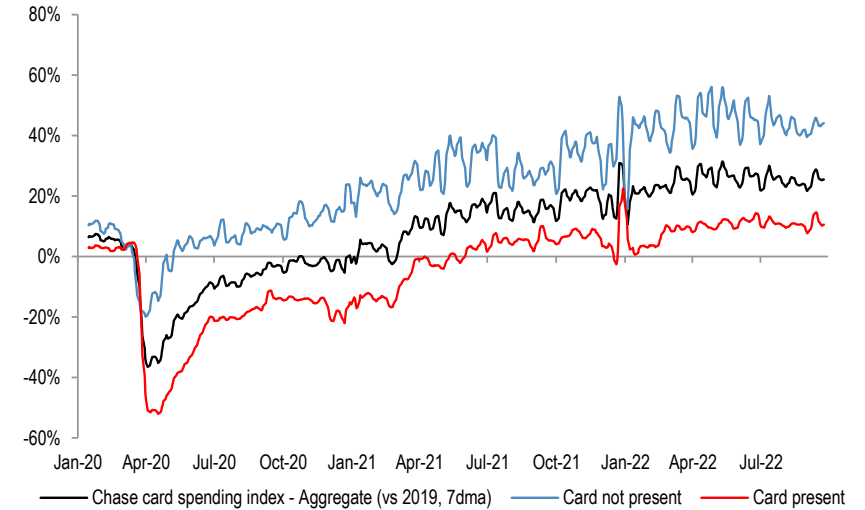
JPM's Chase credit card data has been resilient to date...

Chase card data - Aggregate



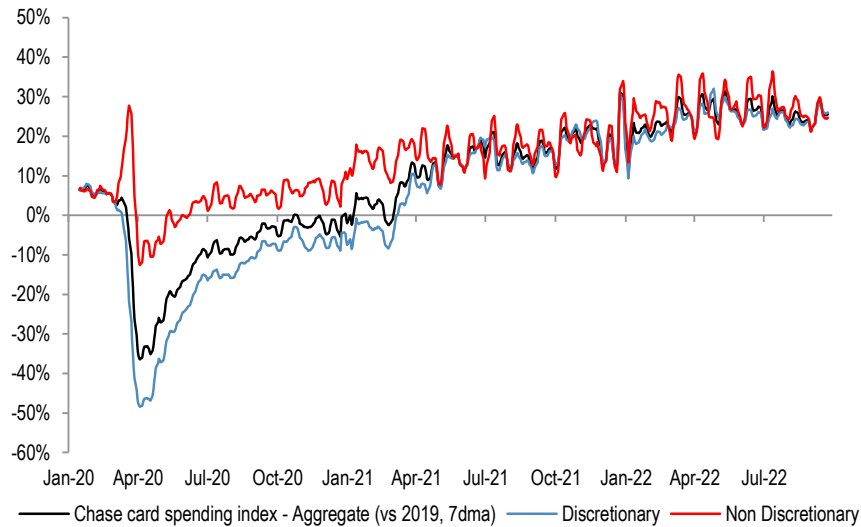
Source: JPM Economics Research

Chase card data - In Person/POS vs Online sales



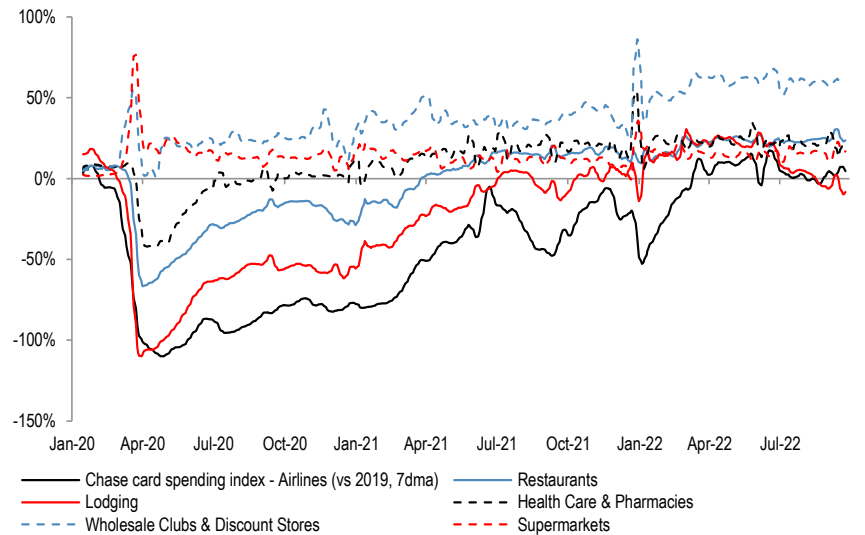
Source: JPM Economics Research

Chase card data - Discretionary/Non-discretionary



Source: JPM Economics Research

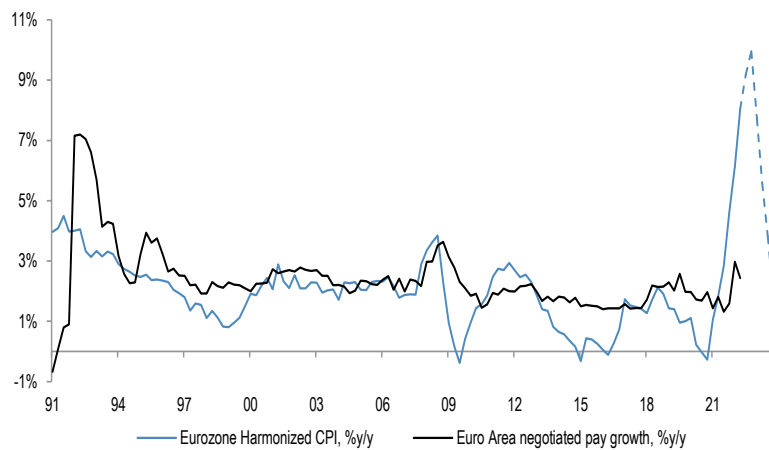
Chase card data - by spending categories



Source: JPM Economics Research

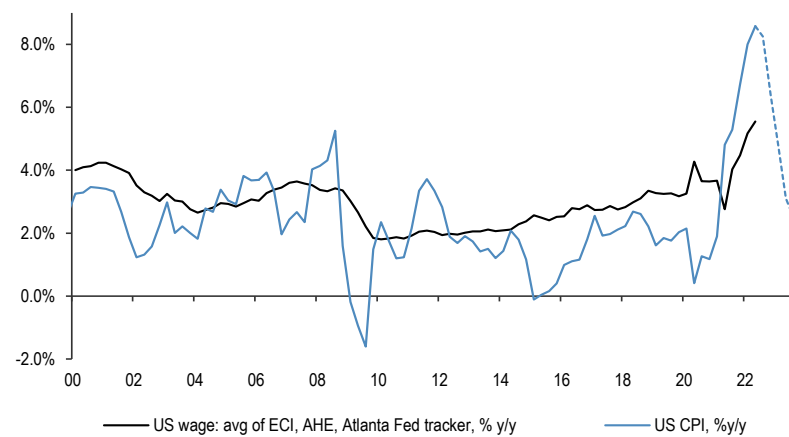
...wages vs CPI wedge to start closing in a favourable way as we move toward the turn of the year

Euro Area negotiated pay vs Harmonized CPIs



Source: J.P. Morgan

Wages vs CPI US

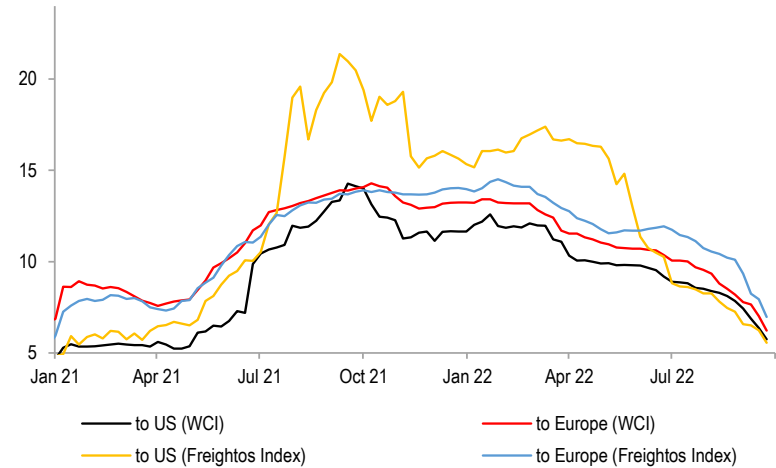


Source: J.P. Morgan

Supply chain bottlenecks are getting better...

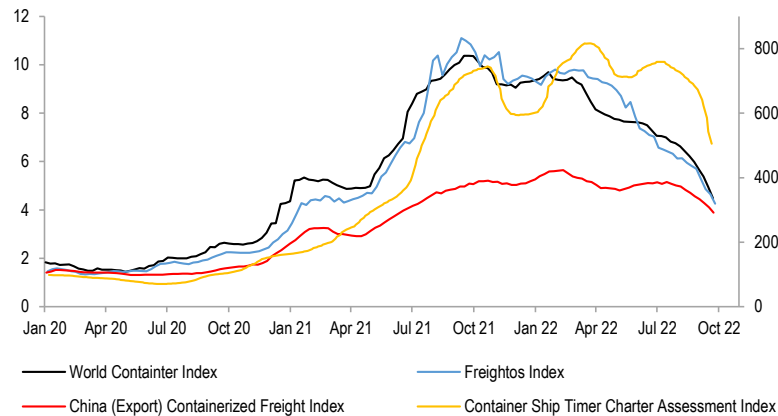
- Faster than expected economic recovery post the COVID-19 driven slump created supply bottlenecks. A number of key components, including semiconductors, were in short supply. Shipping costs skyrocketed as uneven demand weighed on shipping capacity. The issue was further exacerbated by scarcity of truck drivers, resulting in jams at ports. These issues are getting better.

China outbound container shipping rates



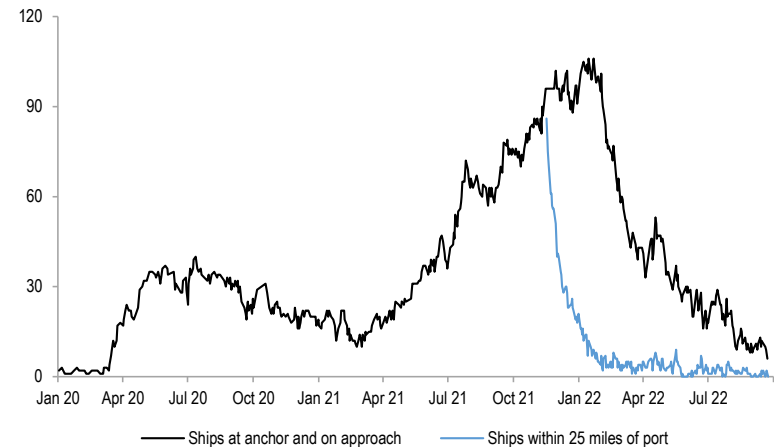
Source: J.P Morgan Economics Research, LHS in thousand USD / 40-ft box

Global container shipping rates



Source: J.P Morgan Economics Research, LHS in thousand USD / 40-ft box Index, Dec 2019 = 100
25

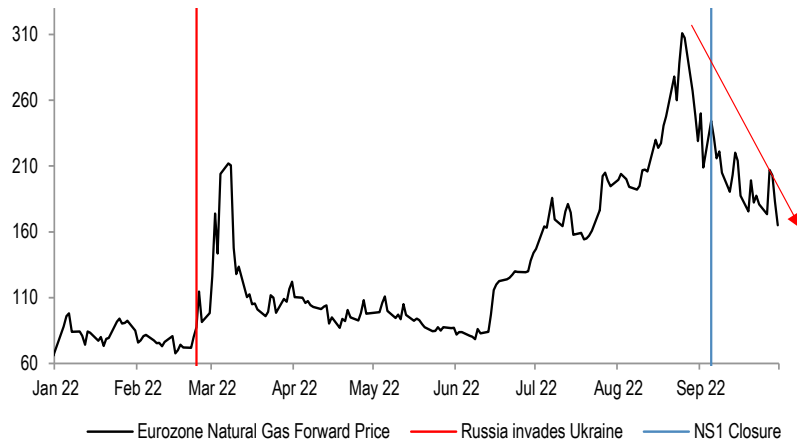
Container ships outside the Ports of Los Angeles/ Long Beach



Source: J.P Morgan Economics Research

...almost all commodities are lower, even the natural gas most recently, which should help ease inflation pressure

EU Natural gas price



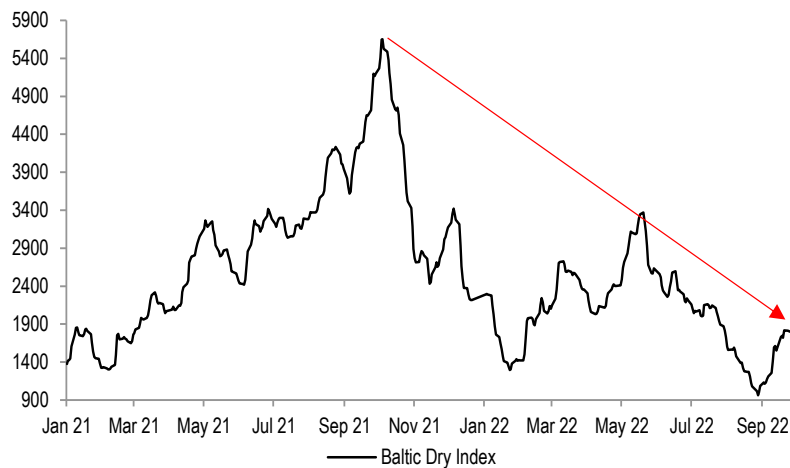
Source: Bloomberg Finance L.P.

China thermal/cooking coal price



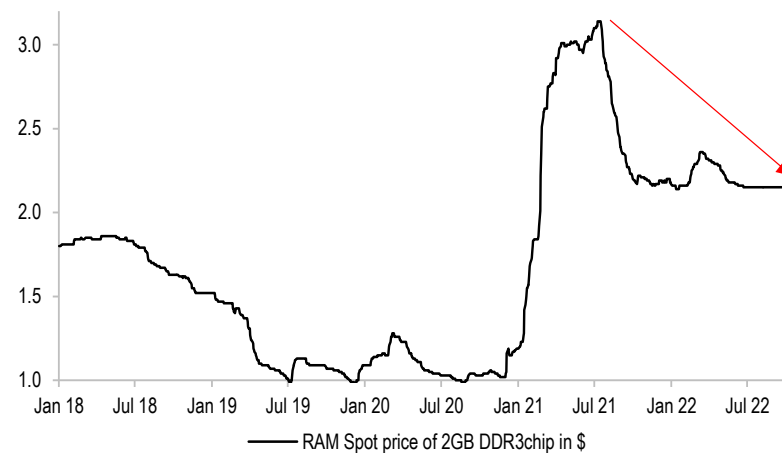
Source: J.P. Morgan China Research team

BDI Index



Source: Bloomberg Finance L.P.

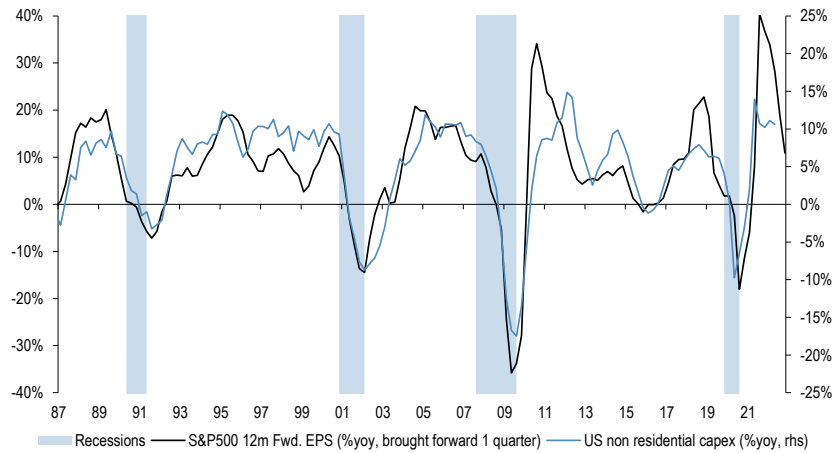
RAM prices



Source: Bloomberg Finance L.P.

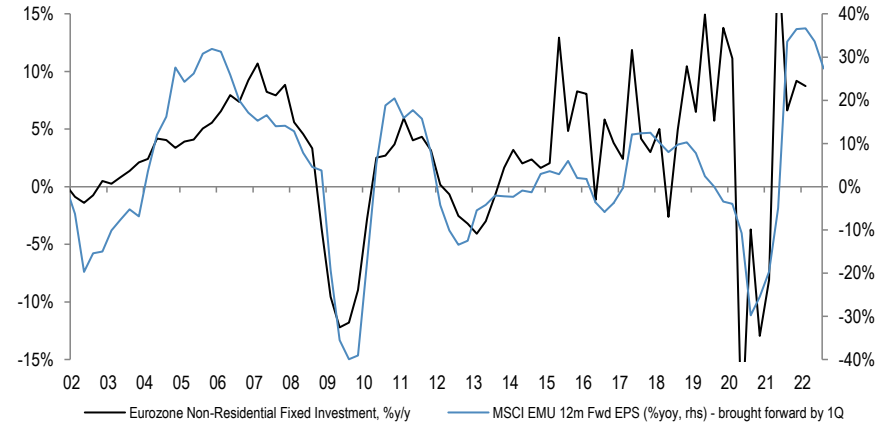
Capex has been resilient... government investment is bottoming out

US earnings vs capex



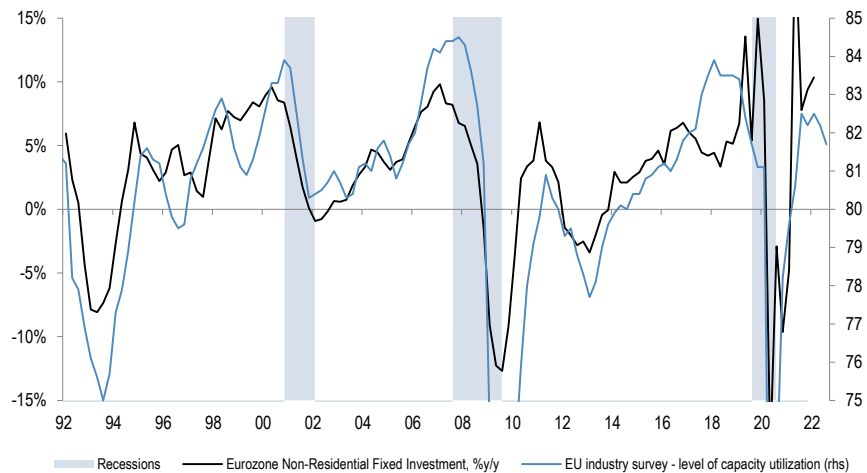
Source: IBES, BEA

Eurozone non-residential capex and earnings



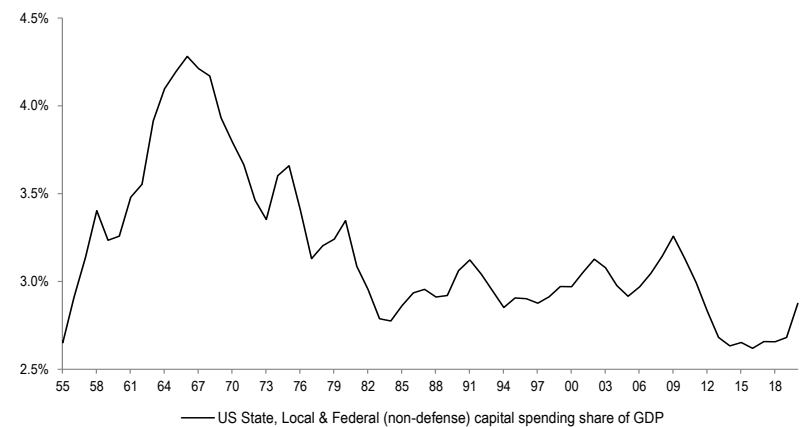
Source: IBES, ECB

Eurozone capacity utilization vs Capex



Source: Bloomberg Finance L.P., ECB

US government capital spending share of GDP



Source: BEA, J.P. Morgan

Credit spreads have widened, but not all that much in the long-term context...

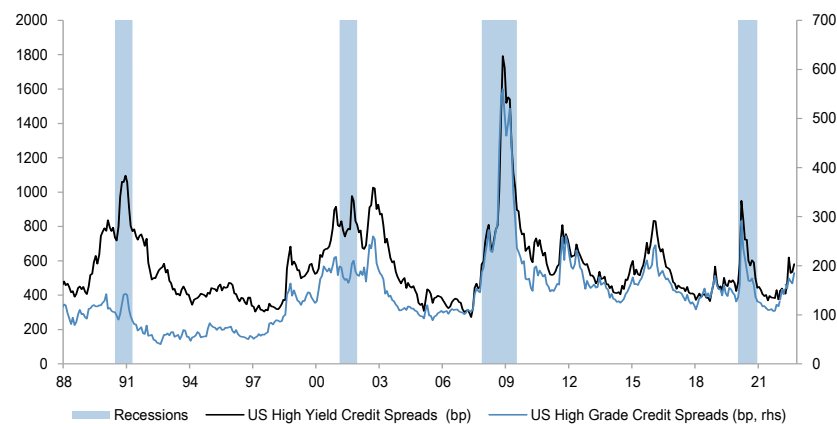
- Our credit strategists expect HY spreads to remain range bound from current levels.

HY credit spreads and recessions

Past recessions	Trough in HY spreads	# months to recession	Move in spreads: trough to recession (bp)
1990	Jul-88	25	327
2001	Mar-98	37	513
2008	Jun-07	7	325
2020	Oct-18	17	784
Median		21	420
Average		22	487

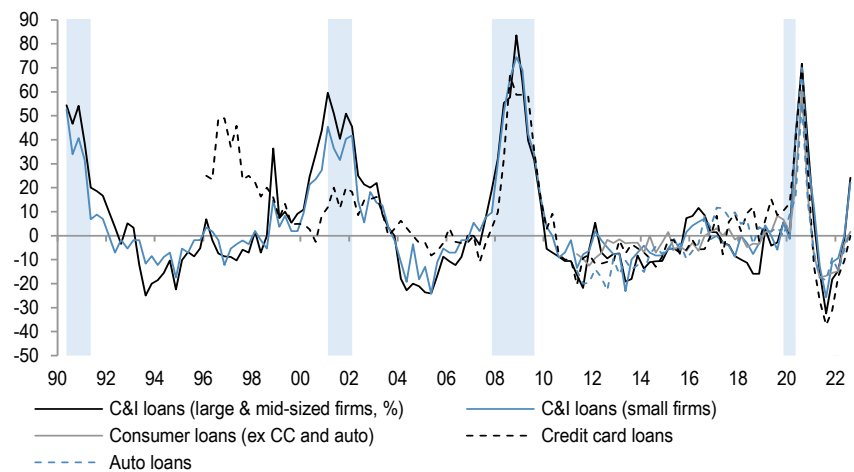
Source: J.P. Morgan, *move from trough to present

US HY and HG credit spreads



Source: J.P. Morgan, NBER

% of US domestic banks tightening lending standards

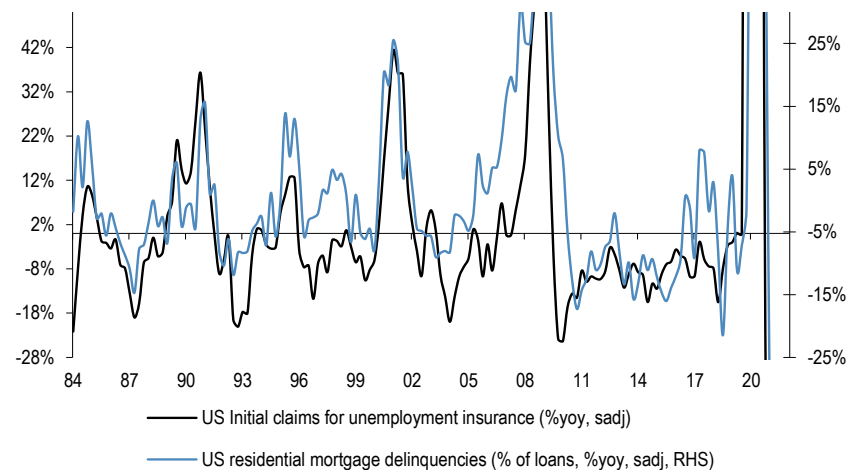


Source: J.P. Morgan

...default rates are likely to be lower than during past downturns

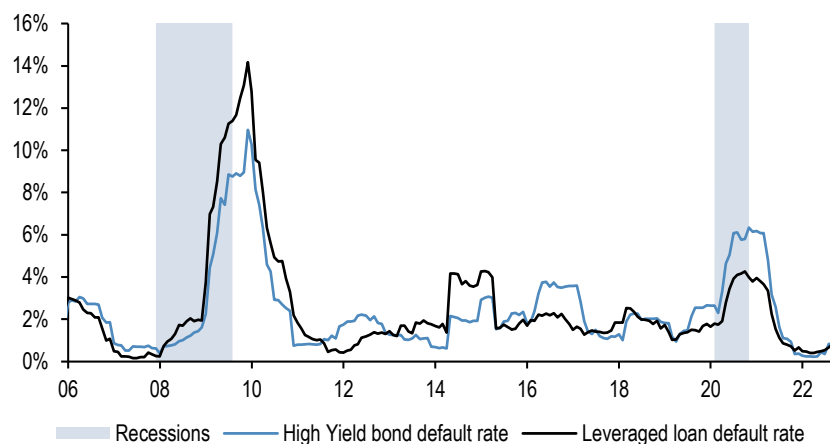
- There are not many maturities coming up in the credit space, as companies have used the favorable market conditions over the last few years to refinance, and increase duration of their debt.
- Our credit team expects lower defaults than during GFC or COVID crisis.

US mortgage delinquencies vs jobless claims



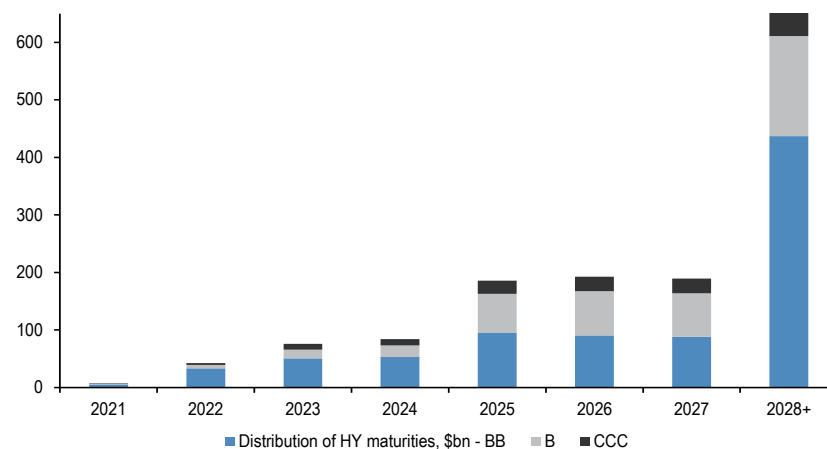
Source: Datastream

US HY default rate



Source: JP Morgan

Distribution of US HY bond maturities by rating

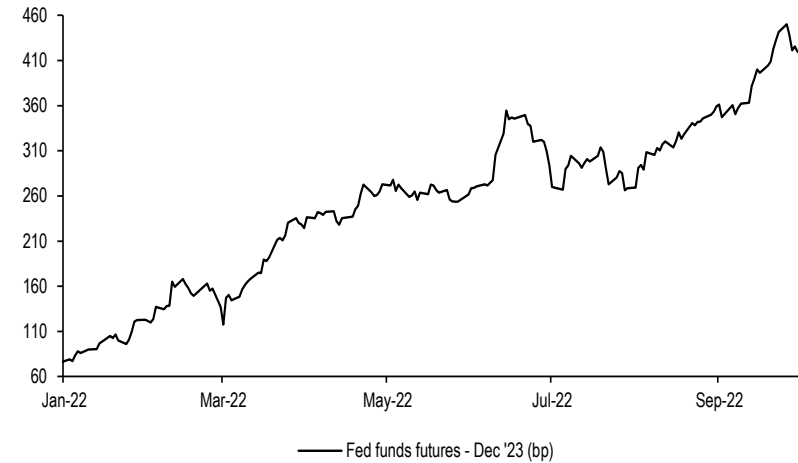


Source: J.P. Morgan

2) Market is pricing in 4.6% terminal Fed rate... do they need to deliver on this to achieve their aims?

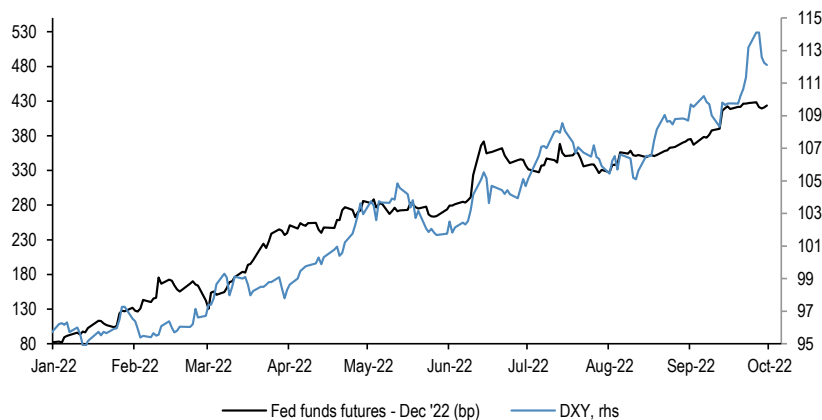
- Market has now settled into a view that Fed will keep with outsized rate hikes for the foreseeable future. The question though is whether they will deliver on this, and more fundamentally whether they need to deliver on this in order to achieve their aims. We believe that we are entering a period of disinflation, and that Fed does not need to keep their hawkish stance.
- So far ytd, DXY, Fed rates, bond yields and inflation were all spiking. This might not be repeated into the year end and beyond.

Fed Funds Futures - Dec'23



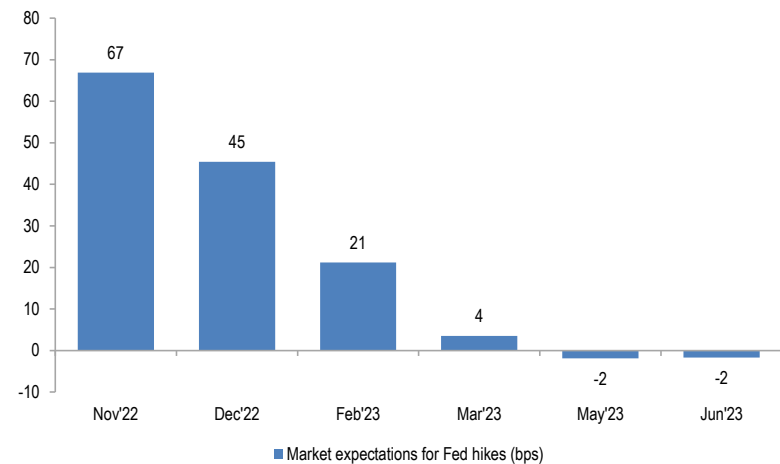
Source: Bloomberg Finance L.P.

Fed futures and USD



Source: Bloomberg Finance L.P.

Projections for next Fed meetings

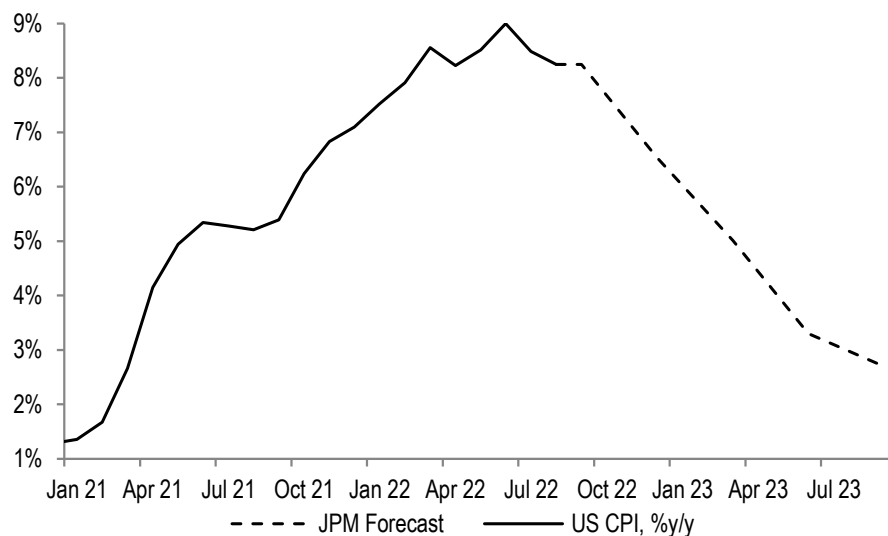


Source: Bloomberg Finance L.P.

JPM expects inflation to move significantly lower... the gap between breakevens and bond yields has now fully closed

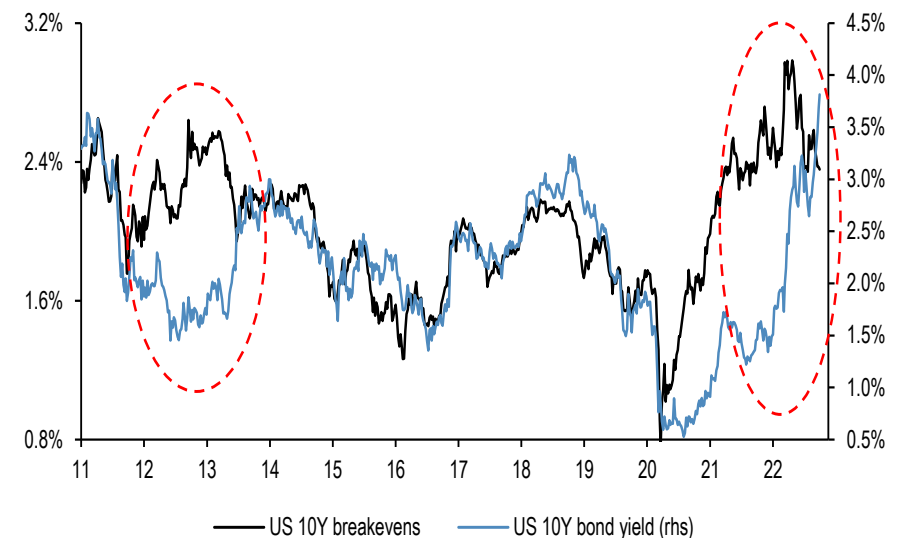
- JPM projection is for a significant move lower in inflation from here.
- The '12-'13 breakevens vs yields gap has ultimately closed with bond yields moving higher, and inflation forwards falling, as tapering started. We argued for the closure of the gap over the past 18 months, along the same lines as in '12-'13. Given the gap has closed, bond yields might not need to reprice much higher from here, which is important for equity valuations.

JPM US inflation projections



Source: J.P. Morgan

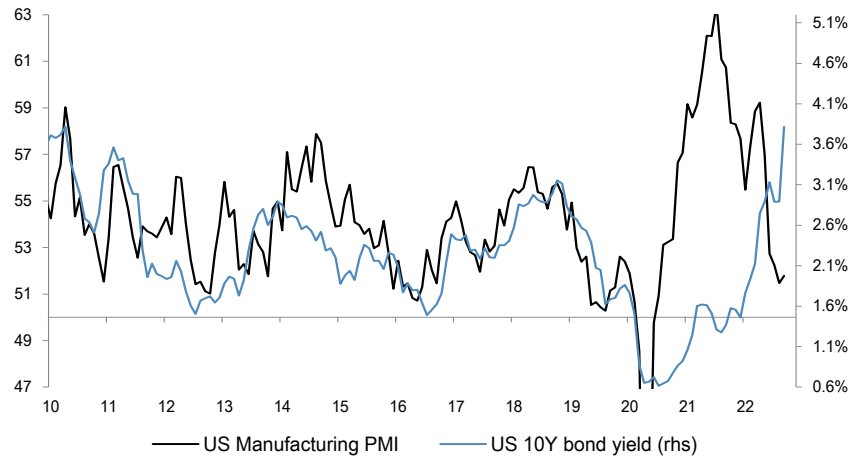
US 10Y breakevens and 10Y bond yield



Source: Bloomberg Finance L.P.

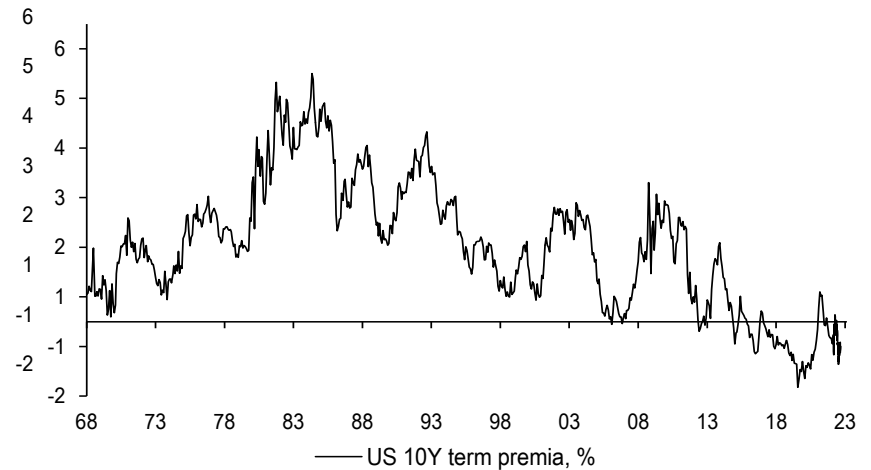
Term premia is still low, but short-term activity weakness is a constraint to a move higher in bond yields... flattening curve is the norm as Fed hikes

US manufacturing PMI and US 10Y bond yield



Source: Bloomberg Finance L.P., S&P Global

US 10-year term-premia



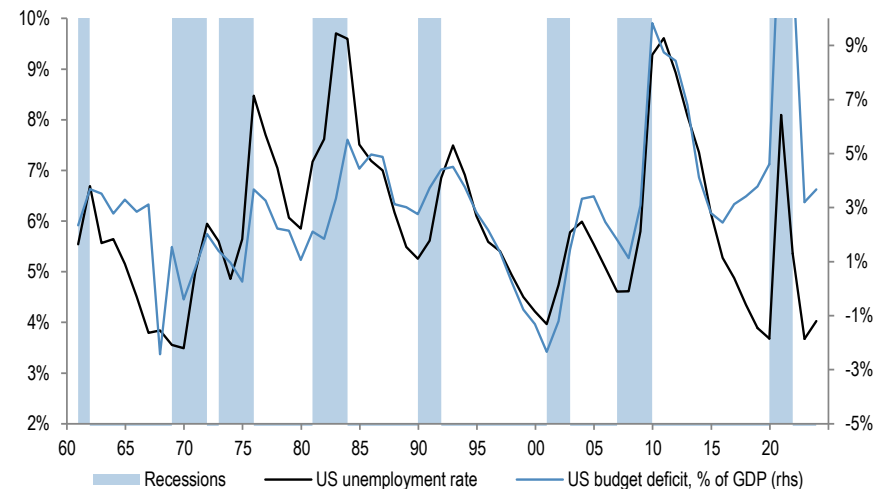
Source: J.P. Morgan

Move in yields during past Fed hiking cycles

Fed hiking cycles	Move in		
	10Y - 2Y yield curve (bp)	10Y bond yield (bp)	2Y bond yield (bp)
Oct '80 - May '81	-85	157	241
Mar '83 - Aug '84	-65	268	333
Apr '87 - May '89	-113	116	229
Feb '94 - Feb '95	-118	157	275
Jun '99 - May '00	-75	57	132
Jun '04 - Jun '06	-215	50	265
Dec '15 - Dec'18	-112	48	160
Current	-88	186	274

Source: J.P. Morgan

US unemployment rate and budget deficit



Source: J.P. Morgan

We don't believe liquidity withdrawal is necessarily bad for stocks overall...

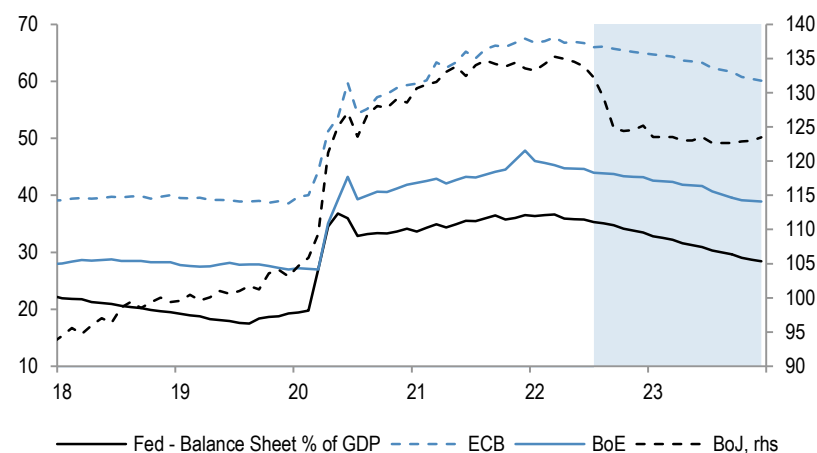
- The aggregate central banks balance sheet is set to contract, but not in an aggressive manner.

DM central bank balance sheets, 12m diff as of Dec, \$bn

	2017	2018	2019	2020	2021	2022
Fed	-9	-385	115	3161	1431	-279
ECB	791	228	-30	2308	1582	31
BoJ	316	215	147	910	149	-237
BoE	114	31	-11	365	257	-55
Total	1211	89	222	6744	3419	-540

Source: J.P. Morgan Economics Research

Central Bank Balance sheets as a share of GDP



Source: J.P. Morgan Economics Research

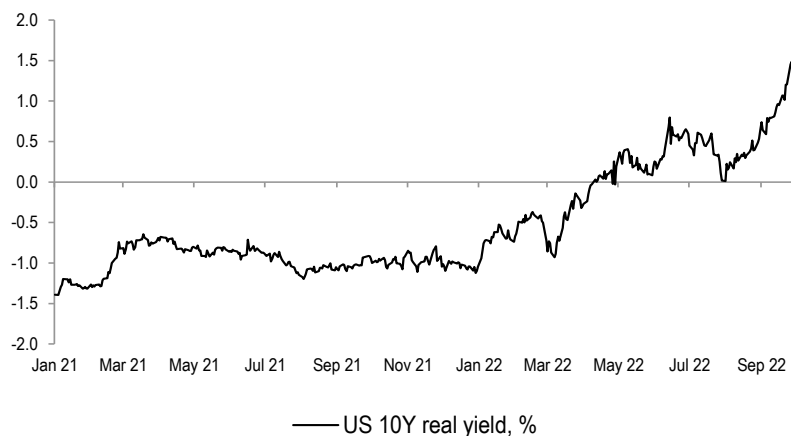
G5 Central Bank Balance sheet and Nominal GDP

	CB Balance Sheet (\$Tn)				Expansion		
	2019	2020	2021	2022e	2020 vs 2019	2021 vs 2020	2022e vs 2021
FED	4.1	7.3	8.7	8.5	78%	19%	-3%
ECB	5.2	8.5	9.6	8.3	63%	13%	-13%
BoE	0.8	1.2	1.5	1.2	56%	23%	-22%
BoJ	5.3	6.8	6.4	4.8	29%	-6%	-25%
PBOC	5.3	5.9	6.2	5.7	12%	5%	-8%
G3 Aggregate CB Balance Sheet	14.6	22.6	24.7	21.6	55%	9%	-13%
G5 Aggregate CB Balance Sheet	20.7	29.8	32.5	28.5	44%	9%	-12%
G3 Nominal GDP Growth					1%	7%	-3%
G5 Nominal GDP Growth					4%	10%	-4%
G3 Aggregate CB Balance Sheet vs Nominal GDP Growth					54%	3%	-9%
G5 Aggregate CB Balance Sheet vs Nominal GDP Growth					40%	-1%	-8%

Source: J.P. Morgan Economics Research

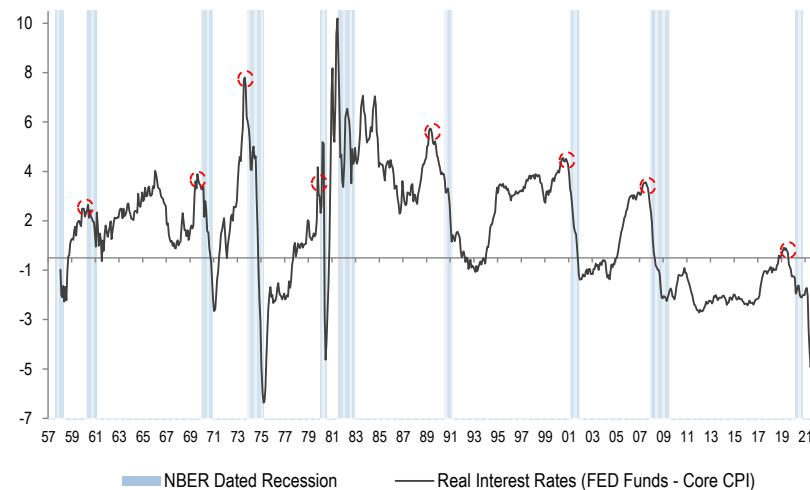
... real rates are moving higher, but are not elevated in the longer-term context

US real rates



Source: Bloomberg Finance L.P.

US real policy rates and recessions



US real rates entering recessions

Recession Start	Real Interest Rate (Fed Funds - Core CPI, %yoy)	
	Level at the start of recession	6m avg before the start of recession
1960	1.9%	1.9%
1969	2.8%	3.0%
1973	5.5%	6.3%
1980	1.8%	2.2%
1990	3.2%	3.4%
2001	2.6%	3.4%
2007	1.8%	2.6%
2020	-0.8%	-0.7%
Average	2.4%	2.8%
Median	2.3%	2.8%
Current	-4.0%	-5.2%

Source: Bloomberg Finance L.P.

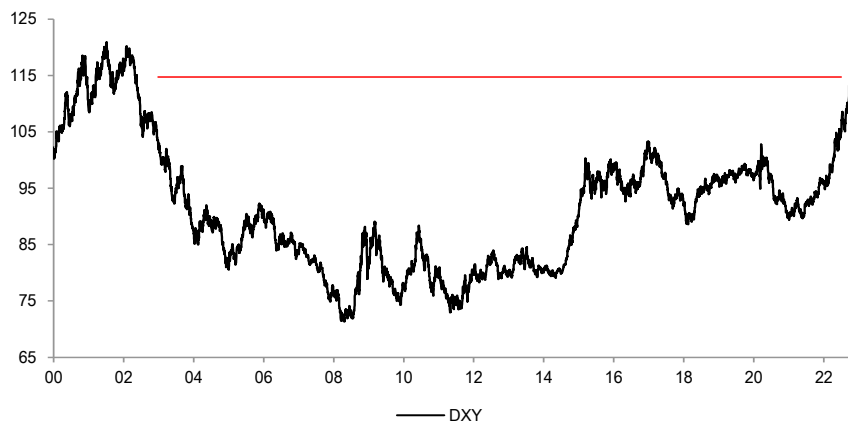
US real rates at the point of curve inversion

Yield Curve inversion date	Real Interest Rate (Fed Funds - Core CPI, %yoy)	
	Latest reading	6m Avg
Dec-67	0.6%	0.5%
Mar-73	3.8%	2.9%
Aug-78	0.4%	0.5%
Dec-88	4.0%	3.7%
Feb-00	3.5%	3.3%
Jan-06	2.2%	1.8%
Aug-19	0.2%	0.2%
Average	2.1%	1.9%
Median	2.2%	1.8%

Source: Bloomberg Finance L.P.

USD is at 20-year highs... it is now above where rate differential would suggest

DXY



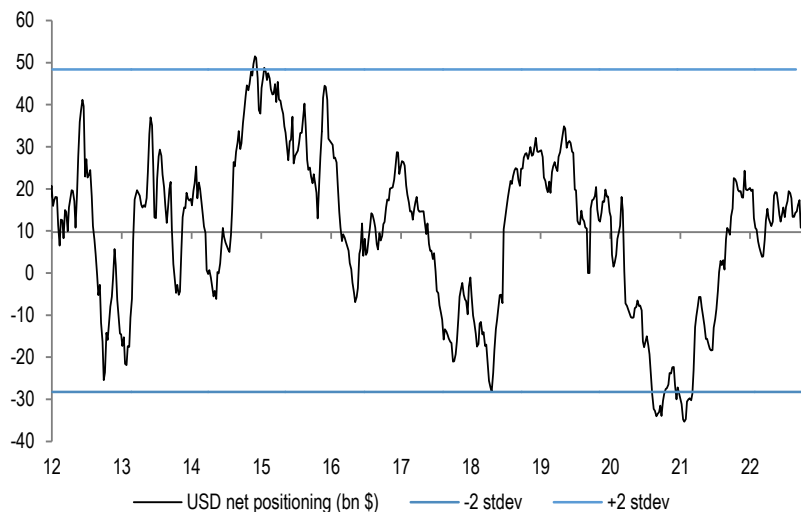
Source: Bloomberg Finance L.P.

Dollar around Fed hikes

	DXY move after 1st Fed hike			
	'+1w	'+1m	'+3m	'+6m
Feb-94	-0.1%	-1.6%	-3.9%	-8.1%
Mar-97	-0.8%	1.7%	-0.6%	2.3%
Jun-99	1.2%	-3.0%	-4.7%	-2.1%
Jun-04	-1.4%	1.3%	-1.3%	-5.9%
Dec-15	0.1%	1.1%	-3.2%	-2.5%
Mar-22	0.2%	1.9%	3.3%	-
Median	0.0%	1.2%	-2.2%	-2.5%
Average	-0.1%	0.2%	-1.7%	-3.2%

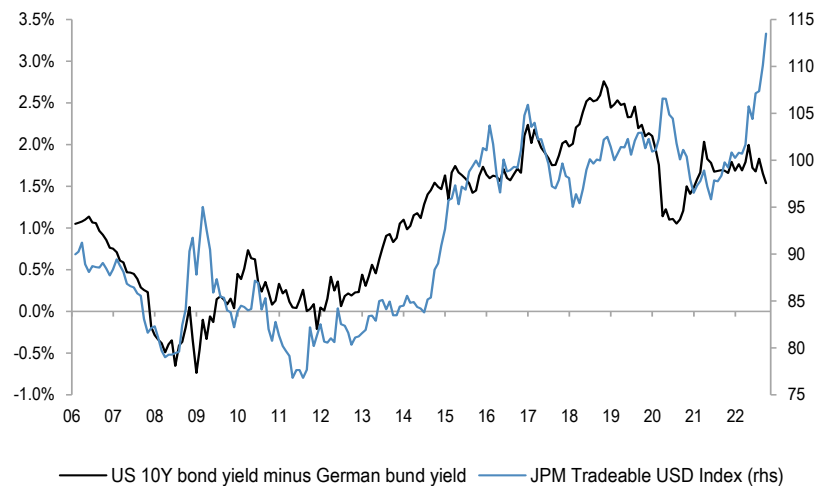
Source: Bloomberg Finance L.P.

USD net positioning



Source: J.P. Morgan

US-German 10Y bond yield differential and USD

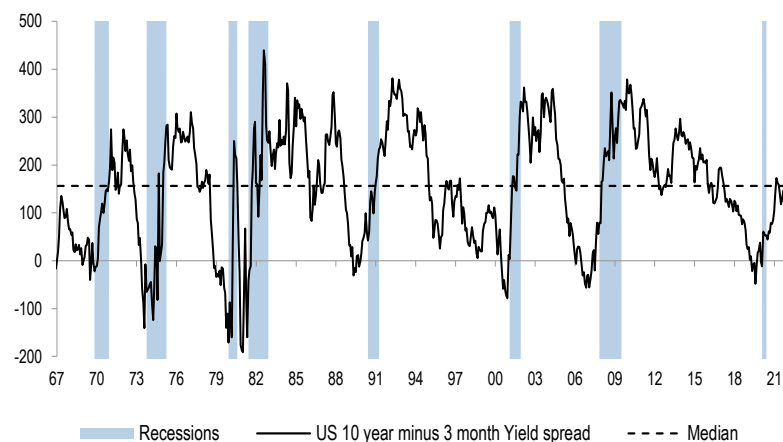


Source: Bloomberg Finance L.P.

Yield curve framework is sending a recession signal, but a lot of this might be already in the price

- The US 10Y/2Y yield curve, which has been a reliable recession indicator in the past, briefly inverted in April this year, and has inverted again recently.
- US 10Y/3M yield spreads, another reliable recession indicator, has also been flattening recently.

US 10Y-3M yield curve



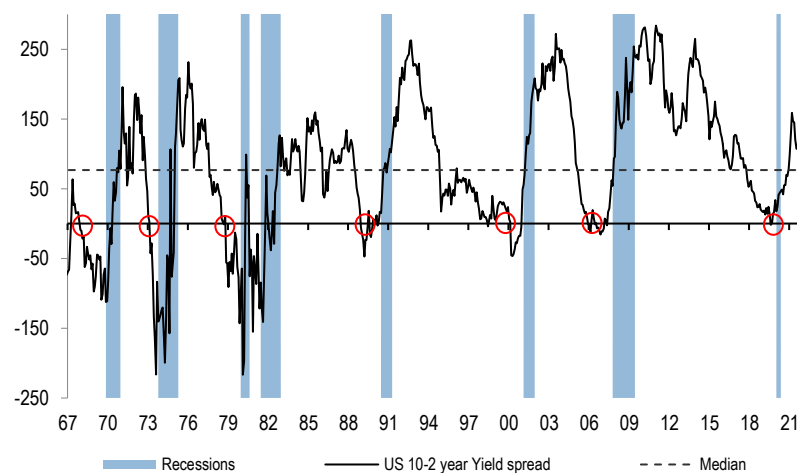
Source: Bloomberg Finance L.P.

SPX move from yield curve inversion to the market peak

Yield Curve inversion date (10-2Y)	# months between			SPX move from YC inversion to SPX peak*
	Yield curve inversion & SPX peak	SPX peak & recession	Yield curve inversion & recession	
Dec-67	11	13	24	14%
Mar-73	-2	10	8	-4%
Aug-78	18	-1	17	13%
Dec-88	19	0	19	34%
Feb-00	2	12	13	8%
Jan-06	20	2	23	22%
Aug-19	6	0	6	18%
Median	11	2	17	14%
Average	11	5	16	15%

Source: Bloomberg Finance L.P.

US 10Y-2Y yield curve

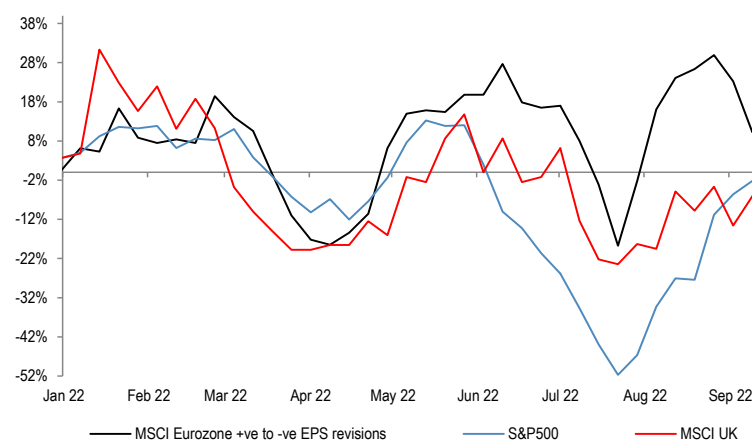


Source: Bloomberg Finance L.P.

3) Even with activity weakness, the downside to earnings might not be dramatic... earnings have been revised up again...

- After a very strong earnings rebound in 2021, base effects are no longer favourable.
- Despite this, 2022 EPS projections have been revised higher ytd in Eurozone and the UK. This has been fairly broad-based, with most sectors seeing EPS upgrades this year.
- Weekly EPS revisions have improved again most recently in the UK, and are staying positive in Eurozone.

US, Eurozone and UK +ve to -ve EPS revisions



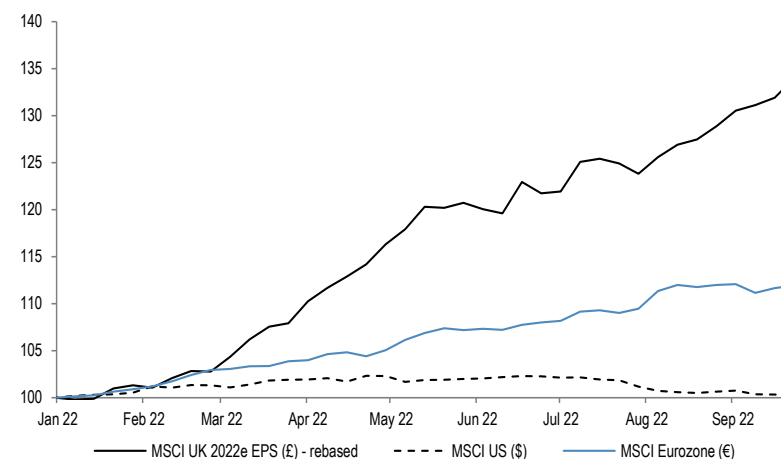
Source: IBES

2022e EPS change for MSCI Eurozone sectors

	28-Sep	1-Jan	YTD Change
Market	19.8	17.7	11.8%
Energy	39.0	17.5	123.0%
Materials	24.6	22.0	12.1%
Industrials	19.9	20.0	-0.2%
Discretionary	16.8	15.4	9.2%
Staples	10.7	10.3	3.5%
Healthcare	14.9	14.5	2.8%
Financials	6.0	5.9	2.8%
IT	7.6	7.4	2.9%
Comm Services	3.2	3.2	2.2%
Utilities	7.4	8.5	-12.7%
Real Estate	25.8	51.1	-49.4%

Source: IBES

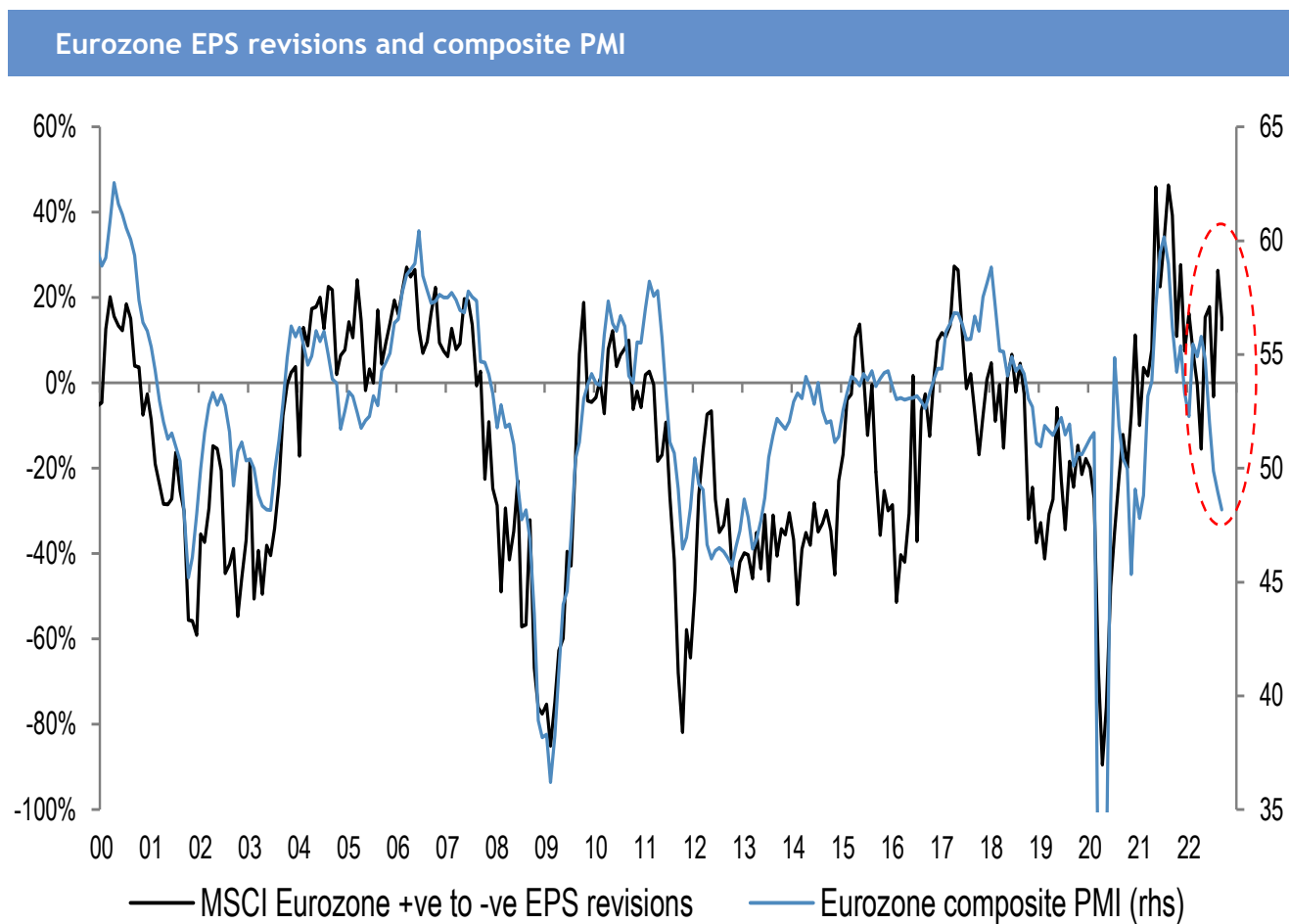
MSCI US, UK and Eurozone 2022e EPS



Source: IBES

...earnings have opened up a gap with PMIs... we think this can continue to a large extent...

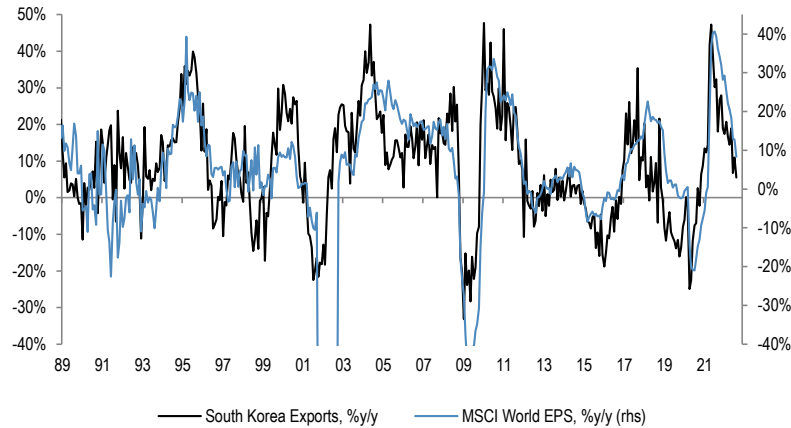
- There is a clear gap between the level of PMIs and earnings revisions for Eurozone that opened up in the past five months, with lower PMIs, but resilient revisions. Most sectors are participating in the earnings decoupling from PMIs.



Source: Bloomberg Finance L.P. , S&P Global

...operating leverage is likely to be softer, but not dramatically... topline will stay positive

Korean exports vs global earnings



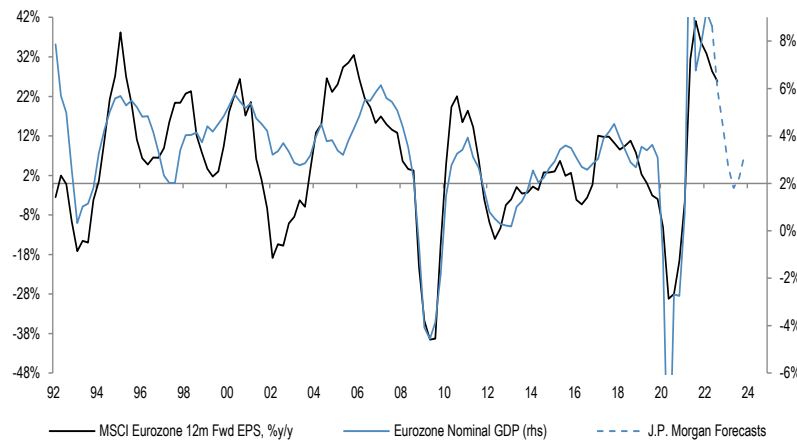
Source: IBES, KOSTAT

Profit margins and EPS growth vs GDP growth regimes

US Real GDP, % y/y	Profit Margins, yoy, bps	S&P 500 EPS %yoy
<-3%	-51	-79%
-3% to -2%	-96	-26%
-2% to -1%	-68	-3%
-1% to 0%	11	-3%
0% to 1%	-29	-13%
1% to 2%	-42	-1%
2% to 3%	17	9%
3% to 4%	59	16%
4% to 5%	24	15%
>5%	85	24%

Source: Bloomberg Finance L.P.

Eurozone EPS growth vs GDP growth



Source: IBES, J.P. Morgan

2022e EPS change for MSCI Eurozone sectors

2022e EPS levels for MSCI Eurozone sectors			
	Current	Apr '22	%change
Market	19.8	18.5	7.2%
Energy	39.0	27.1	43.9%
Materials	24.6	22.3	10.2%
Industrials	19.9	20.0	-0.5%
Discretionary	16.8	15.7	7.2%
Staples	10.7	10.3	4.1%
Healthcare	14.9	14.7	1.6%
Financials	6.0	5.7	6.0%
IT	7.6	7.7	-1.0%
Comm Services	3.2	3.1	3.6%
Utilities	7.4	8.8	-15.9%
Real Estate	25.8	50.8	-49.2%

Source: IBES

The earnings downside in past recessions was material... we do not expect a significant earnings downturn this time around

- Earnings declines in past recessions were very significant. This might not be the case this time around if the topline keeps growing, despite real GDP falls. Further, interest rates are still likely to be way below nominal growth, and below inflation rates, in contrast to the 1970-ies experience. Finally, FX acts as a dramatic tailwind to European earnings into next year.
- We cut 2023 Eurozone EPS growth projection to fully account for the latest economist projections of 0.4% real GDP growth in the region. We trim our price targets accordingly.

Earnings and price target projections

		Earnings growth			Year end	2022 end year
		2022	2023	2023 EPS	P/E	Target
MSCI Eurozone	New	15%	-10%	17.6	13.0	230
	Old	10%	3%	19.3	13.5	260
	Consensus	16%	4%	20.5	9.9	-
FTSE100	New	20%	-10%	693.2	10.5	7300
	Old	10%	5%	740.4	11.0	8150
	Consensus	23%	-1%	787.2	8.7	-

Source: J.P. Morgan, IBES

Changes in Eurozone equities, earnings and GDP during past recessions

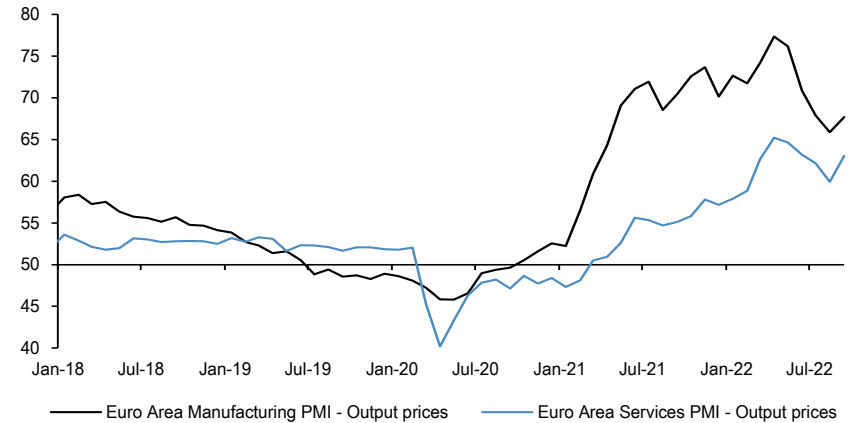
Recession	Peak in MSCI Eurozone		MSCI Eurozone peak to trough move	12m Fwd P/E at MSCI Eurozone trough	12m Fwd P/E at trough - Eurozone vs US	Peak in MSCI Eurozone		MSCI Eurozone Fwd. EPS peak to trough move	Peak to Trough - MSCI Eurozone actual EPS		Peak in Euro Area real GDP		
	MSCI Eurozone	Trough In MSCI Eurozone				MSCI Eurozone Fwd. EPS	Trough In MSCI Eurozone Fwd. EPS		MSCI Eurozone actual EPS peak to trough move	MSCI Eurozone actual EPS peak to trough move	real GDP	Trough in Euro Area real GDP	Euro Area real GDP peak to trough move
1990	Jul-90	Jan-91	-29%	9.7	0.87	Jun-90	Aug-93	-46%	'89 - '93	-55%	Q1 '92	Q1 '93	-1.8%
2001	Mar-00	Mar-03	-64%	11.1	0.76	Feb-01	Apr-02	-22%	'00 - '02	-31%	Q4 '02	Q1 '03	-0.3%
2008	Jun-07	Mar-09	-62%	7.5	0.72	Apr-08	Apr-09	-50%	'06 - '09	-43%	Q1 '08	Q2 '09	-5.7%
2012	Feb-11	Sep-11	-32%	7.4	0.72	May-11	Mar-15	-39%	'10 - '13	-29%	Q3 '11	Q1 '13	-1.8%
2020	Feb-20	Mar-20	-38%	9.6	0.73	Apr-18	May-20	-35%	'19 - '20	-35%	Q4 '19	Q2 '20	-14.7%
Average			-45%	9.0	0.76			-38%		-39%			-4.9%
Current	Jan-22	Sep-22	-26%	9.9	0.63	At peak		-		-			-

Source: Bloomberg Finance L.P., S&P Global

High input cost pressure has so far been used as pricing power, and profit margin proxies are set to fade...

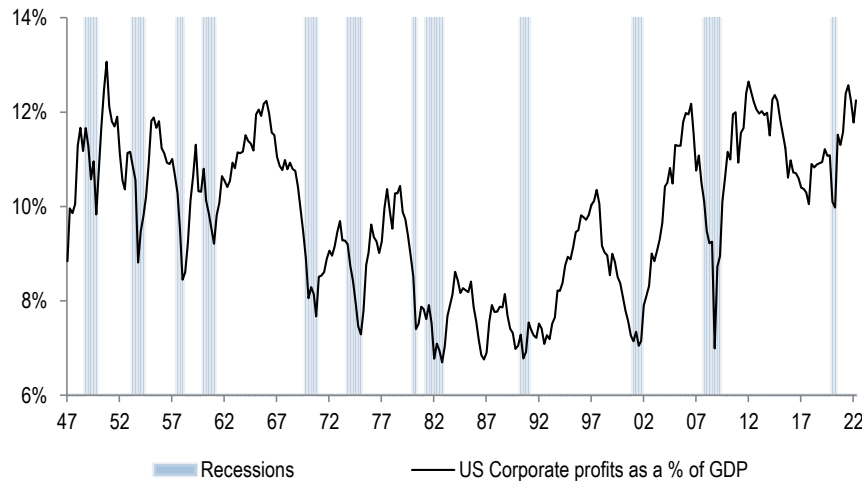
- US corporate profit margins are near all-time highs, and will likely weaken.
- The profit margin proxy – output prices minus input costs – has peaked from elevated levels.
- Importantly, PMI pricing indicators are still robust.

Euro Area Output prices PMI



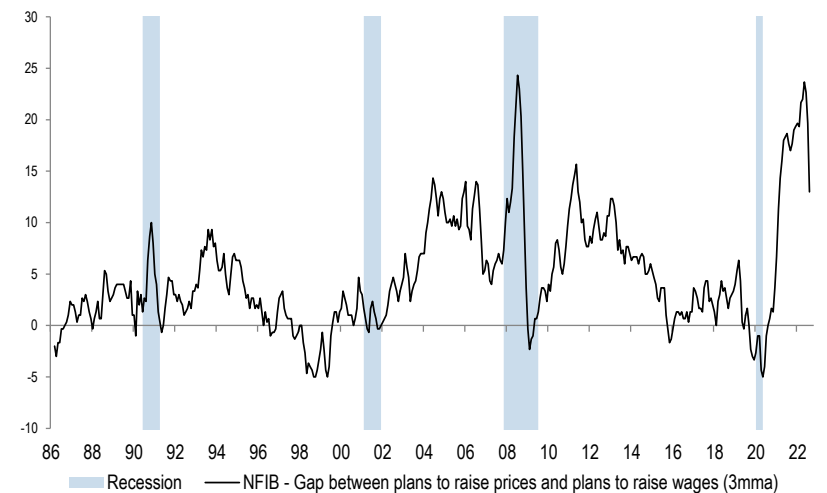
Source: S&P Global

US corporate profit margins



Source: BEA

NFIB survey - Plans to increase prices minus plans to increase wages



Source: Bloomberg Finance L.P.

...rising PPIs more than CPIs were not usually a concern for margins

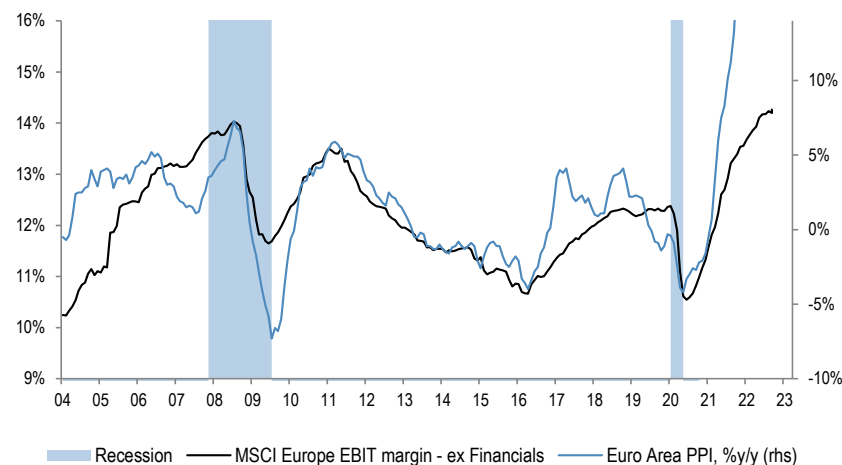
US profit margins in different PPI and CPI regimes

US Corporate profits as a % of GDP, vs 4q ago (since 1990)

	PPIs up more than CPI	PPIs up less than CPI	PPIs down
Average	0.2%	0.3%	-0.4%
Median	0.4%	0.2%	-0.5%

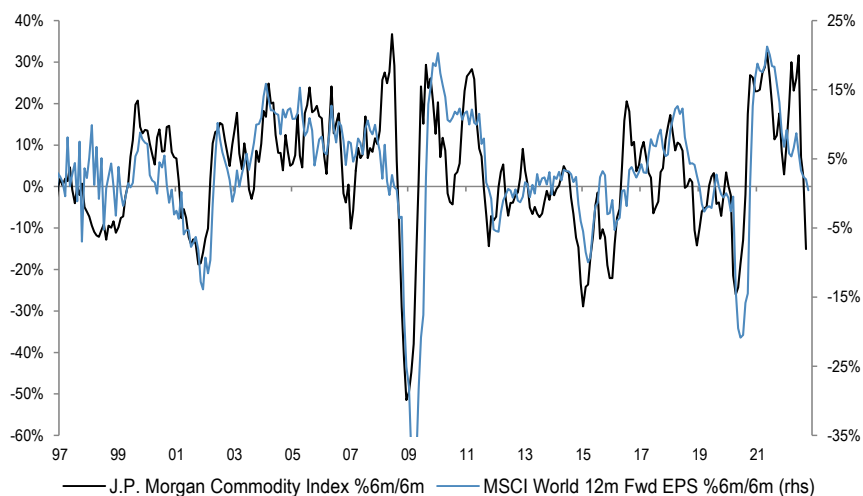
Source: BEA, Bloomberg Finance L.P., J.P. Morgan

Europe profit margins vs PPI



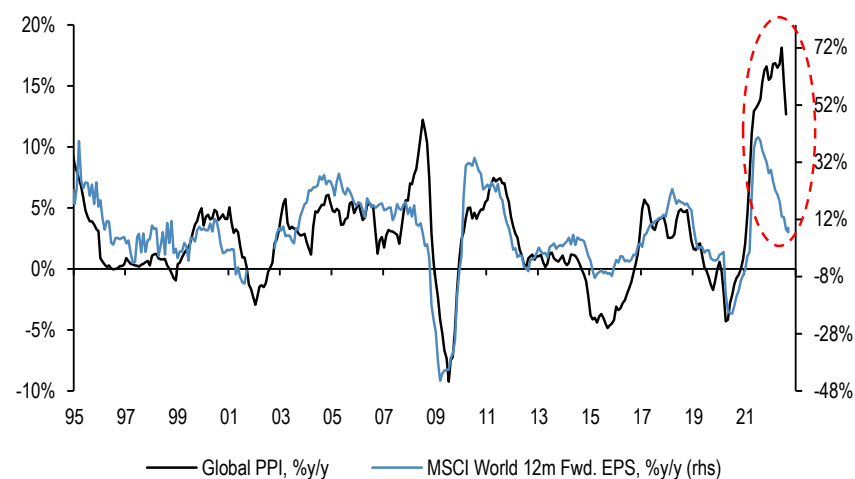
Source: IBES, J.P. Morgan

MSCI World EPS growth and commodity prices



Source: IBES, J.P. Morgan

MSCI World EPS vs global PPI



Source: IBES, Bloomberg Finance L.P.

Even if EPS revisions turn negative, we note that was not historically a reason to be bearish on the market direction

- We had a spell of very strong EPS delivery over the past few quarters. This could be changing, but it is important to note that downgrades to consensus EPS projections were a norm, and the equity market would still be moving higher in the background.

Change in consensus EPS projections and market returns			
	Change in annual EPS estimates over that year		S&P500 annual performance
'85	-16%		26%
'86	-18%		15%
'87	-10%		2%
'88	8%		12%
'89	-9%		27%
'90	-16%		-7%
'91	-25%		26%
'92	-15%		4%
'93	-8%		7%
'94	-1%		-2%
'95	0%		34%
'96	-6%		20%
'97	-3%		31%
'98	-14%		27%
'99	-4%		20%
'00	-5%		-10%
'01	-25%		-13%
'02	-9%		-23%
'03	0%		26%
'04	9%		9%
'05	3%		3%
'06	2%		14%
'07	-7%		4%
'08	-29%		-38%
'09	-22%		23%
'10	9%		13%
'11	2%		0%
'12	-4%		13%
'13	-2%		30%
'14	-3%		11%
'15	-6%		-1%
'16	-6%		10%
'17	-1%		19%
'18	9%		-6%
'19	-6%		29%
'20	-24%		16%
'21	23%		27%
Average	-6%		11%
Median	-6%		13%

Source: IBES

US earnings are at a new record...

US 12m Fwd. EPS during past recessions

MSCI US 12m Fwd. EPS			
Recession year	Peak date	Trough date	Peak to trough move
1990	Jan-91	May-91	-14%
2001	Aug-00	Nov-01	-23%
2008	Oct-08	Apr-09	-40%
2020	Mar-20	Sep-20	-15%
Average			-23%
Median			-19%
Current	At peak		

Source: IBES

S&P500 EPS vs Trend at peaks

	Peak S&P500 EPS	Trend	vs trend
Aug-74	10.6	9.7	10%
Nov-79	17.3	11.7	48%
Aug-80	17.9	12.3	46%
Apr-89	30.4	24.1	26%
May-00	62.0	53.0	17%
Sep-07	103.7	80.6	29%
Median			27%
Average			29%
Current	233.1	157.9	48%

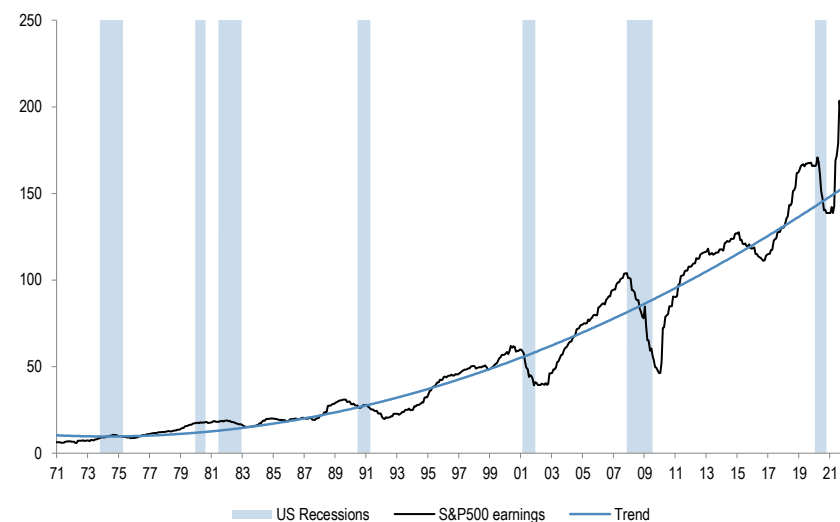
Source: Datastream

Key regions EPS levels 2022 vs 2019

	EPS levels		
	2022e	2019	2022e vs 2019
MSCI World	40.9	30.6	34%
S&P 500	221.2	157.2	41%
MSCI Europe	137.4	112.8	22%
MSCI Eurozone	19.8	13.8	43%
FTSE 100	792.2	515.1	54%

Source: IBES

S&P500 EPS vs trend

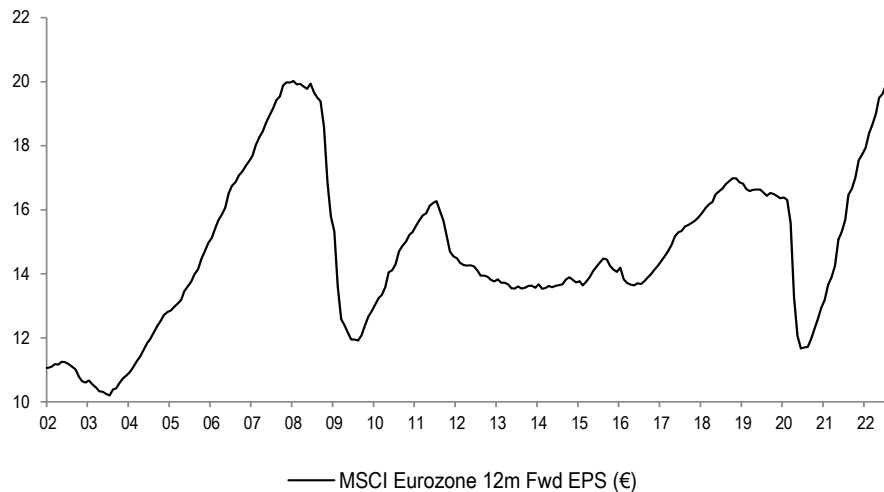


Source: IBES, NBER, Thomson Reuters. *Trailing EPS

...Eurozone earnings base is less stretched than in the US, which is mainly accounted for by domestic sectors

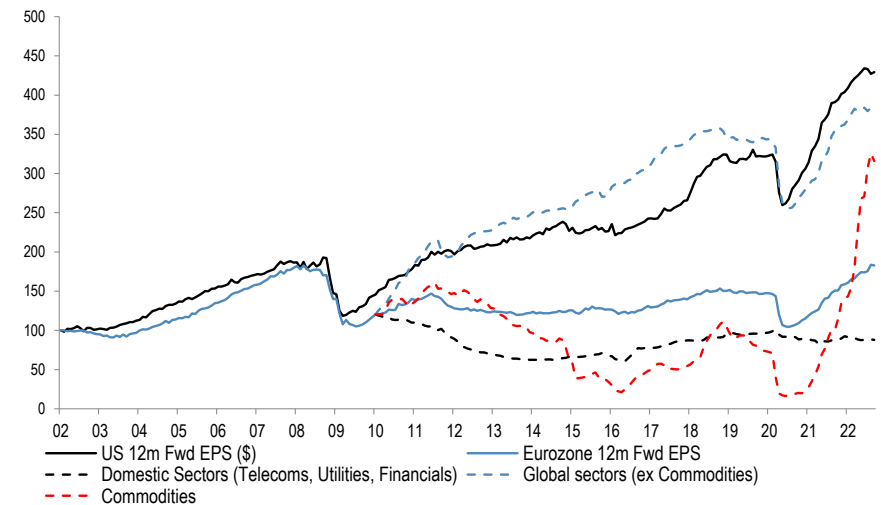
- Within Eurozone, it is the earnings base of domestic plays that has historically been low. Commodity sectors have seen earnings move higher most recently.

MSCI Eurozone 12m Fwd EPS



Source: IBES

US earnings vs Eurozone earnings, broken down by domestic, global and commodity sectors



Source: IBES. *Global includes all sectors except Utilities, Telecoms, Financials and commodity sectors

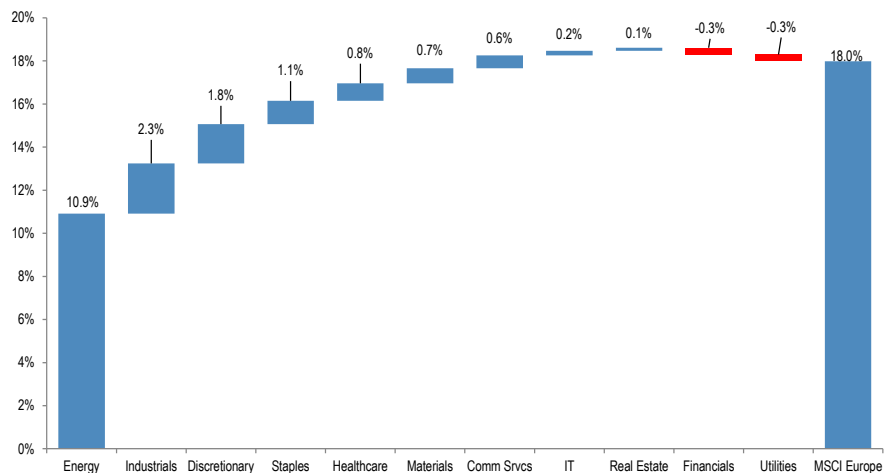
Sectoral earnings contribution breakdown

Regional and sectoral EPS growth projections for 2022 and 2023

	MSCI World		US		Europe		Eurozone		UK		Japan*		EM	
	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e
Market	11.3%	6.0%	7.8%	8.3%	18.0%	2.2%	16.8%	3.6%	22.7%	-0.8%	1.7%	7.3%	10.2%	5.1%
Energy	130.1%	-10.6%	161.9%	-9.4%	113.0%	-14.2%	108.4%	-18.0%	117.8%	-11.2%	-14.4%	2.7%	62.5%	-14.6%
Materials	10.5%	-15.5%	14.4%	-10.6%	6.1%	-20.2%	-2.2%	-18.9%	7.1%	-23.7%	-5.2%	8.4%	-10.3%	-8.1%
Industrials	17.1%	7.8%	11.9%	20.2%	21.5%	-0.1%	17.2%	15.4%	16.1%	10.4%	-11.7%	3.5%	31.5%	-14.3%
Discretionary	9.8%	22.0%	7.0%	34.7%	18.1%	4.4%	17.2%	3.2%	19.1%	5.6%	13.8%	8.0%	37.2%	29.9%
Staples	6.0%	6.8%	3.3%	5.3%	9.4%	8.9%	10.9%	9.6%	7.5%	9.0%	9.2%	10.1%	5.6%	13.8%
Healthcare	3.3%	4.8%	1.9%	3.3%	6.7%	9.5%	8.6%	6.7%	8.9%	12.9%	10.2%	9.5%	-3.0%	26.6%
Financials	-7.3%	13.2%	-12.8%	13.4%	-0.5%	13.7%	5.0%	8.0%	-8.9%	14.2%	10.0%	7.9%	9.2%	11.5%
IT	9.5%	8.0%	9.7%	7.4%	5.2%	18.4%	6.6%	19.3%	8.4%	10.5%	5.7%	9.4%	12.0%	-0.2%
Telecoms	-4.1%	12.3%	-13.9%	15.3%	20.6%	8.7%	31.0%	9.9%	6.7%	7.0%	-12.2%	12.5%	-21.1%	19.2%
Utilities	3.2%	14.3%	8.3%	6.9%	-7.8%	22.2%	-11.3%	25.5%	2.4%	17.7%	165.4%	3.1%	-29.2%	74.2%
Real Estate	1.0%	2.7%	-3.7%	-0.9%	15.2%	2.5%	20.8%	1.1%	6.0%	7.5%	6.0%	6.0%	1.2%	9.5%
Median	10.0%	8.6%	7.3%	8.6%	11.0%	8.0%	11.7%	7.9%	11.4%	7.3%	7.3%	8.0%	13.2%	16.6%
Median ex-commo	9.1%	9.0%	6.5%	8.7%	9.7%	8.9%	11.3%	9.0%	11.3%	8.3%	7.7%	8.7%	12.7%	18.2%
Median - Cyclicals	14.8%	9.3%	14.4%	9.3%	13.6%	8.8%	12.6%	9.9%	14.0%	6.2%	7.7%	8.0%	16.3%	19.3%
Median - Defensives	6.0%	8.3%	4.0%	7.1%	7.4%	9.0%	7.4%	8.8%	9.0%	8.1%	14.0%	10.8%	12.2%	18.7%

Source: IBES, *Japan refers to fiscal year ending March 2023, 2024

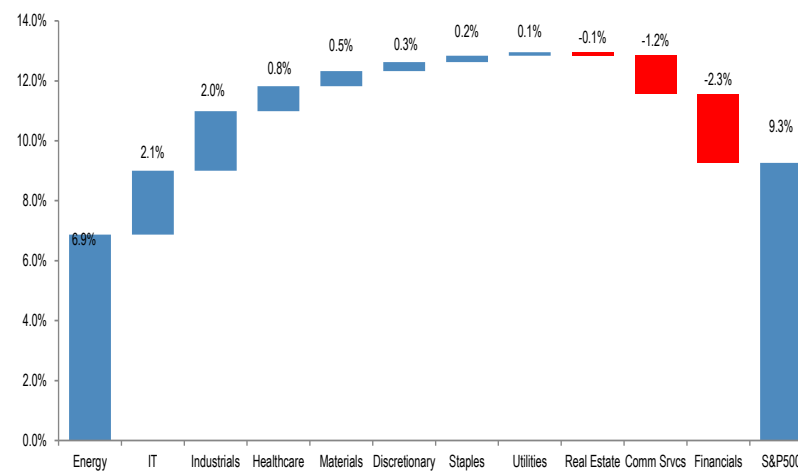
Sector contribution to MSCI Europe 2022e EPS growth



Sector contribution to MSCI Europe 2022e EPS growth

Source: IBES.

Sector contribution to S&P500 2022e EPS growth



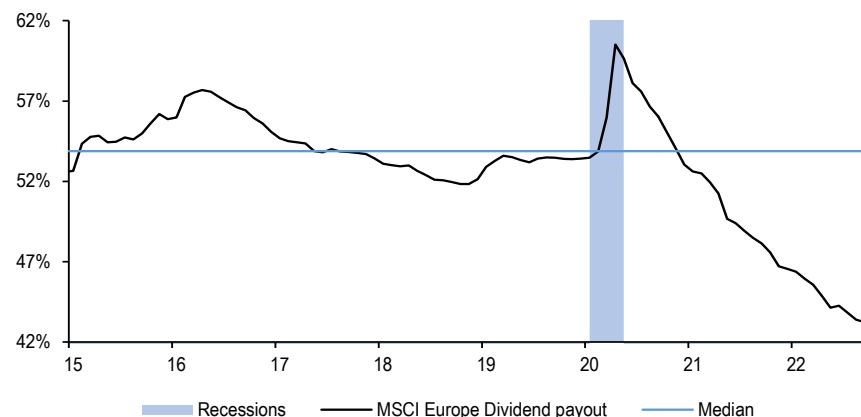
Sector contribution to S&P500 2022e EPS growth

Source: IBES.

Buyback activity has been robust... dividend payout ratios are low, supportive of higher dividends

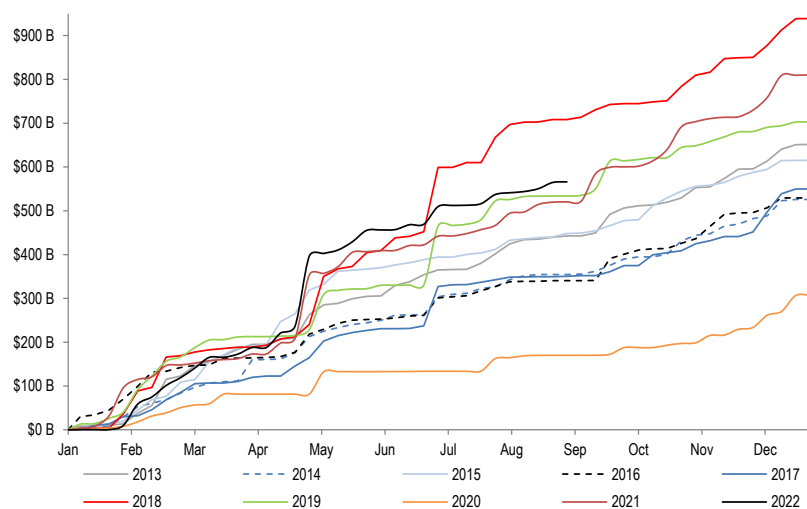
- US buybacks rebounded in 2021, after a very subdued 2020. This year again, we have seen strong momentum in buyback announcements thus far.
- Buybacks as a share of profits are still low.
- Dividend payout ratios are low, too.

MSCI Europe dividend payout ratio



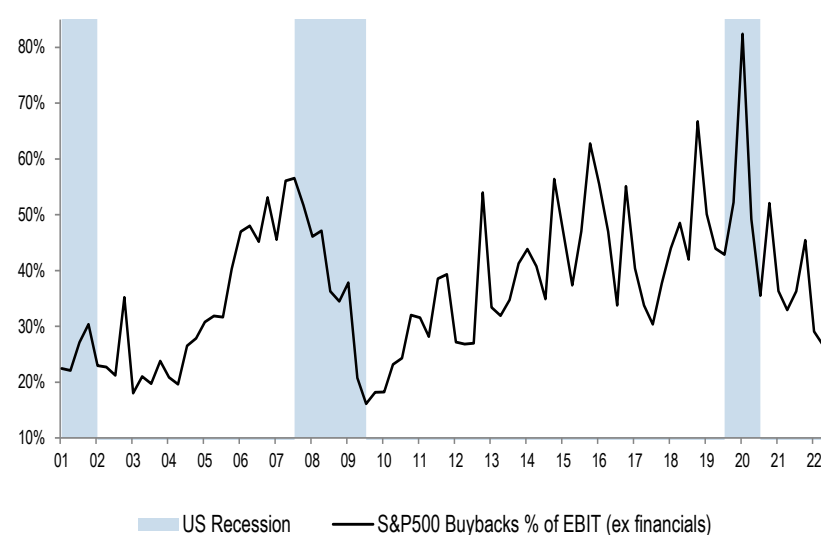
Source: IBES

S&P500 announced buybacks



Source: Bloomberg Finance L.P., J.P. Morgan

S&P500 buybacks as a % of EBIT



Source: Bloomberg Finance L.P.

4) Equity P/E multiples already saw meaningful derating, to below long-term average for most International markets...

12m Fwd. P/E across key geographies

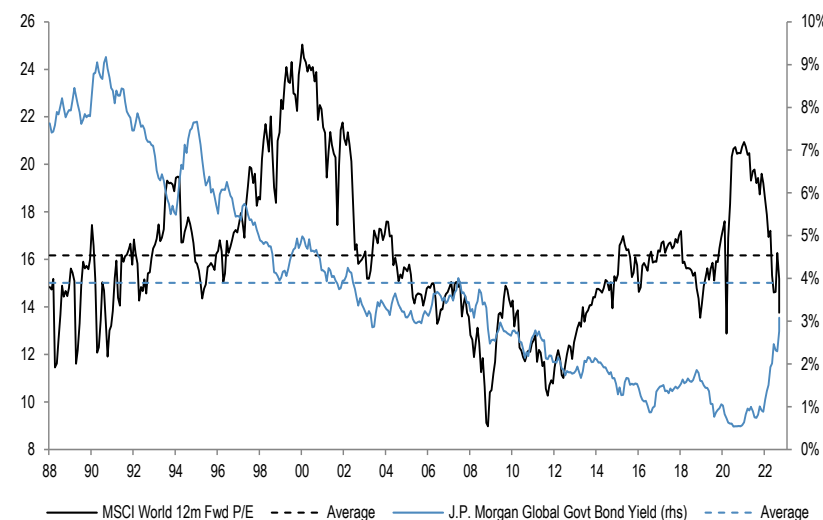
	Current*	2021 high	Current vs 2021 high	20Y Median	Current vs Median
Italy	7.1	15.0	-53%	12.1	-41%
UK	8.8	14.9	-41%	12.5	-30%
Germany	9.1	16.4	-45%	12.4	-27%
Spain	9.2	16.6	-45%	11.9	-23%
Eurozone	9.9	18.1	-45%	12.8	-22%
France	10.4	18.4	-44%	12.8	-18%
Japan	11.9	18.7	-36%	14.5	-18%
World	13.8	21.2	-35%	15.0	-9%
EM	10.3	16.5	-38%	11.1	-8%
US	15.9	22.9	-31%	15.7	1%
Switzerland	15.5	20.6	-25%	14.8	5%

Source: IBES *as of cob 29th September 2022

...DY-BY gap is not challenging, bar the US and UK

- DY-BY gap is better than past averages in most regions. US and UK have moved below historical average gaps, but not dramatically so.
- Global weighted bond yield is still below historical average, while forward P/E is below historical average.

Global bond yields and MSCI World 12m Fwd P/E



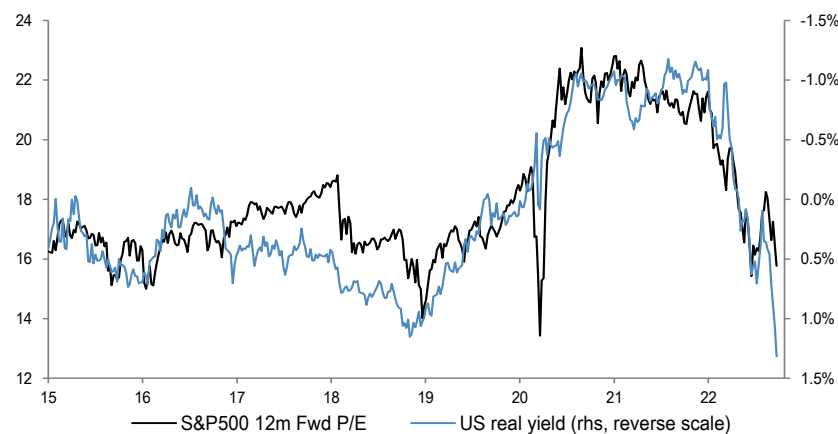
Source: Datastream, IBES

DM yield gap in the historical context

	Dividend yield	10Y Bond yield	Dividend yield minus bond yield	Average since '00	Current vs Average (bp)
US	1.7%	3.9%	-2.1%	-1.3%	-82
Japan	2.6%	0.3%	2.4%	0.9%	154
Eurozone	3.5%	2.7%	0.9%	0.5%	44
UK	4.0%	4.2%	-0.2%	0.6%	-86

Source: Datastream

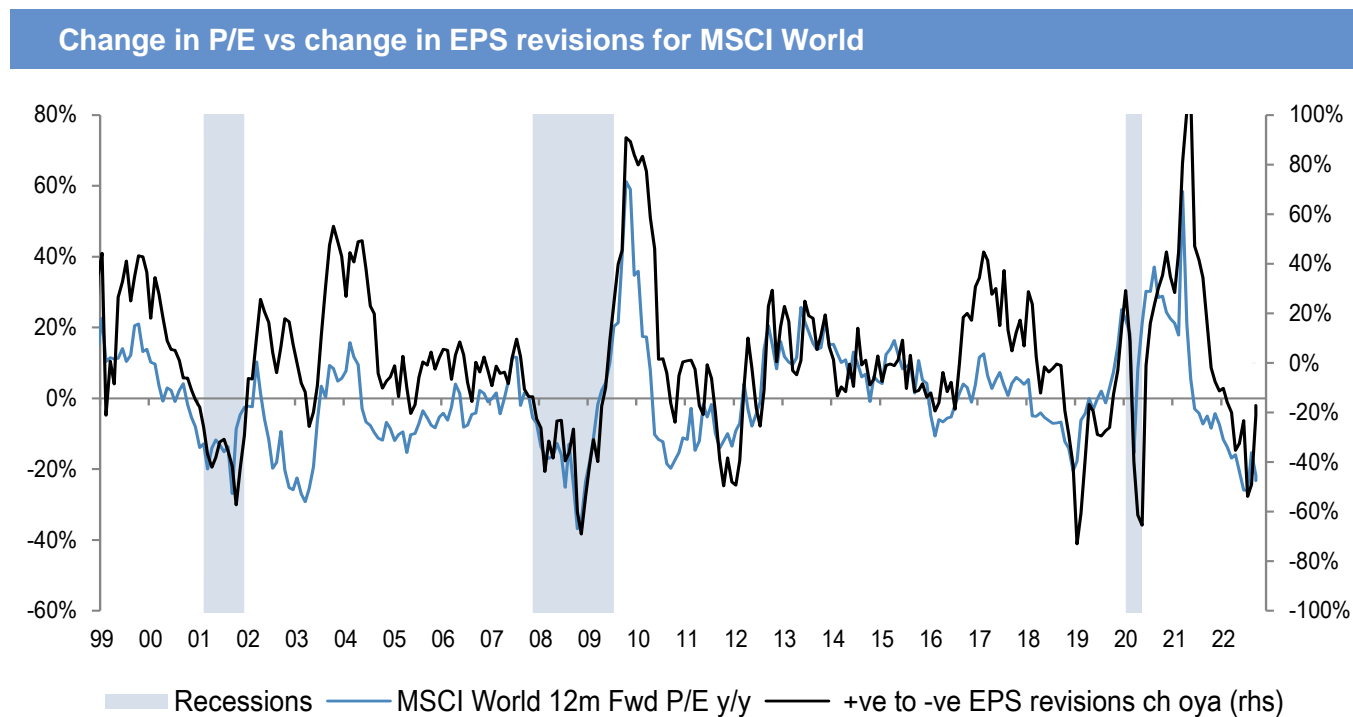
MSCI US 12m Fwd. P/E vs US real yield



Source: Datastream

P/E multiples show a positive correlation with EPS momentum, and the bulk of the derating is already done

- The moves in P/E's are strongly positively correlated with EPS revisions. While the pace of EPS revisions has rolled over, hurting P/E's, we don't see them staying negative for a prolonged period of time.



Source: IBES

Historical correlation between P/Es and bond yields has been positive

- Equities show a clear positive correlation to nominal bond yields, and to inflation forwards.
- P/E multiples are also positively correlated to bond yields.

Daily SPX performance given bond yield moves

Daily SPX Performance since 23rd March '20		
	Bond Yield up	Bond Yield down
Average	0.3%	-0.1%
Median	0.3%	0.0%
Daily SPX Performance since '00		
	Bond Yield up	Bond Yield down
Average	0.4%	-0.3%
Median	0.3%	-0.1%

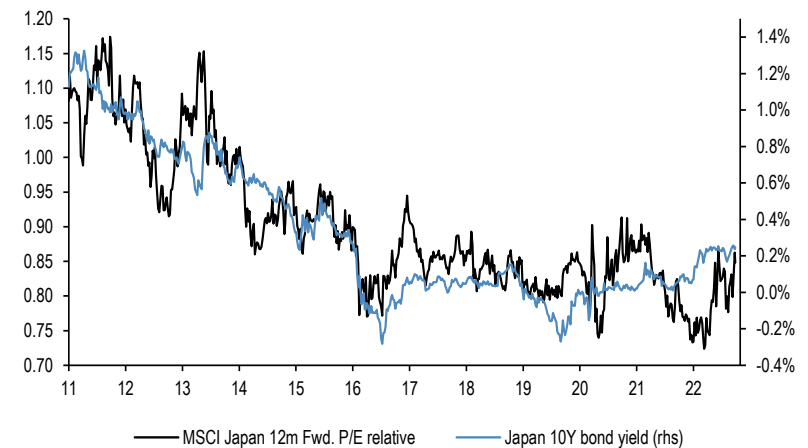
Source: Bloomberg Finance L.P.

Daily SPX performance given inflation forward moves

Daily SPX Performance since 23rd March '20		
	Inflation forwards up	Inflation forwards down
Average	0.3%	-0.1%
Median	0.2%	-0.1%
Daily SPX Performance since '00		
	Inflation forwards up	Inflation forwards down
Average	0.2%	-0.1%
Median	0.2%	0.0%

Source: Bloomberg Finance L.P.

Japan 12m Fwd. P/E relative and bond yields

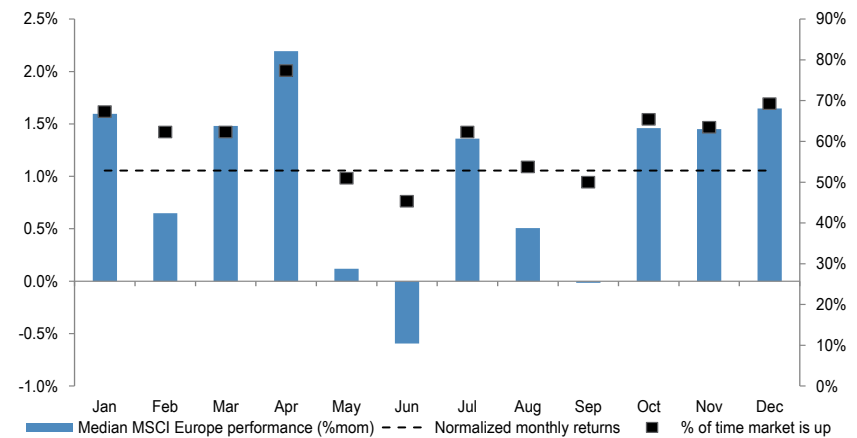


Source: IBES, Bloomberg Finance L.P.

5) Sentiment is depressed and positioning is rather light... seasonals improve in Oct-Dec period...

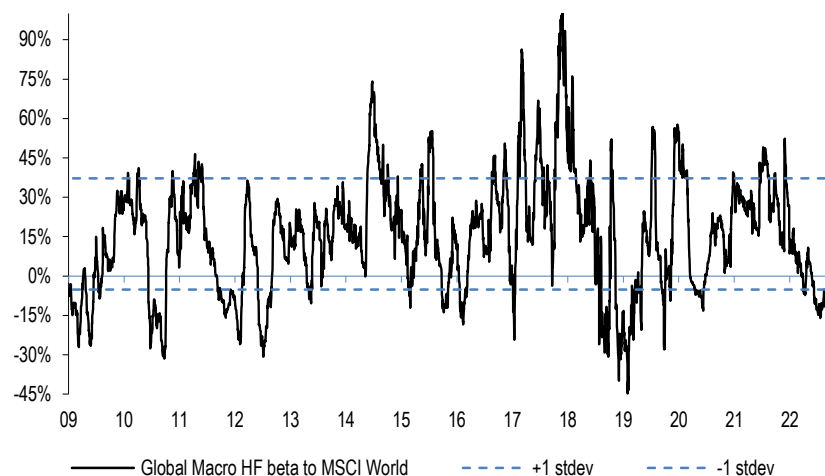
- The overall technical backdrop for equities looks favourable, given the selloff, and a very depressed sentiment.
- HF beta has rolled over, to outright negative.
- Seasonals typically improve a lot in Oct-Dec period.

Seasonality* of MSCI Europe performance



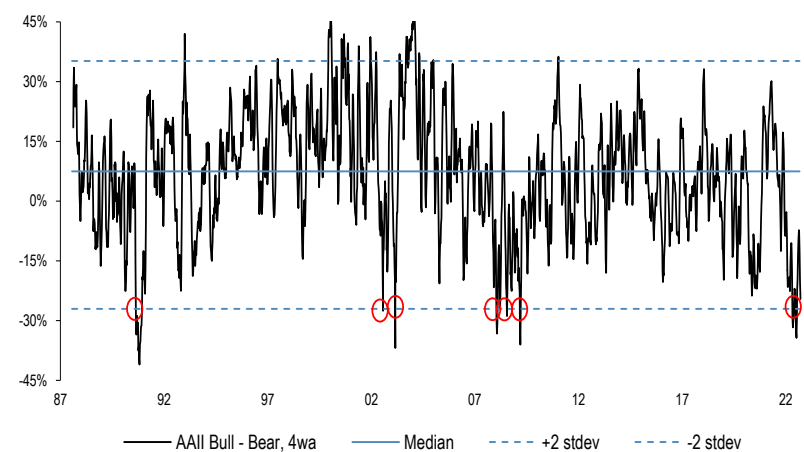
Source: Datastream, *Median since 1970

Macro HF beta



Source: Bloomberg Finance L.P.

AAll Bull-Bear

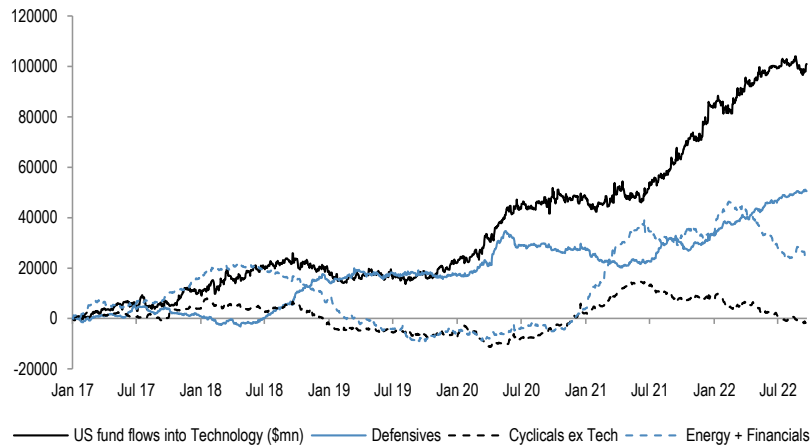


Source: Bloomberg Finance L.P.

...retail inflows stalled, but are not falling... SPX positioning is near lows

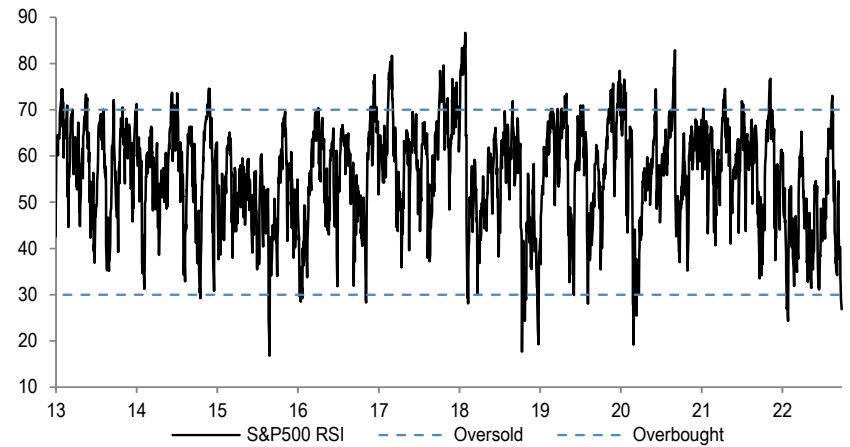
- Full list of technical indicators is in the last section of the chartbook.

Flows into US sectors



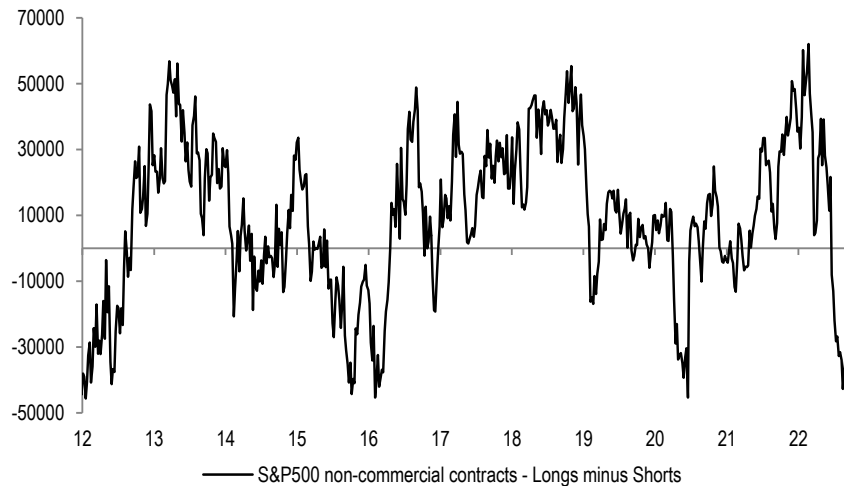
Source: Bloomberg Finance L.P.

S&P500 RSI



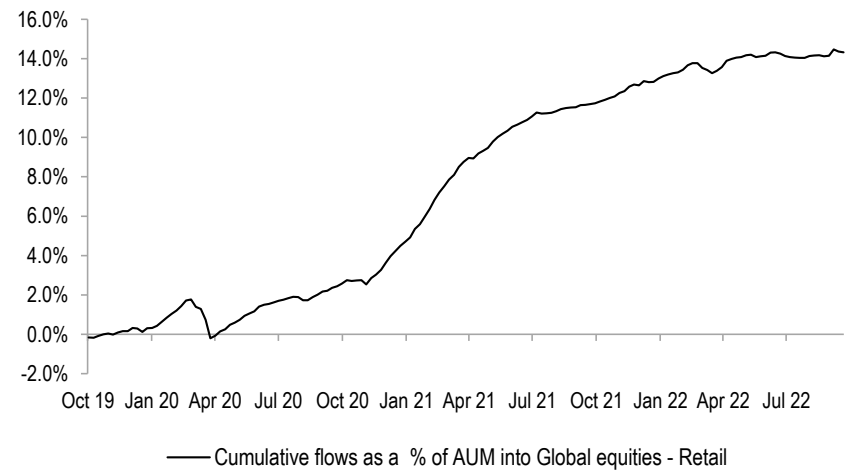
Source: Bloomberg Finance L.P.

Speculative positions on S&P500 futures contracts



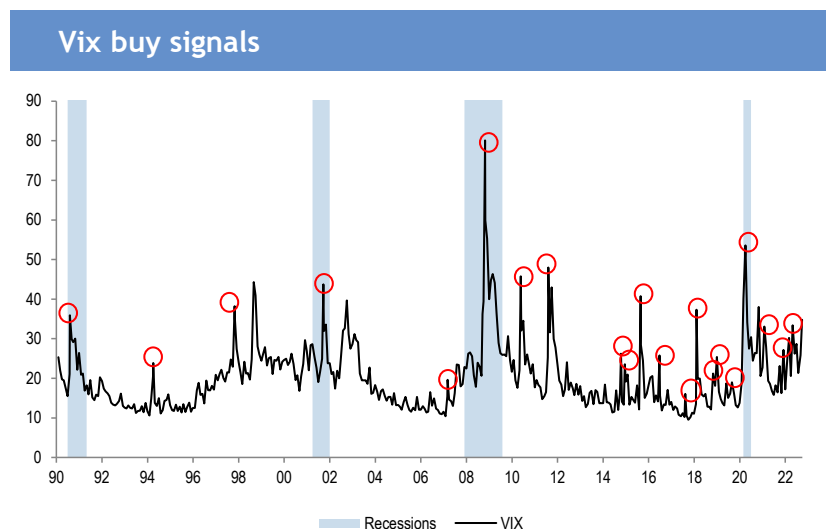
Source: Bloomberg Finance L.P.

Cumulative retail fund flows into global equity funds



Source: EPFR

Vix - post the buy signal being reached, equities tended to be higher, but predominantly outside recessions



Source: Bloomberg Finance L.P.,

S&P500 performance after the VIX signal is triggered*

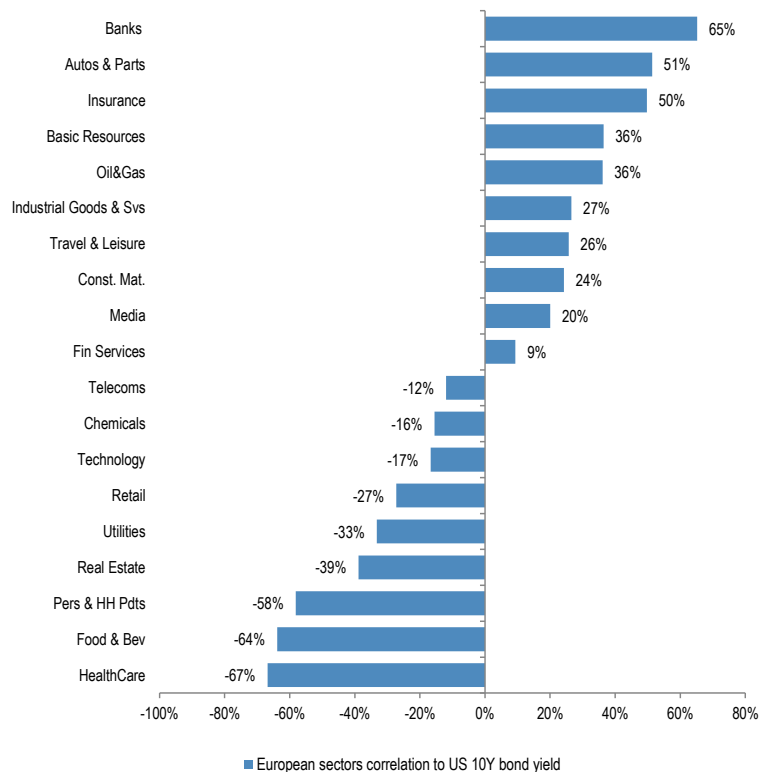
	Level of VIX	+1 month	+3 month	+6 month
Aug 90	36	-4%	-7%	7%
Apr-94	24	3%	2%	4%
Oct-97	38	6%	8%	23%
Sep-01	44	9%	16%	17%
Mar-07	20	5%	11%	7%
Sep-08	36	-19%	-22%	-33%
Oct-08	80	5%	0%	1%
May-10	46	4%	0%	12%
Aug-11	48	6%	14%	21%
Oct-14	26	10%	7%	13%
Dec-14	24	2%	5%	6%
Aug-15	41	2%	10%	2%
Jun-16	26	7%	6%	11%
Aug-17	16	1%	6%	7%
Feb-18	37	3%	1%	7%
Oct-18	25	2%	-5%	6%
Dec-18	36	12%	19%	25%
Aug-19	25	5%	8%	17%
Feb-20	25	-24%	-8%	6%
Jan-21	37	2%	12%	17%
Nov-21	29	3%	-4%	-12%
Jan 22	31	1%	-1%	-9%
Median		3%	6%	7%
Average		2%	4%	7%
% positive		86%	68%	86%
Outside recessions				
Median		3%	6%	7%
Average		4%	6%	9%
% positive		100%	82%	88%
Inside recessions				
Median		-4%	-7%	6%
Average		-7%	-4%	0%
% positive		40%	20%	80%

Source: Bloomberg Finance L.P. *signal is triggered when VIX spikes by >50% vs its 1-month moving average

Key drivers of positioning: 1) Bond yields... Cyclical and Financials typically show positive correlation to yields... the recent gap should be closing

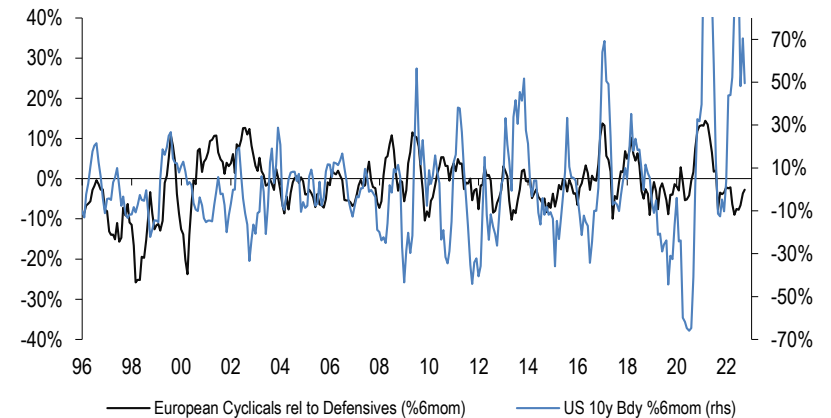
- Cyclical and Banks show the highest correlation to bond yields, out of any sector.
- Crucially, the correlation is coincident. If yields move up, Cyclical and Financials are likely to perform, and vice versa.

European sectors correlation to bond yields



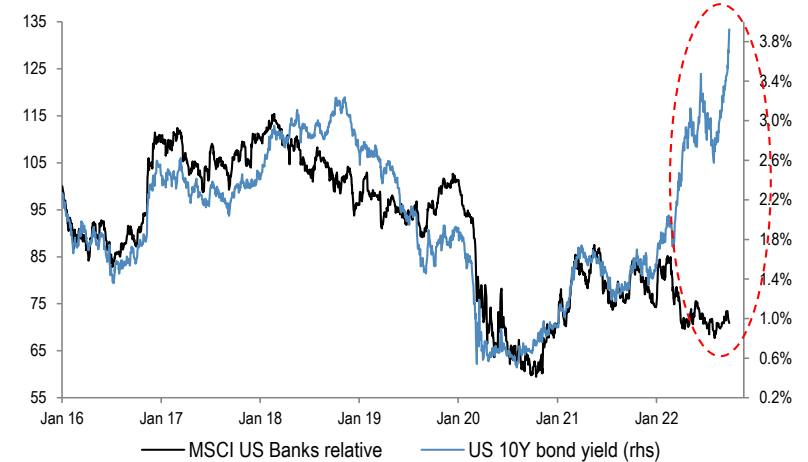
Source: Bloomberg Finance L.P.

European Cyclical versus Defensives and bond yields



Source: Datastream

US Banks relative vs US 10-year yield

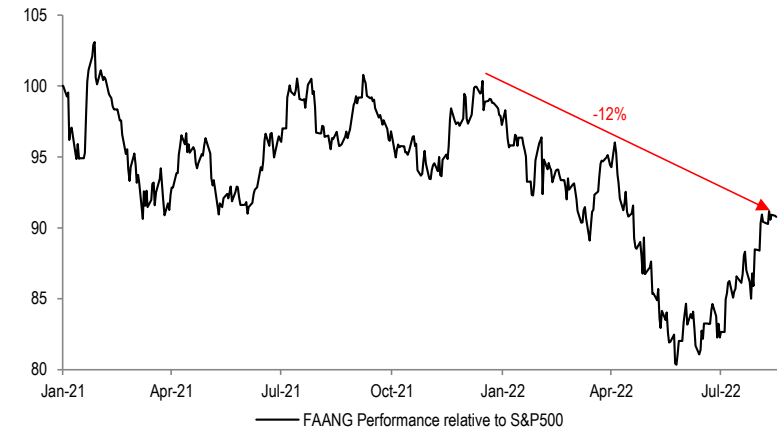


Source: Datastream

Tactically, we are calling for the Growth part of the market to stabilize...

- Various Growth groups had fallen 20% -50% from rolling highs, and this could be a good entry point, especially if bond yields stabilise.

FAANG price relative



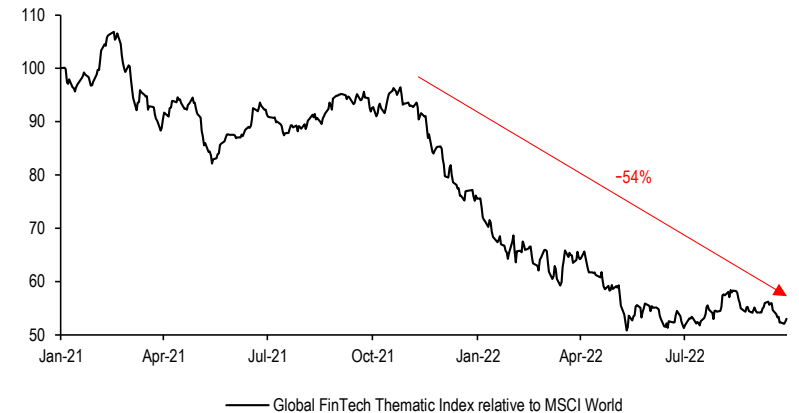
Source: Bloomberg Finance L.P.

MSCI US Growth vs Value



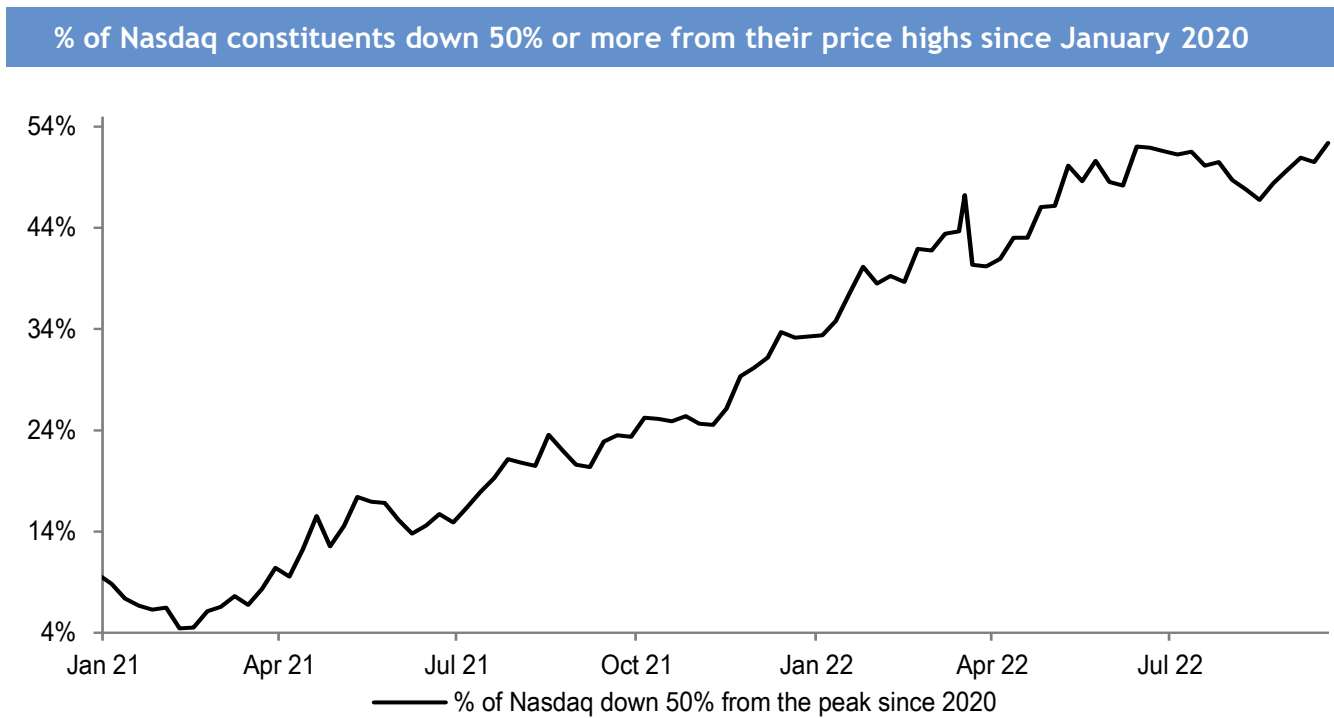
Source: Bloomberg Finance L.P.

Global Fintech Index relative



Source: Bloomberg Finance L.P.

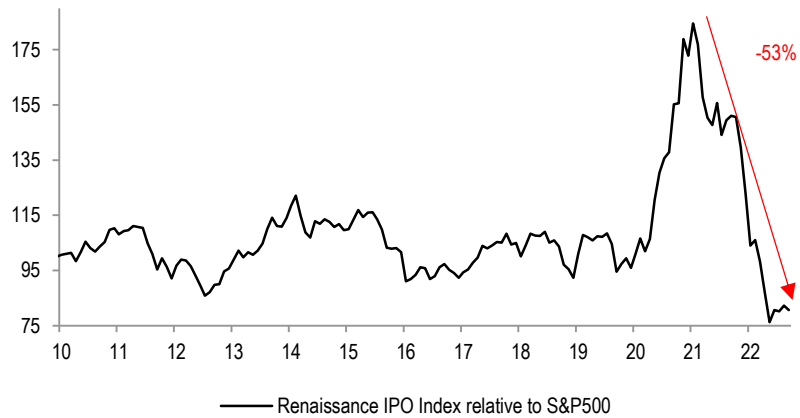
...almost half of Nasdaq constituents are trading at least 50% down vs 2020 highs...



Source: Datastream

...poor performance of Bitcoin, SPACs and IPOs in the background

Renaissance IPO Index relative to S&P500



Source: Bloomberg Finance L.P.

SPAC index relative



Source: Bloomberg Finance L.P.

Bitcoin



Source: Bloomberg Finance L.P.

J.P. Morgan Global Hydrogen Index relative



Source: Bloomberg Finance L.P.

Many Growth groups have derated meaningfully

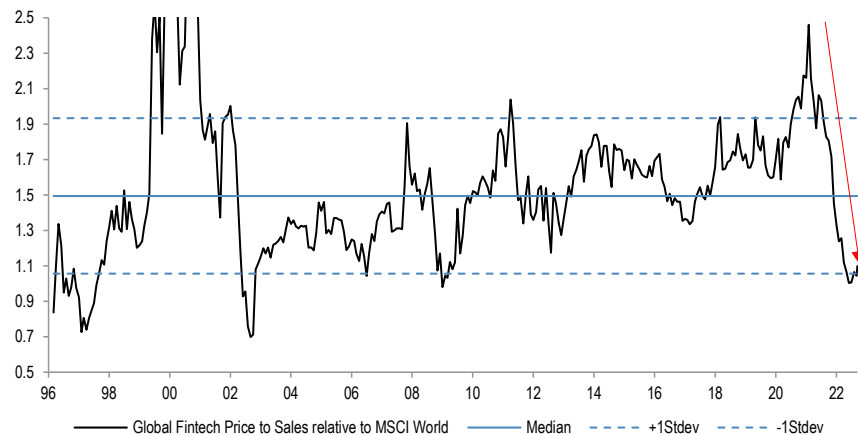
- Growth sectors are becoming cheaper.
- Fintech and non-profitable Tech are all trading at P/S relative lows currently.
- Even FAANG has fallen 25-75% from highs, more than the market fall in the historical recession.

FAANG+ Microsoft % fall from '21 peak to '22 low

	Max Price (\$)	Date	Min Price (\$)	Date	% change
Netflix	692	17-Nov-21	166	11-May-22	-76%
Facebook	382	07-Sep-21	156	22-Jun-22	-59%
Amazon	187	08-Jul-21	102	14-Jun-22	-45%
Alphabet	150	18-Nov-21	105	26-Jul-22	-30%
Microsoft	343	19-Nov-21	242	13-Jun-22	-29%
Apple	180	03-Jan-22	130	16-Jun-22	-28%

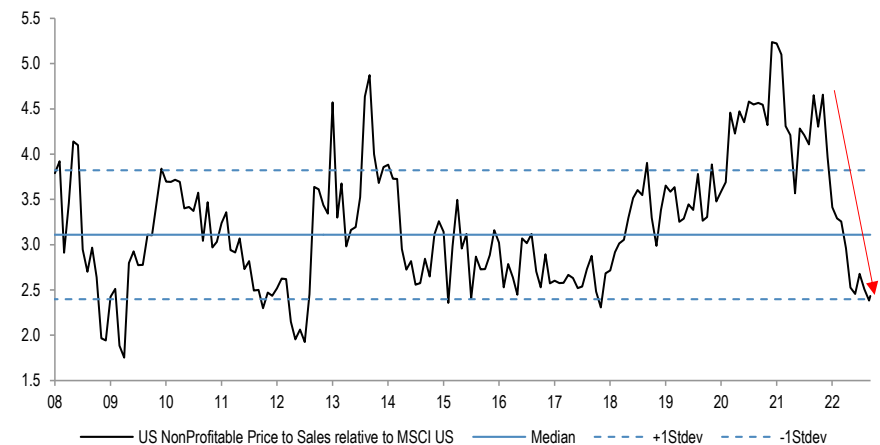
Source: Datastream

Global Fintech P/Sales relative



Source: IBES

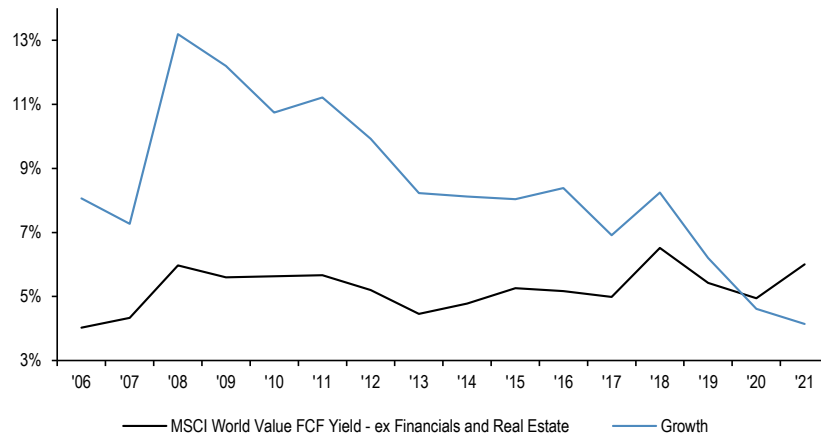
US non-profitable Tech P/sales relative



Source: IBES

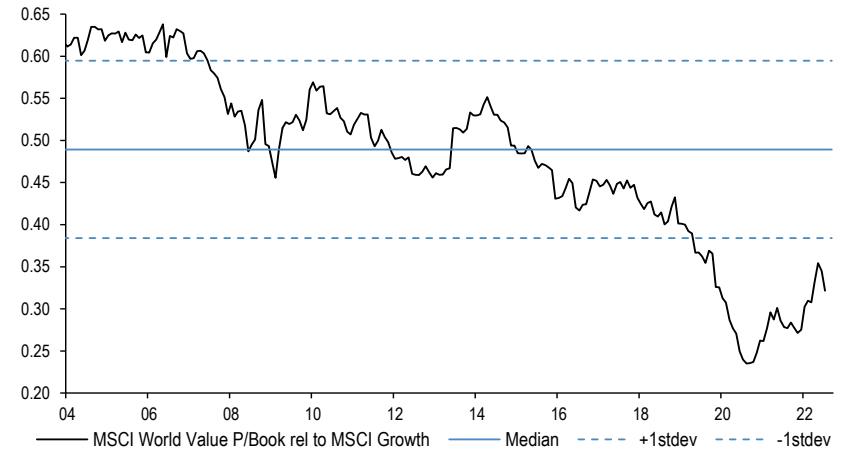
Tactically Growth appears better, but we still prefer Value medium term. Growth style is still elevated in a longer term context

MSCI World Value and Growth FCF yield



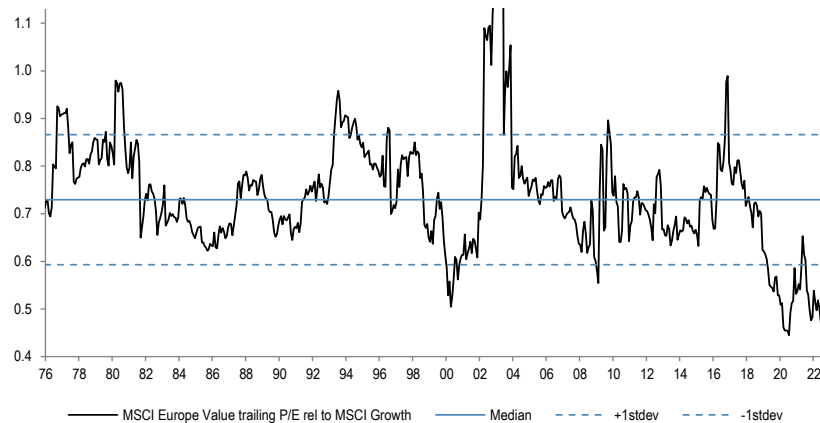
Source: Datastream

MSCI World Value vs Growth P/Book



Source: Datastream

MSCI Europe Value vs Growth P/E



Source: Datastream

S&P500 Tech relative

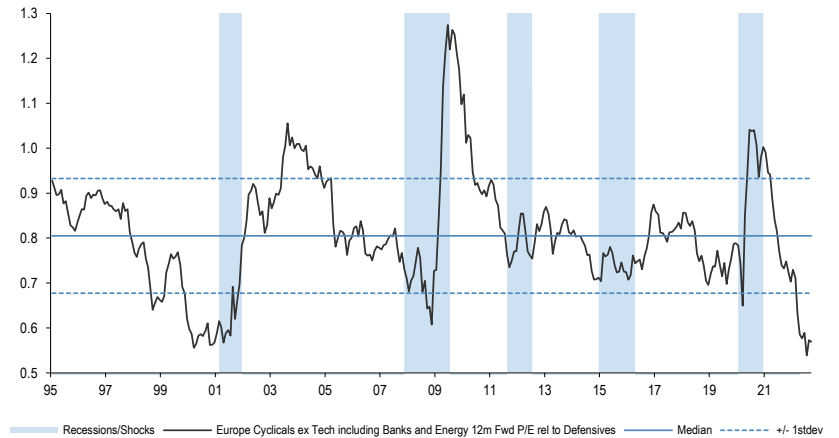


Source: Datastream

Defensives look the most stretched currently

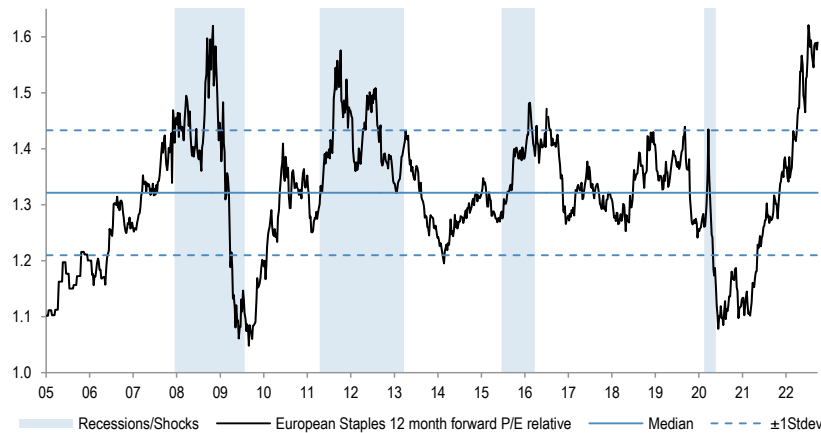
- It is Defensives which are now priced too aggressively, trading as if we are at the worst points of past recessions.
- We believe that from here both Value and Growth could start beating Defensives.

European Cyclical/Value vs Defensives 12m Fwd. P/E



Source: IBES

European Staples 12m Fwd. P/E relative



Source: IBES

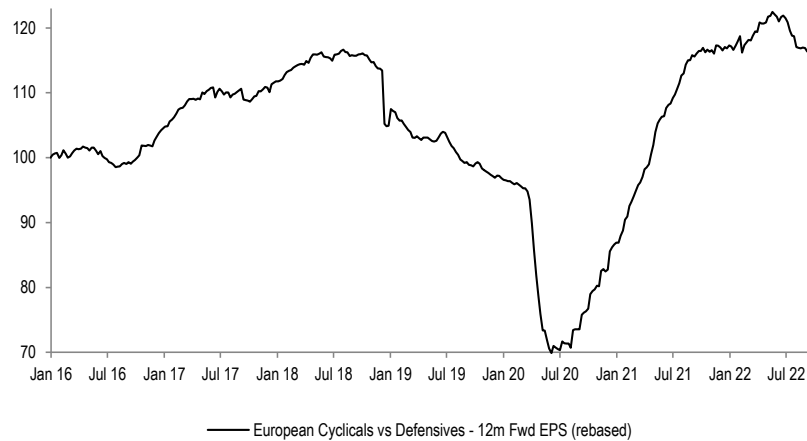
Performance of Staples post peak P/E relative

European Staples price relative from PE peak			
	+1m	+3m	+6m
Sep-01	-6.9%	-6.1%	-3.7%
Oct-08	2.7%	9.1%	-1.4%
Oct-11	-0.6%	2.2%	2.0%
Jul-16	-3.9%	-6.2%	-14.9%
Mar-20	-3.6%	-7.9%	-10.1%
Average	-2.5%	-1.8%	-5.6%

Source: IBES

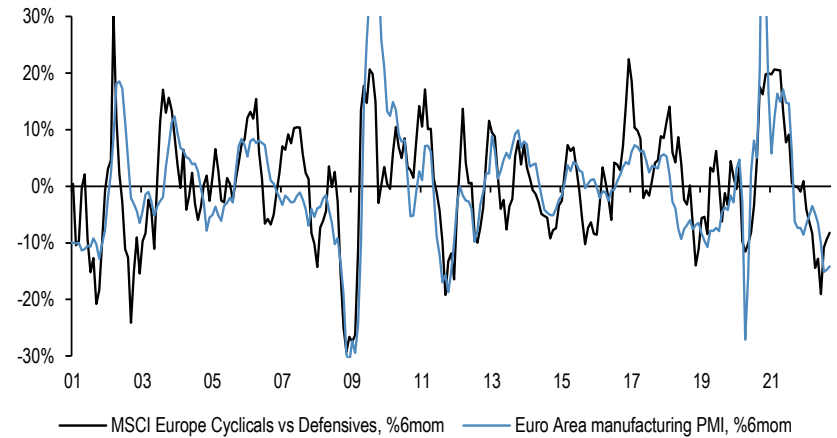
Cyclicals' earnings are likely to move lower, but should not fall for long, geopolitics willing

European Cyclicals vs Defensives forward EPS relative



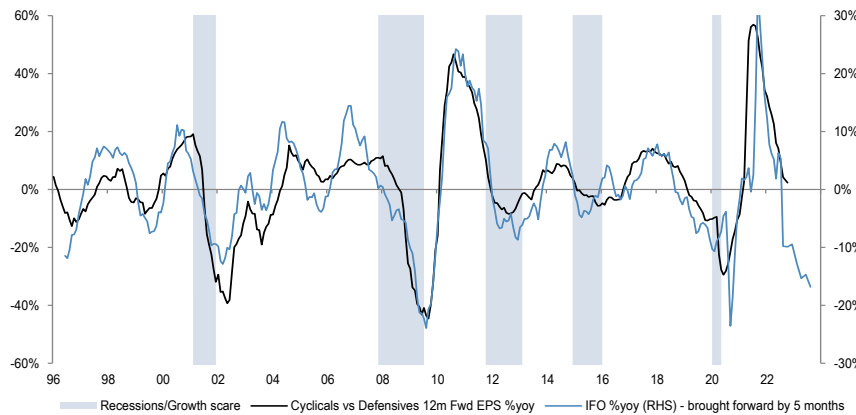
Source: Datastream

European Cyclicals vs Defensives and Manufacturing PMI



Source: Datastream, Markit

Cyclicals EPS relative to Defensives vs IFO



Source: Bloomberg Finance L.P. , IBES

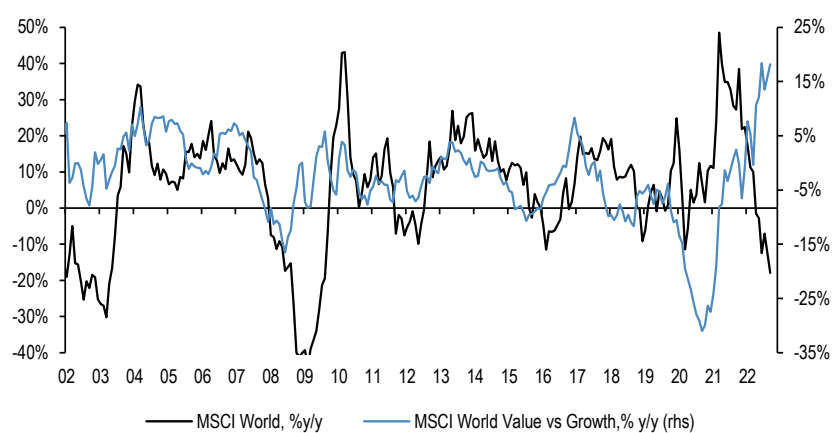
Cyclicals vs Defensives EPS trend in different PMI regimes

Euro Area Manufacturing PMI	European Cyclicals vs Defensives 12m Fwd EPS forward change			
	Median		Average	
	+3m	+6m	+3m	+6m
30-35	-13.6%	-14.2%	-14.2%	-13.5%
35-40	-6.2%	3.7%	-9.7%	-5.2%
40-45	-2.9%	-1.8%	-9.6%	-7.6%
45-50	-1.5%	-2.6%	-1.5%	-3.2%
50-55	1.2%	2.1%	1.5%	2.8%
55-60	2.6%	3.6%	2.7%	3.7%
60-65	3.9%	4.9%	5.2%	5.4%

Source: IBES

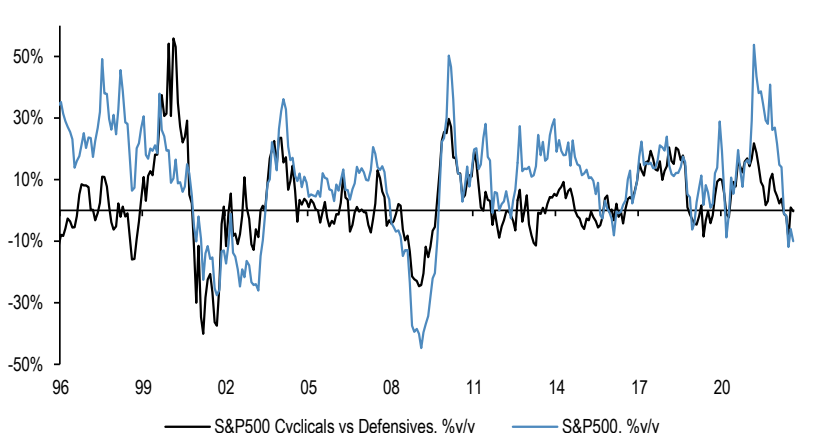
Growth is a large part of market cap, but notably market direction and Cyclical/Value leadership are typically positively correlated

MSCI World and MSCI World Value vs Growth



Source: Datastream

S&P500 Cyclical vs Defensives and market



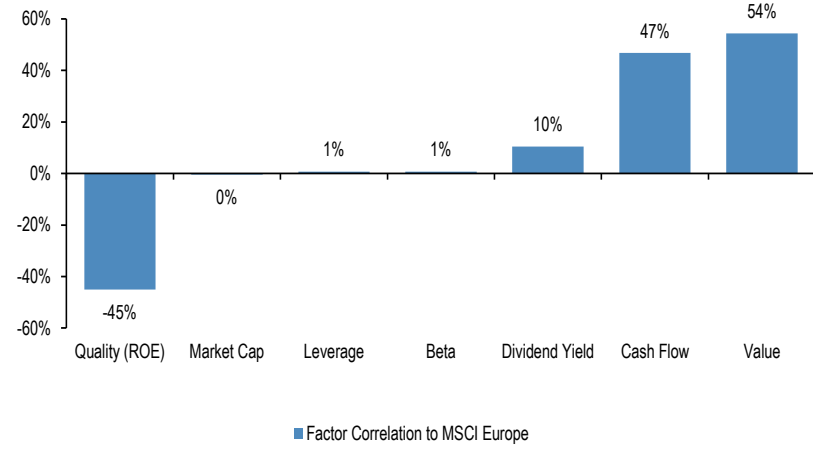
Source: Datastream

Periods of outperformance of US Cyclical vs Defensives

Trough	Peak	# Months	Move in Cyclical vs Defensives	Move in SPX
20-Sep-01	08-Jan-02	3.6	36%	18%
09-Oct-02	19-Jan-04	15.3	39%	47%
12-Aug-04	06-Dec-04	3.8	14%	12%
15-Apr-05	19-Apr-06	12.1	13%	15%
27-Jul-06	19-Jul-07	11.7	17%	23%
17-Jan-08	15-May-08	3.9	16%	7%
23-Feb-09	26-Apr-10	14.1	50%	63%
31-Aug-10	14-Feb-11	5.5	19%	27%
03-Oct-11	19-Mar-12	5.5	16%	28%
22-Apr-13	31-Dec-13	8.3	19%	18%
21-Aug-15	06-Nov-15	2.5	10%	7%
05-Jul-16	06-Jun-18	23	51%	33%
21-Dec-18	18-Apr-19	3.9	19%	20%
Average		5.5	19%	20%
Median		8.7	25%	24%

Source: Datastream

Factor performance correlation to market

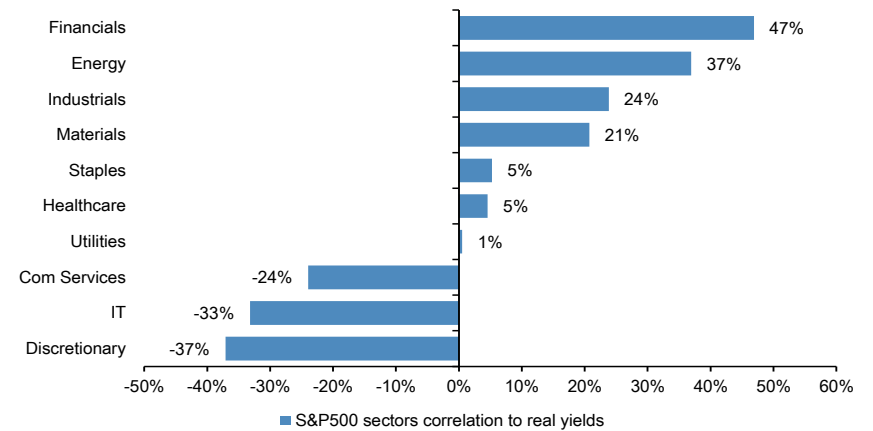


Source: Datastream, J.P. Morgan

The high inflation, low growth backdrop in the 70's saw commodity sectors and Industrials do better; Financials did well outside recessions

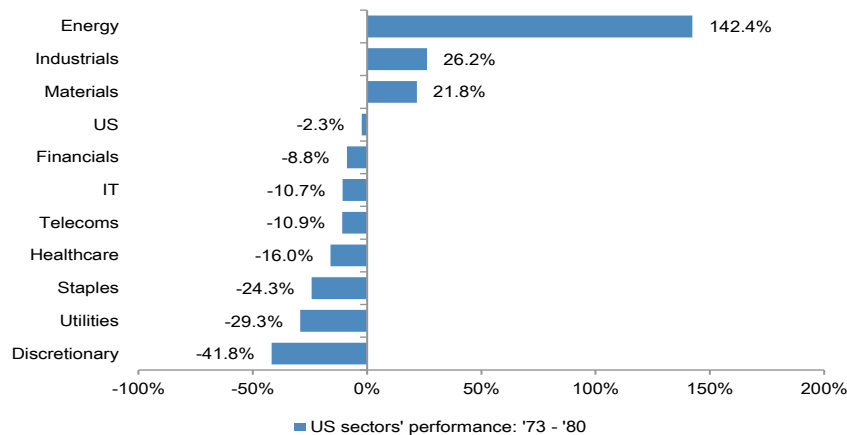
- Financials performed well, outside recessions, in 1970-ies.
- Financials are the most positively correlated to real rates, and Tech the most negatively.

US sectors correlation to real yields, last 5 years



Source: Bloomberg Finance L.P.

US sectors performance in '70s episode



Source: Datastream, JP Morgan

US Banks relative in 70ies



Source: Datastream

2) USD direction matters for regional calls, in particular for EM equities, and for commodities... equities typically preferred falling USD

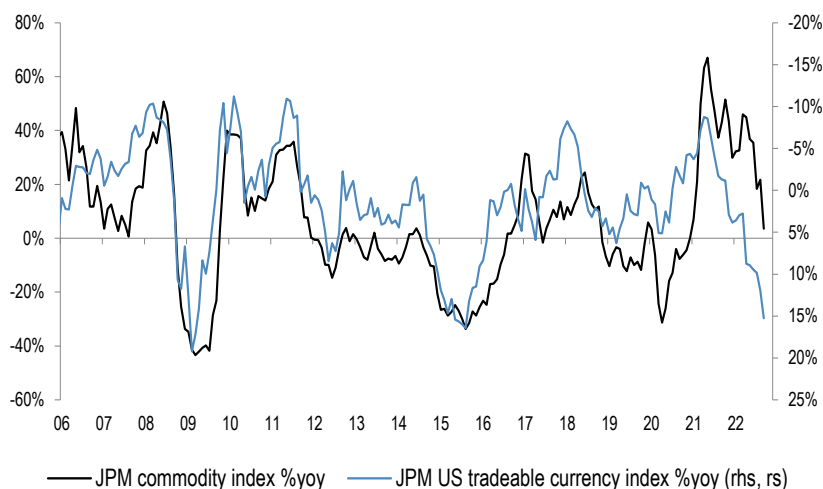
- Historically, equities did better in weaker USD regimes, especially the EMs.
- Commodities are inversely correlated to the USD.

MSCI World performance in different DXY regimes

MSCI World (\$) monthly performance since '10		
	DXY up	DXY down
Average	-1.0%	2.6%
Median	-0.1%	2.4%
% positive	46%	79%

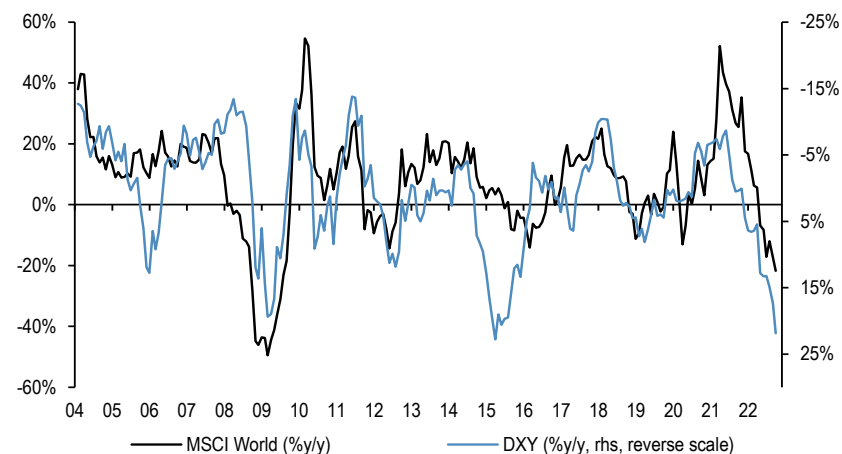
Source: Bloomberg Finance L.P.

Commodity index and trade-weighted USD



Source: Bloomberg Finance L.P., J.P.Morgan

MSCI World performance and DXY



Source: Bloomberg Finance L.P.

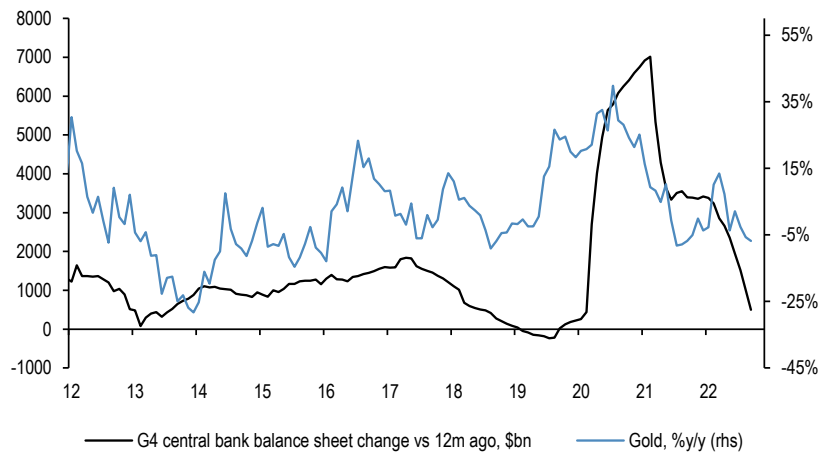
MSCI EM ex China vs DM and EM FX



Source: Bloomberg Finance L.P.

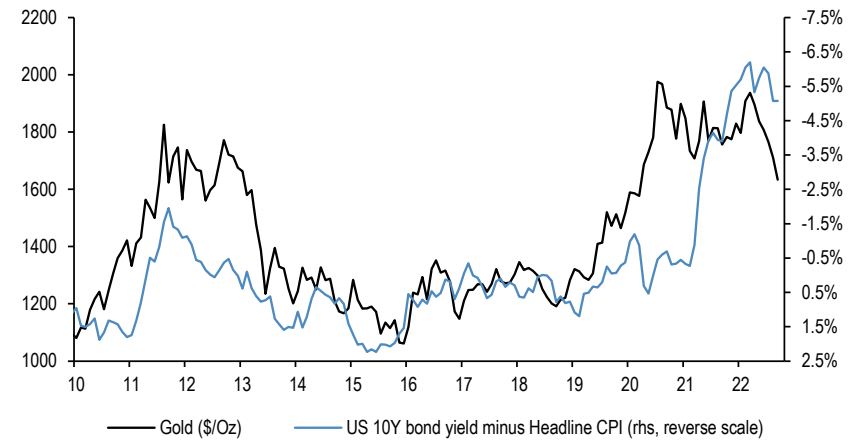
Gold near term is a safe haven, but medium-term outlook is not too bullish

Gold and central bank balance sheet



Source: Bloomberg Finance L.P., JP Morgan

Gold and 10Y real yield

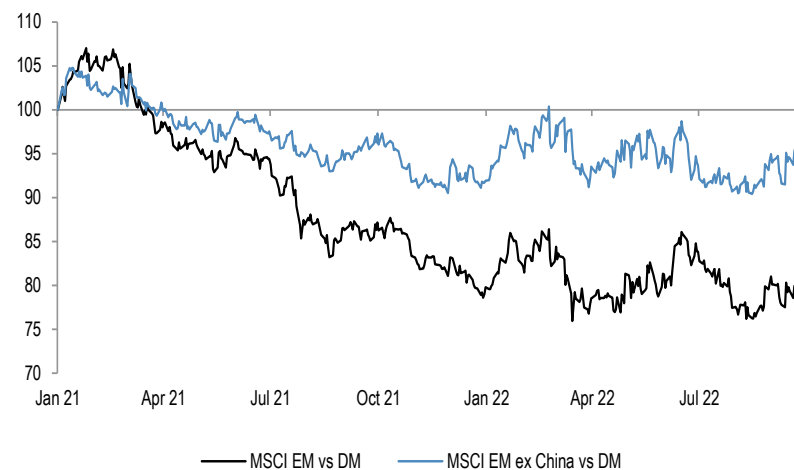


Source: Bloomberg Finance L.P.

Regional allocation: 1) The potentially improving relative EM growth outlook would be a tailwind...

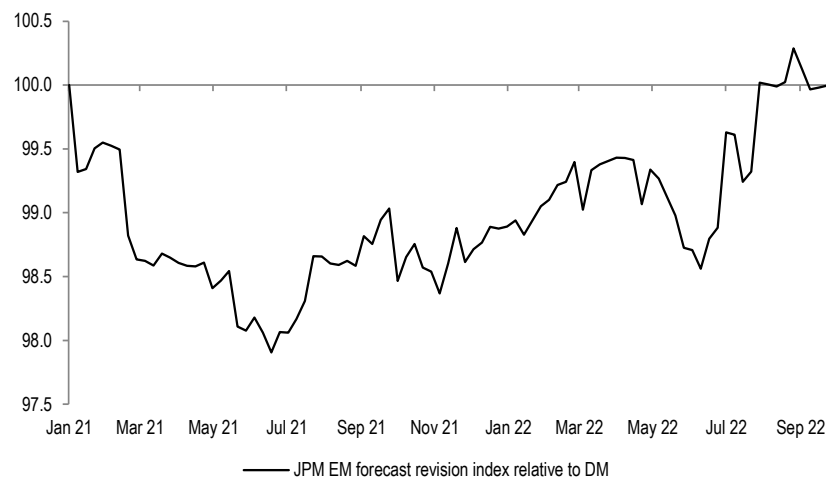
- JPM forecast revision index, which tracks change in GDP projections, has improved significantly for EM vs DM. Typically, EM perform better when growth and earnings differential with DM is widening.

EM vs DM and EM ex China vs DM since Jan '21



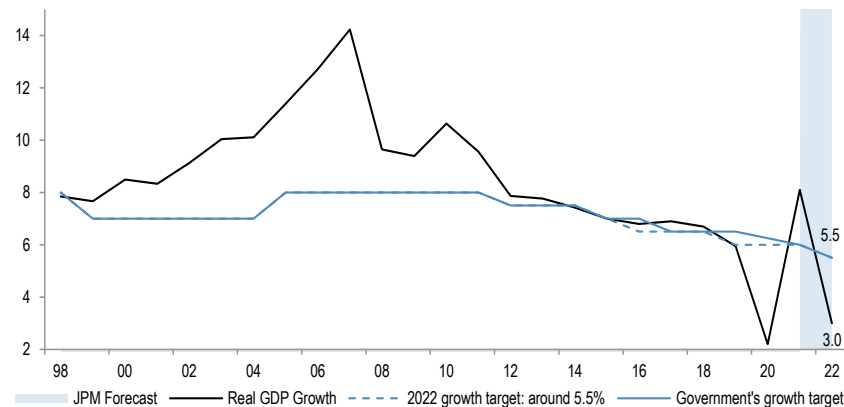
Source: Datastream

EM vs DM FRI



Source: Bloomberg Finance L.P.

China Real GDP growth vs government target

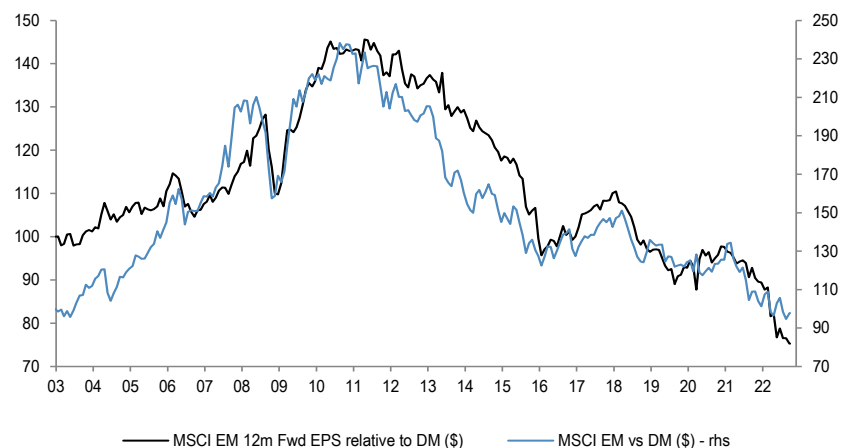


Source: JPMorgan

...EM vs DM earnings delivery is key for the relative performance...

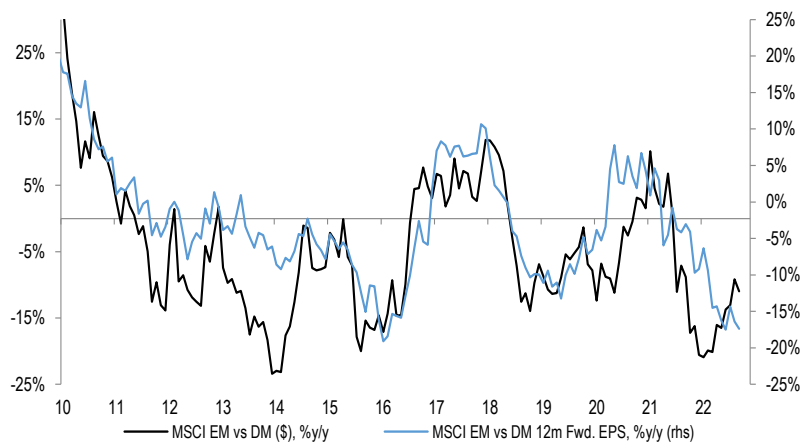
- In the past, as EM growth weakened, EM relative earnings faltered as well, which in turn explains the poor relative price performance.
- The potential bottoming out in relative EM earnings should help drive their relative equity market outperformance.

EM vs DM and EPS relative



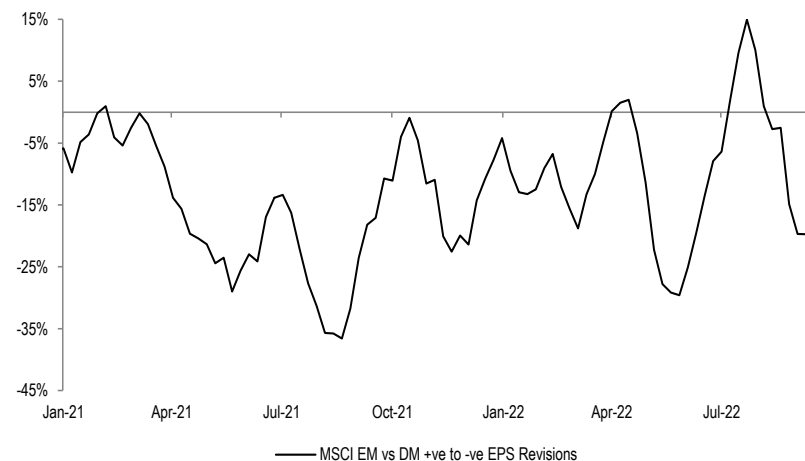
Source: IBES

MSCI EM vs DM price and EPS relative



Source: IBES

MSCI EM vs DM EPS revisions

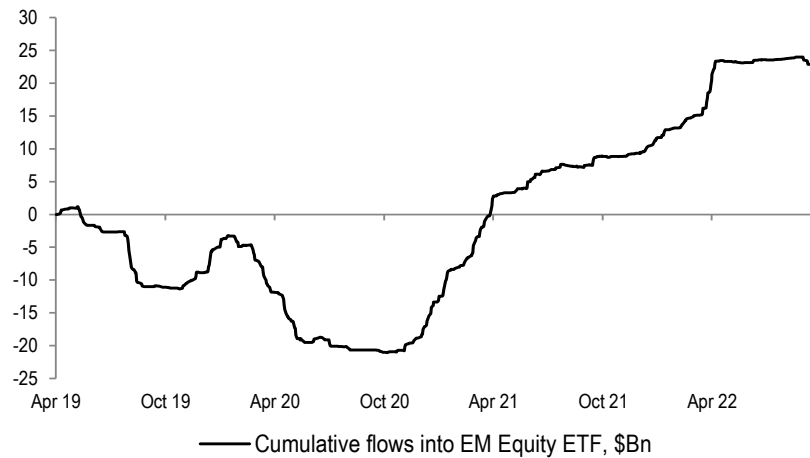


Source: IBES

...EM valuations appear attractive

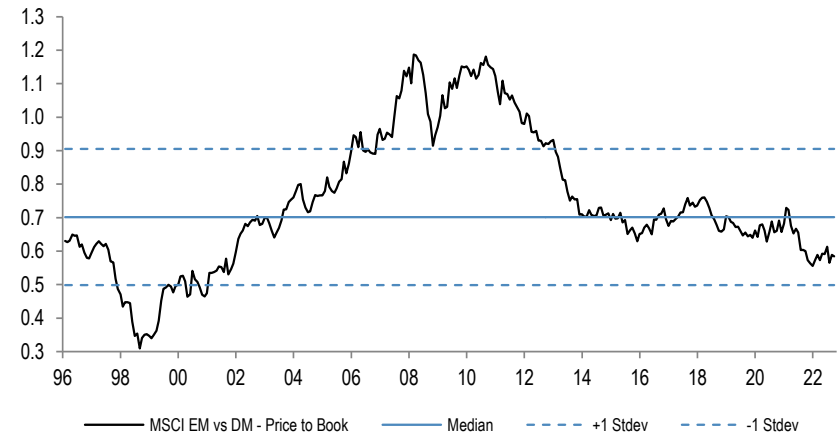
- MSCI EM is trading on the cheap side of fair value, relative to DM.
- There has been a steady increase in fund flows into EM over the last two years.

Flows into EM equity ETFs



Source: J.P. Morgan

MSCI EM vs DM Price to Book

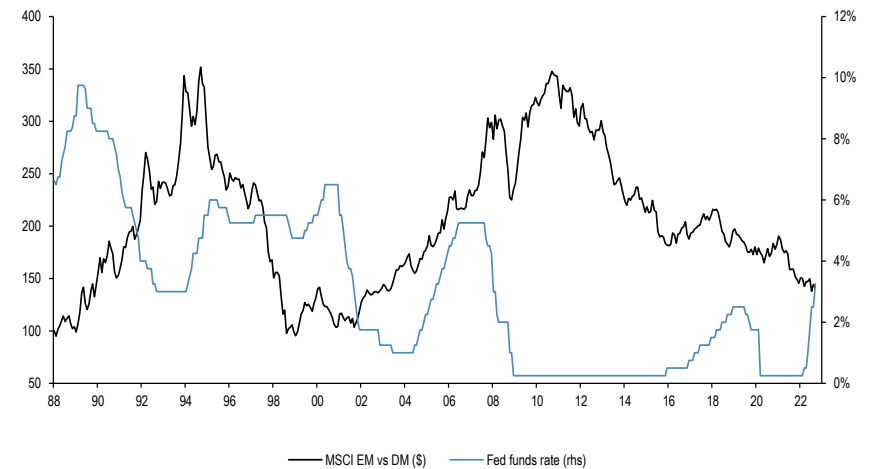


Source: IBES

Historically, EM did not tend to always suffer when Fed was hiking... EM imbalances might not be as acute as previously

- While Fed hikes are traditionally seen as an obstacle for EM, we note that, historically, EM did not tend to suffer when the Fed was hiking.
- In fact, EM equities outperformed DM during three out of the last five Fed hiking cycles.
- Historically, the Fed hikes would weigh on EM currencies, given wide current account and fiscal deficits. The size of these imbalances, as well as the USD dependency, is smaller these days.

MSCI EM vs DM and Fed funds rate



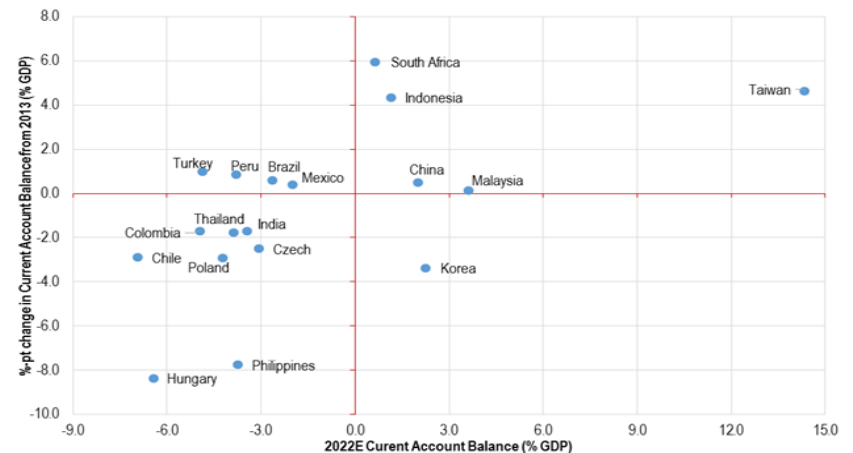
Source: Datastream

MSCI EM vs DM performance during Fed hiking regimes

Fed hike regimes	MSCI EM vs DM (\$)
Mar '88 - Mar '89	16%
Feb '94 - Feb '95	-19%
Jun '99 - May '00	-3%
Jun '04 - Jun '06	39%
Dec '15 - Dec '18	7%

Source: Datastream

EM current account balance 2022E and change since taper tantrum (% of GDP)

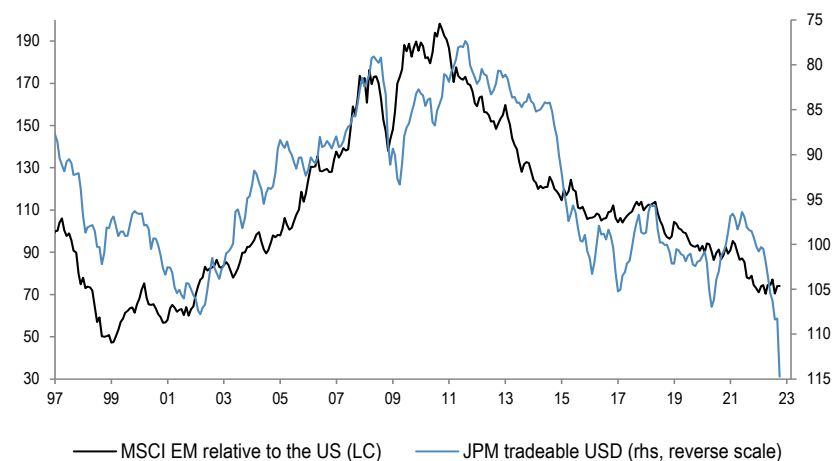


Source: J.P. Morgan EM Equity Strategy

The one key driver of EM remains the USD... it needs to peak out to confirm better EM outlook

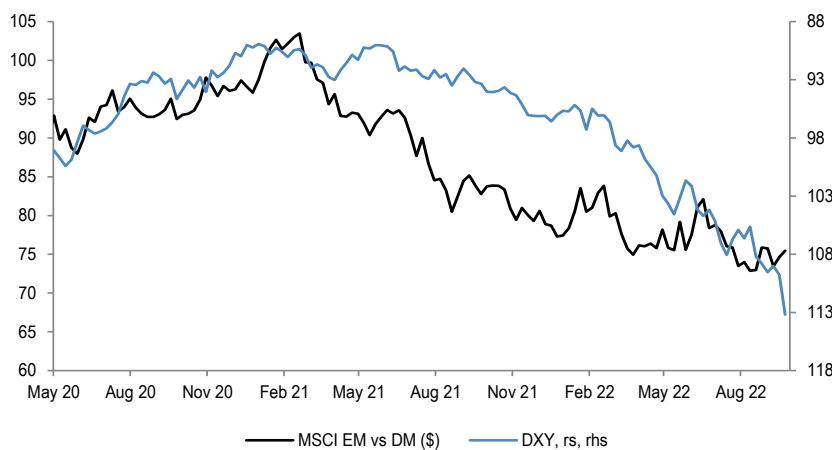
- EM equities have historically displayed a strong inverse correlation to the dollar. EM relative earnings are also geared to the FX direction.
- Our cautious EM view last year was predicated on the non consensus USD bullish view that we held. However, given the dollar rally, we see limited potential for dollar to keep moving higher.

EM relative performance and USD in the long term



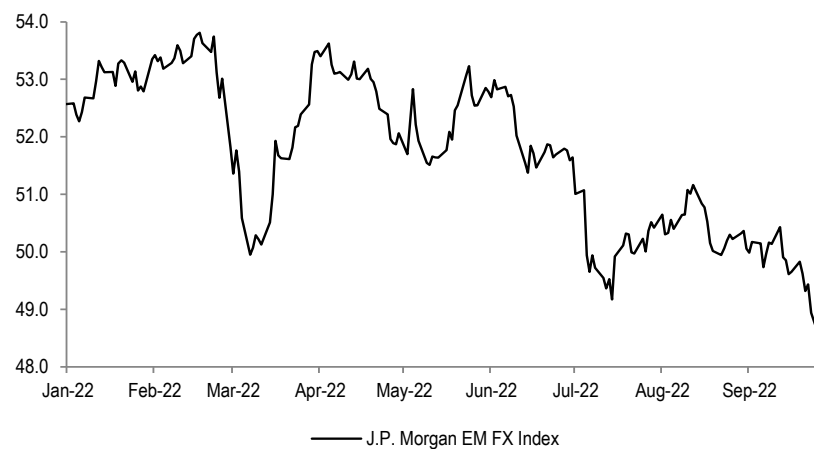
Source: Datastream

MSCI EM vs DM and DXY



Source: Datastream, J.P. Morgan

J.P. Morgan EM FX Index

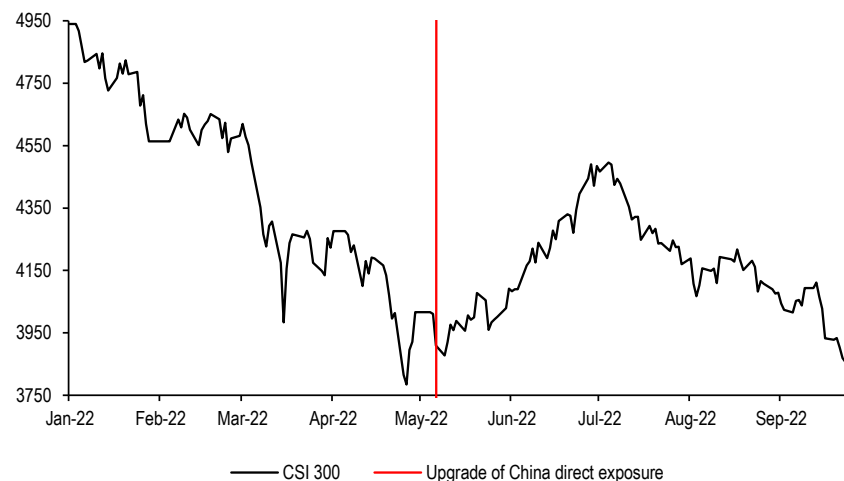


Source: Bloomberg Finance L.P.

Globally, we held a preference for indirect exposure to China, but we have recently turned more positive on direct China exposure

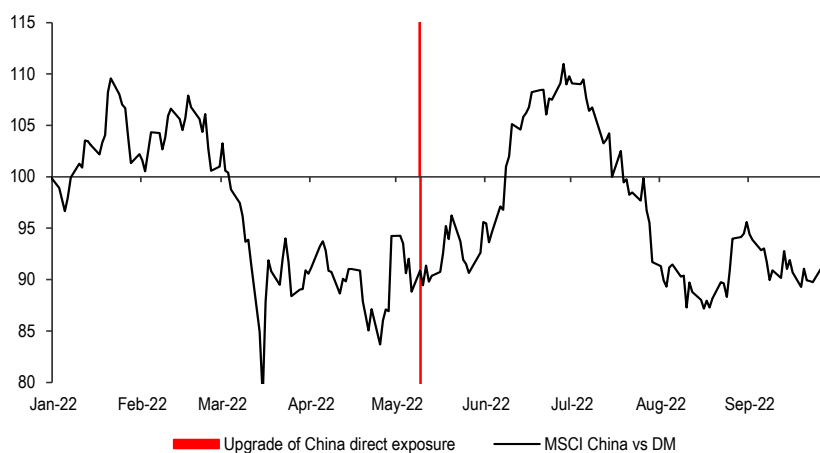
- Chinese equities were a drag on the overall EM performance ytd, but that could start to change.
- We believe Chinese credit impulse is bottoming and the growth expectations are now sufficiently downbeat. Big tail risks are now in the open.
- Chinese equities have lost roughly 50% from their last February highs, and we have in May advised to add to them. Our China strategist is also bullish on China stocks.

CSI 300



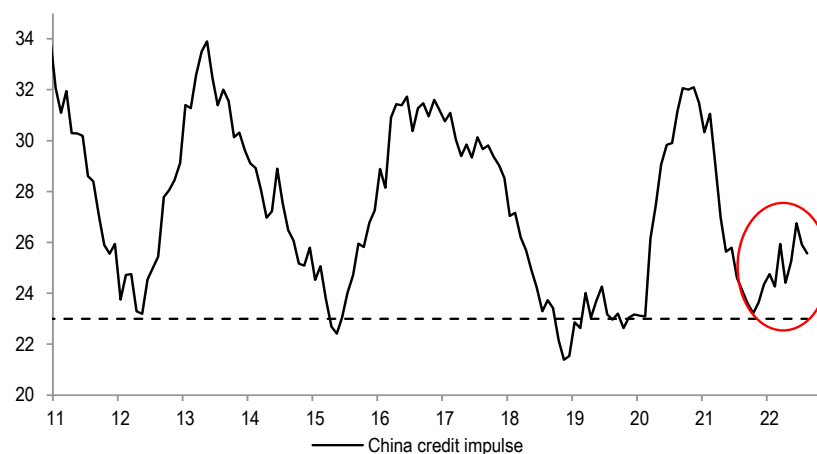
Source: Datastream

MSCI China vs DM



Source: Datastream, J.P. Morgan

China credit impulse



Source: Bloomberg Finance L.P.

Chinese policy measures announced recently

- The PBOC has announced a number of measures aimed at stabilizing growth. We believe that the bar for further policy support initiatives is relatively low, and there could be an increased traction post the Chinese party congress.

Chinese policy measures announced

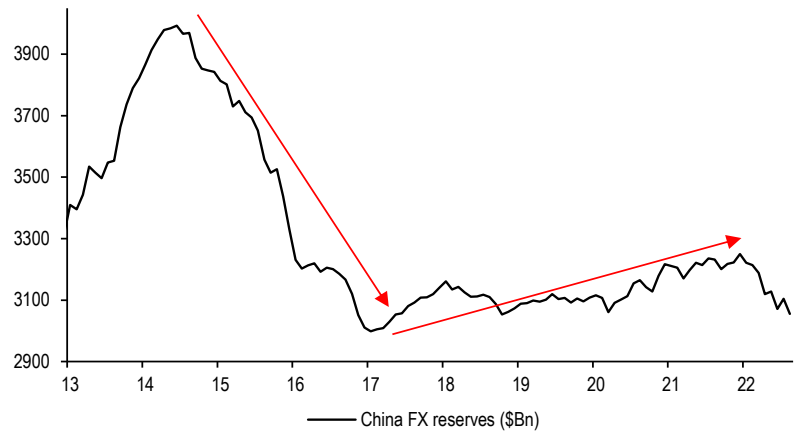
Policy measures	
Fiscal policy and related measures	In order to support the corporate sector and ensure stability in the labour market, the State Council announced additional tax rebates of 140 billion yuan for the corporate sector, equivalent to about 0.1% of GDP.
Financial and credit policy	The scale of SME loan support facility would be doubled for the year. Encourage banks to defer principal and interest repayment on loans made to SMEs and self-employed households, truck loans, and home loans/consumer loans for individuals facing temporary difficulties.
Stabilize industrial and supply chain	Fine-tune the policies to enable early reopening of enterprise and their return to full-capacity production. Ensure smooth freight logistics. Restrictions on the passage of trucks from low-COVID-risk areas will be lifted. Additional 150 billion of emergency loans to be provided to the civil aviation industry.
Support consumption and effective investment	Car purchase restrictions will be relaxed. Purchase tax on passenger cars to be partially reduced by 60 billion yuan.
Boost infrastructure investment	Support a range of infrastructure projects, including large-scale irrigation facilities, transportation facilities, renovation of old residential communities and multi-purpose utility tunnels, for which banks are encouraged to provide long-term loans.
Ensure energy security	Local governments should ensure proper coal output. Recalibrate the policy for approving higher production capacity of coal mines. To start a number of new hydropower and coal-fired power projects this year.
Support households' basic livelihood	Ensure support of unemployment benefits and subsistence allowance for households facing difficulties
MLF Rate cut	PBoC cut MLF rate by 10bp to 2.75%. Meanwhile, the amount of MLF operation is 400 billion yuan implying a net liquidity withdrawal of 200 billion yuan this month (with 600 billion MLF expired). The 10bp MLF rate cut has opened room for further 5-year LPR cut later this month, and we believe the impact on housing demand recovery will be positive, though relatively marginal. .
Increase loan issuance	The PBOC held a symposium analyzing monetary and credit conditions, urging major state-owned banks to increase loan issuance to the real economy, especially credit support for SMEs, green development, and technological innovation.

Source: J.P. Morgan

China credit should not be a constraint... not as challenged as in 2015

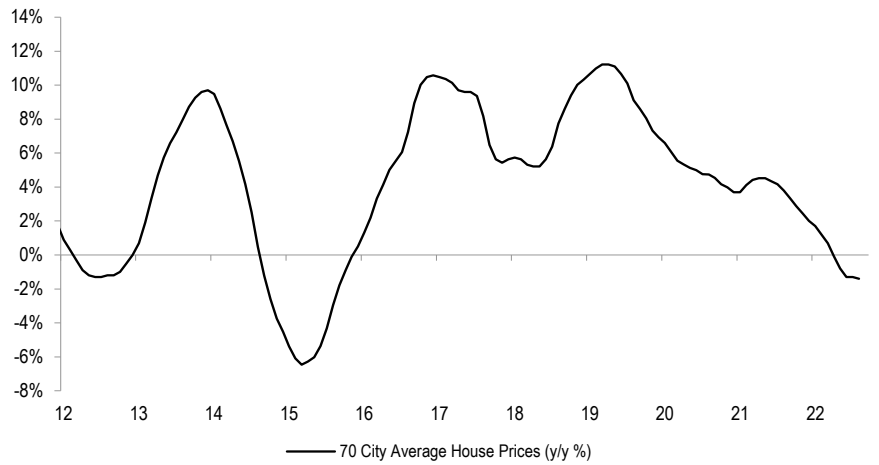
- Falling Chinese house prices and rising inventory is a concern, but the situation appears more manageable compared to 2015.

Chinese FX reserves



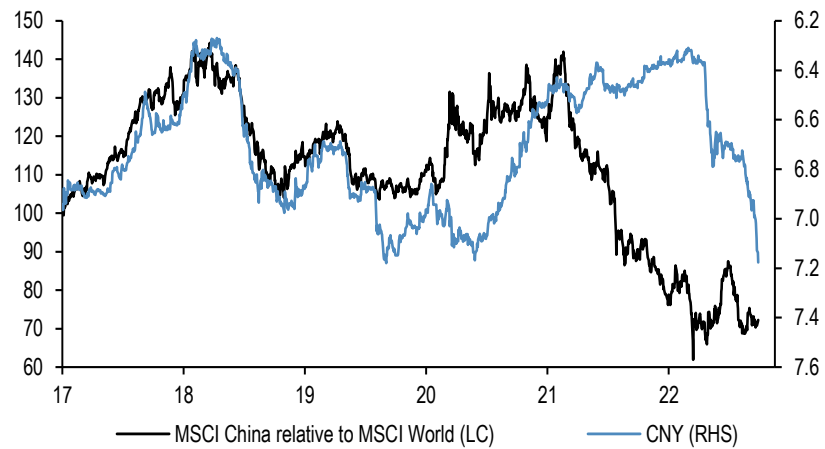
Source: Bloomberg Finance L.P.

Chinese house prices



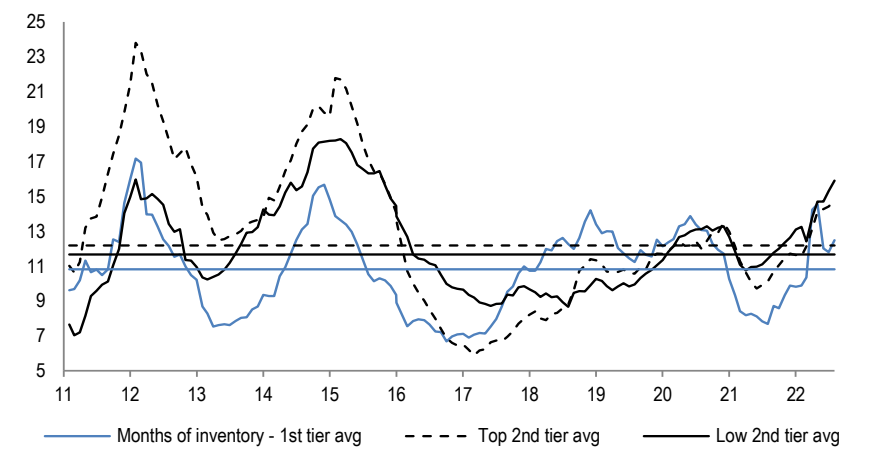
Source: NBS

MSCI China relative vs CNY



Source: Datastream

China property inventory



Source: Soufun, CREIS

Headline newsflow risk for China Internet is potentially lower from here

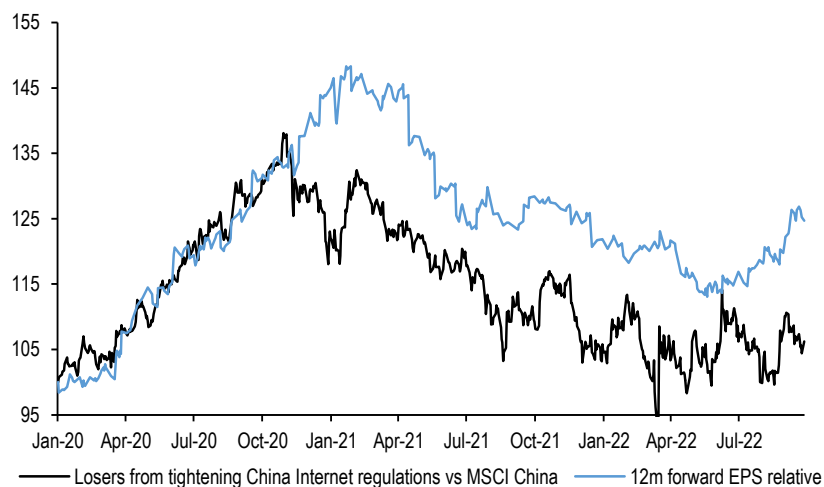
- Some of the key stocks in MSCI China, Alibaba and Tencent, are down ~50-70% from highs due to increased regulatory uncertainty, with their earnings projections also under pressure.
- We note an already significant derating of the affected stocks. The stock price reactions might become less negative from here, especially if the regulatory overhaul is put on hold.

Losers from rising China Internet regulations

	Weight in MSCI China	Peak to current move
TENCENT HOLDINGS	11.8%	-62.3%
ALIBABA GROUP HOLDING	8.7%	-75.1%
MEITUAN	4.4%	-61.4%
JD.COM	2.9%	-50.1%
PINDUODUO	1.6%	-70.1%

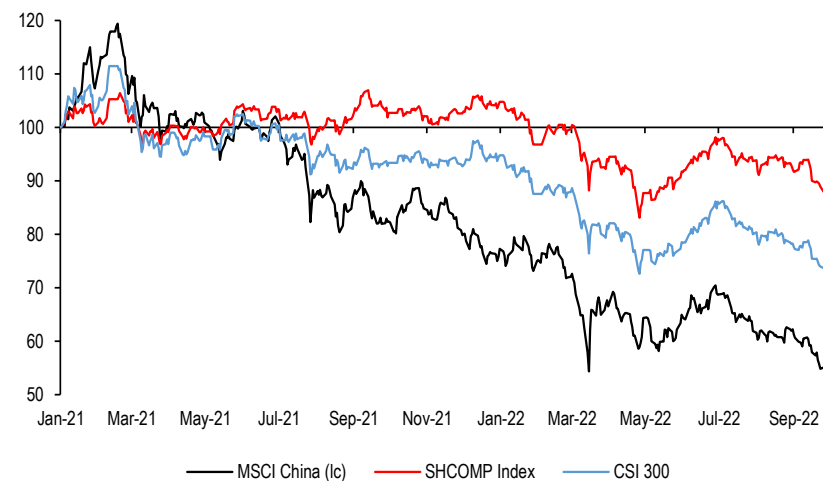
Source: Datastream, J.P. Morgan

Losers from tightening China Internet regulation - price relative and 12 month forward EPS relative



Source: Datastream, J.P. Morgan

MSCI China, SHCOMP and CSI300 performance



Source: Datastream

China heat map

Chinese data watch												
	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Manufacturing PMI												
Caixan	50.0	50.6	49.9	50.9	49.1	50.4	48.1	46.0	48.1	51.7	50.4	49.5
NBS	49.6	49.2	50.1	50.3	50.1	50.2	49.5	47.4	49.6	50.2	49.0	49.4
Services PMI												
Caixan	53.4	53.8	52.1	53.1	51.4	50.2	42.0	36.2	41.4	54.5	55.5	55.0
NBS	53.2	52.4	52.3	52.7	51.1	51.6	48.4	41.9	47.8	54.7	53.8	52.6
Composite PMI - Caixan												
	51.4	51.5	51.2	53.0	50.1	50.1	43.9	37.2	42.2	55.3	54.0	53.0
Industry												
Electricity Production, %oya	4.9%	3.0%	0.2%	-2.1%	-	-	0.2%	-4.3%	-3.3%	1.5%	4.5%	9.9%
IP, %oya	3.1%	3.5%	3.8%	4.3%	-	-	5.0%	-2.9%	0.7%	3.9%	3.8%	4.2%
FAI, %oya	7.3%	6.1%	5.2%	4.9%	-	12.2%	9.3%	6.8%	6.2%	6.1%	5.7%	5.8%
Consumer Activity												
Retail Sales, %oya	4.4%	4.9%	3.9%	1.7%	-	-	-3.5%	-11.1%	-6.7%	3.1%	2.7%	5.4%
Passenger Car Sales, %yoy	-16.2%	-4.9%	-4.6%	2.0%	6.9%	28.7%	-0.5%	-43.4%	-1.4%	41.6%	40.2%	36.9%
70-city house price index, %oya	3.3%	2.8%	2.4%	2.0%	1.7%	1.2%	0.7%	-0.1%	-0.8%	-1.3%	-1.7%	-2.1%
Liquidity & Monetary Conditions												
M2, %oya	8.3%	8.7%	8.5%	9.0%	9.8%	9.2%	9.7%	10.5%	11.1%	11.4%	12.0%	12.2%
FX Reserves (bln yuan)	3201	3218	3222	3250	3222	3214	3188	3120	3128	3071	3104	3055
New Loan Creation (bln yuan)	1663	826	1273	1132	3980	1234	3125	645	1884	2806	679	1254

Source: J.P. Morgan, Bloomberg Finance L.P., S&P Global, NBS

Within EM, our EM strategists are constructive on China, Brazil, Indonesia, Saudi and Chile

- China: (1) Large stimulus measures rolled out by the government and more forthcoming, including fiscal, credit and industry policies to support the corporate and household sectors, boost consumption and investment, and with emphasis on stabilizing the labor market; (2) Recent activity data confirmed further normalization, as China eases mobility curbs; (3) Undemanding valuation, light positioning, high HK short ratio, and moderate onshore mutual fund equity position, support our positive stance on China equities
- Brazil: (1) Brazil should continue to outperform in the current scenario of elevated commodity prices, considering its market is tilted toward value (materials, banks); (2) The BRL is cheap, especially taking into considering elevated commodity prices and the fact that Brazil is to have the highest level of real interest rates in the world by YE22; (3) Valuations are extremely cheap in the country, as Brazil trades 2 std-dev below historical average.
- Indonesia: (1) Strong commodity prices continue to support Indonesia's balance of payments; (2) Tech companies' listing in IDX is a positive catalyst, which introduces exposure to the "New Economy" in the Indonesia market, largely dominated by "Old Economy" exposure; (3) Foreign flows remain robust on the back of rounds of EPS upgrades post strong earnings.
- Saudi: MENA has been a star performer in both CEEMEA YTD and EM, despite high valuations, we think the rally can go on backed by: (1) JPM's constructive view on oil prices – our commodities team is forecasting Brent to average \$101/bbl in 4Q22; (2) USD-pegged currency offering shelter relative to strong USD; (3) Markets continue to witness strong local investor support, foreign investor positioning remains low.
- Chile: (1) The political overhang has decreased after the presentation of the new constitution draft; (2) Highly discounted valuations, in fact most attractive compared to historical averages, provide limited downside risk; (3) Upward earnings revisions driven by elevated copper prices and significant positive outlook for the index's largest stock - SQM (~36% of index).

EM Countries' Rating and Performance Snapshot

	Weight in MSCI EM	JPM Rating	YTD Performance	
			L.C	US\$
CHINA	32%	OW	-29.0%	-30.8%
TAIWAN (CHINA)	15%	N	-24.7%	-34.3%
INDIA	14%	UW	-0.4%	-8.6%
KOREA	12%	N	-24.7%	-36.5%
BRAZIL	5%	OW	0.0%	6.3%
SAUDI ARABIA	5%	OW	1.2%	1.0%
SOUTH AFRICA	3%	UW	-11.7%	-21.3%
MEXICO	2%	N	-14.4%	-13.1%
INDONESIA	2%	OW	12.6%	6.7%
THAILAND	2%	N	1.8%	-9.3%
MALAYSIA	2%	UW	-9.3%	-17.5%
PHILIPPINES	1%	N	-11.4%	-22.8%
POLAND	1%	N	-37.9%	-48.8%
CHILE	1%	OW	26.1%	10.9%
TURKEY	0%	N	64.6%	18.7%
MSCI EM			-20.4%	-26.5%

Source: Datastream, J.P. Morgan

'22e, '23e EPS growth for key EM countries

	EPS growth	
	22e	23e
CHINA	10%	16%
TAIWAN (CHINA)	8%	-5%
INDIA	13%	17%
KOREA	-3%	0%
BRAZIL	20%	-15%
SAUDI ARABIA	24%	8%
SOUTH AFRICA	8%	18%
MEXICO	15%	7%
INDONESIA	33%	5%
THAILAND	23%	10%
MALAYSIA	-8%	13%
PHILIPPINES	15%	20%
POLAND	3%	-14%
CHILE	61%	-6%
TURKEY	130%	-15%
MSCI EM	10%	5%

Source: IBES

EM snapshot

MSCI EM countries valuations and performance

	Weight in MSCI EM	YTD Performance		12m Fwd P/E			P/Book			EPS growth	
		L.C	US\$	Current	10Y median	relative	Current	10Y median	relative	22e	23e
CHINA	32%	-29%	-31%	10.6	11.2	-5%	1.2	1.6	-24%	10%	16%
TAIWAN (CHINA)	15%	-25%	-34%	11.4	13.9	-18%	2.0	1.9	9%	8%	-5%
INDIA	14%	0%	-9%	22.4	17.7	26%	3.6	3.1	18%	13%	17%
KOREA	12%	-25%	-36%	9.0	9.7	-7%	0.9	1.1	-18%	-3%	0%
BRAZIL	5%	0%	6%	6.4	10.9	-42%	1.6	1.6	-4%	20%	-15%
SAUDI ARABIA	5%	1%	1%	15.4	18.5	-17%	2.4	1.9	29%	24%	8%
SOUTH AFRICA	3%	-12%	-21%	8.3	13.6	-39%	1.6	2.3	-33%	8%	18%
MEXICO	2%	-14%	-13%	11.6	16.3	-29%	1.8	2.5	-29%	15%	7%
INDONESIA	2%	13%	7%	14.6	14.8	-1%	2.6	2.8	-7%	33%	5%
THAILAND	2%	2%	-9%	17.1	14.4	19%	2.1	2.1	-1%	23%	10%
MALAYSIA	2%	-9%	-17%	13.5	15.5	-12%	1.4	1.7	-15%	-8%	13%
PHILIPPINES	1%	-11%	-23%	15.3	17.5	-13%	1.7	2.5	-31%	15%	20%
POLAND	1%	26%	11%	8.8	15.1	-42%	1.5	1.7	-13%	61%	-6%
CHILE	1%	-38%	-49%	6.1	11.9	-49%	0.8	1.3	-39%	3%	-14%
TURKEY	0%	65%	19%	4.6	7.9	-42%	1.2	1.3	-2%	130%	-15%

Source: IBES, Datastream

EM Sector snapshot

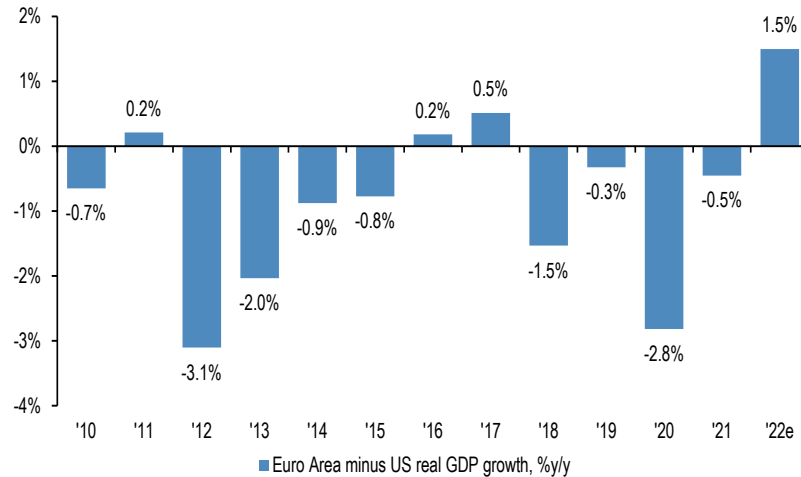
	YTD Perf, %		Weight in Index		12m Fwd P/E		EPS growth, %	
	YTD Total return, %		EM	vs MSCI World	Current	vs Median since '03	2022e	2023e
EM	-26.5%	-24.4%	100%	0%	10.3	-8%	10%	5%
Energy	-31.2%	-24.3%	5%	0%	6.2	-21%	61%	-15%
Materials	-25.5%	-22.1%	8%	4%	7.9	-25%	-10%	-8%
Industrials	-18.0%	-15.8%	6%	-4%	8.6	-31%	31%	-14%
Discretionary	-26.5%	-25.9%	14%	3%	15.9	30%	37%	30%
Staples	-16.6%	-15.4%	6%	-1%	19.5	-1%	5%	14%
Healthcare	-33.8%	-33.2%	4%	-9%	26.0	31%	-3%	27%
Financials	-13.5%	-10.3%	22%	8%	7.6	-17%	9%	12%
IT	-38.6%	-37.1%	19%	-2%	11.0	-16%	12%	1%
Telecoms	-34.6%	-33.8%	10%	3%	17.0	28%	-21%	19%
Utilities	-5.8%	-3.7%	3%	0%	14.9	33%	-29%	75%
Real Estate	-24.2%	-22.0%	2%	-1%	8.3	19%	1%	10%
Cyclicals	-31.0%	-29.3%	48%	1%	10.9	-10%	11%	0%
Defensives	-26.9%	-25.9%	23%	-8%	18.5	23%	-14%	27%

Source: IBES, Datastream

2) Eurozone – geopolitics dominates for now, but fundamental picture is not negative...

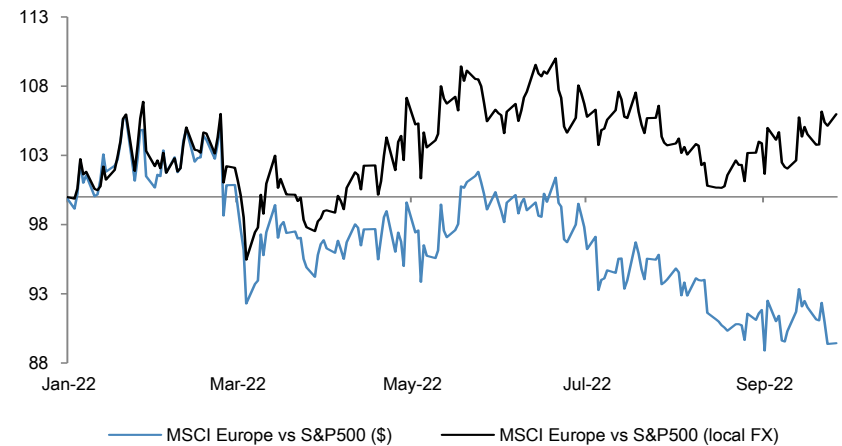
- The current geopolitical uncertainty is a big negative for the region, but its market impact is unlikely to last for very long.
- Eurozone has seen significant outflows. Eurozone and Japan appear to have suffered the most, compared to other regions.
- Eurozone GDP growth is expected to be above US one, for the first time since 2016, but we are calling for a recession in the region.

Euro Area minus US GDP projections



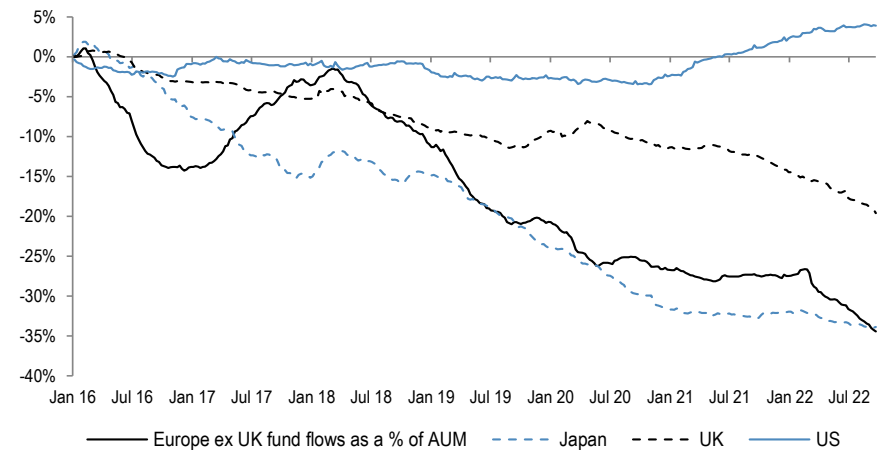
Source: J.P. Morgan

MSCI Europe vs US relative performance ytd



Source: Datastream

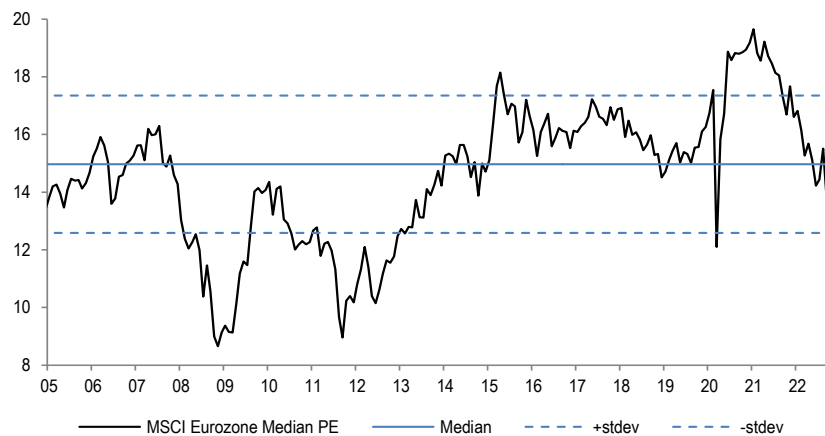
Cumulative fund flows into regional funds



Source: EPFR

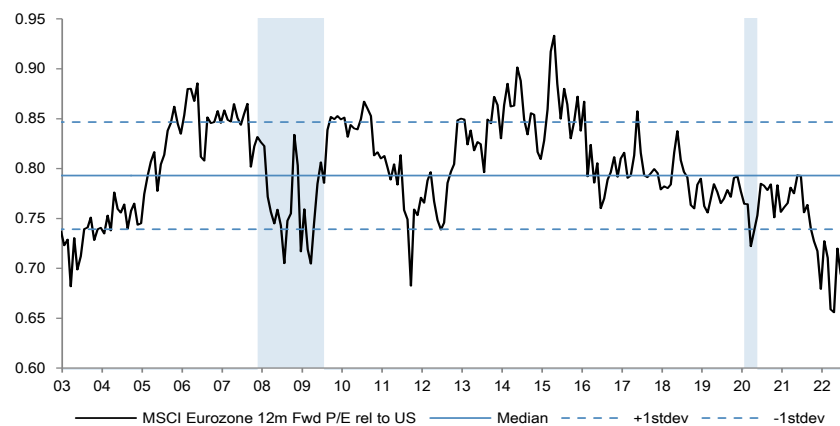
...Eurozone valuations relative to the US have moved to record cheap

MSCI Eurozone median P/E



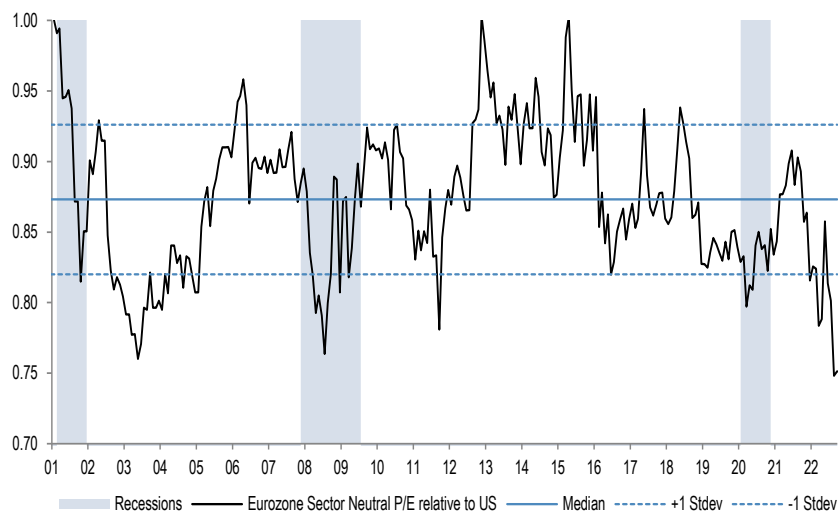
Source: IBES

MSCI Eurozone 12m Fwd PE relative to US



Source: IBES

MSCI Eurozone sector neutral P/E vs US



Source: IBES

MSCI Eurozone vs US P/Book

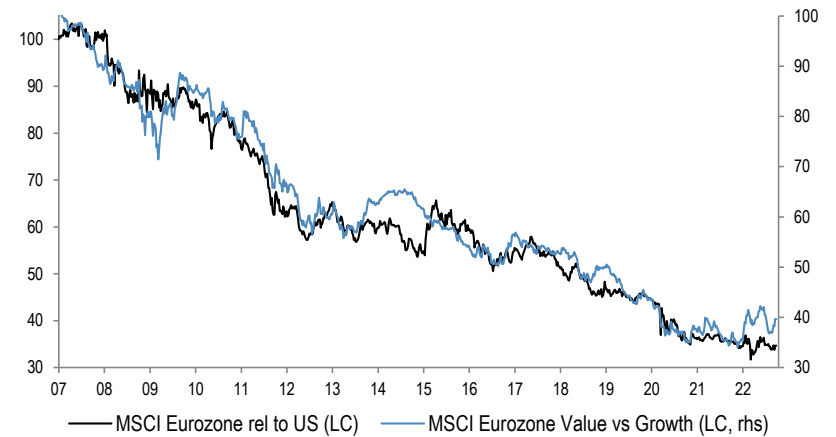


Source: Datastream

Eurozone relative performance has in the past tracked bond yields, and has now opened up a gap

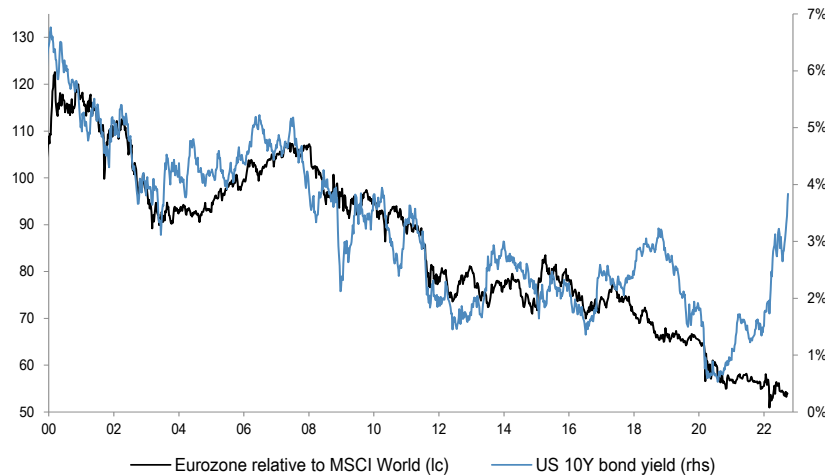
- An important consideration for our regional preferences is the direction of bond yields. Eurozone equities are strongly correlated to bond yields, and are a regional hedge in the case of potentially rising yields. The US, on the other hand, is more weighted towards Growth/Quality stocks, which comes under pressure in a rising rates environment.
- Specifically, the Eurozone vs US price differential is leveraged to the relative performance of Tech vs Banks, given the regional sector weight skews.

Eurozone relative to the US and Value vs Growth



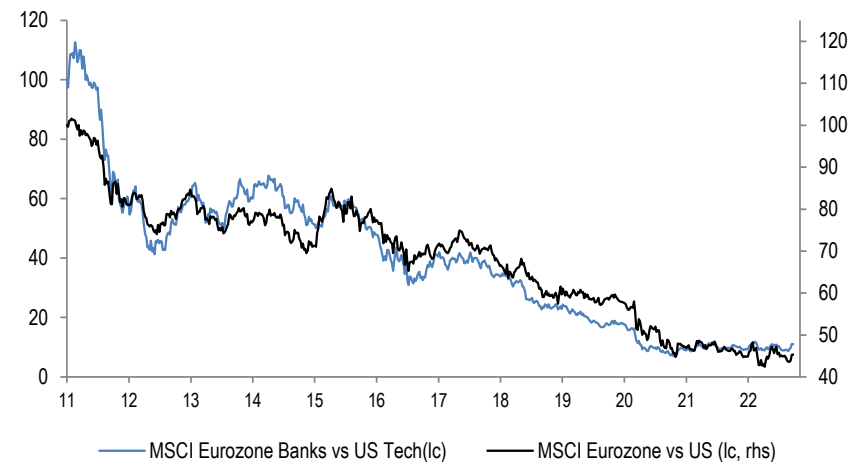
Source: Datastream

Eurozone relative to World and bond yields



Source: Datastream

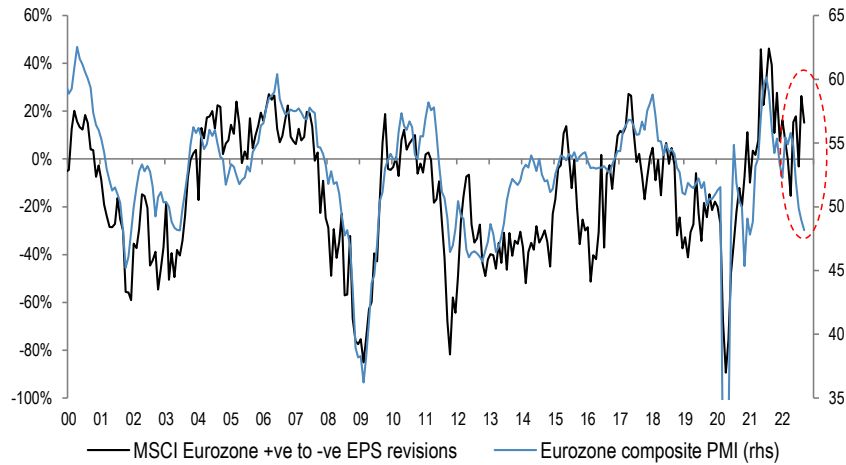
Eurozone vs US and Banks vs Tech



Source: Datastream

The gap is opening up between US/Europe prices and earnings

European +ve to -ve EPS revisions and composite PMI



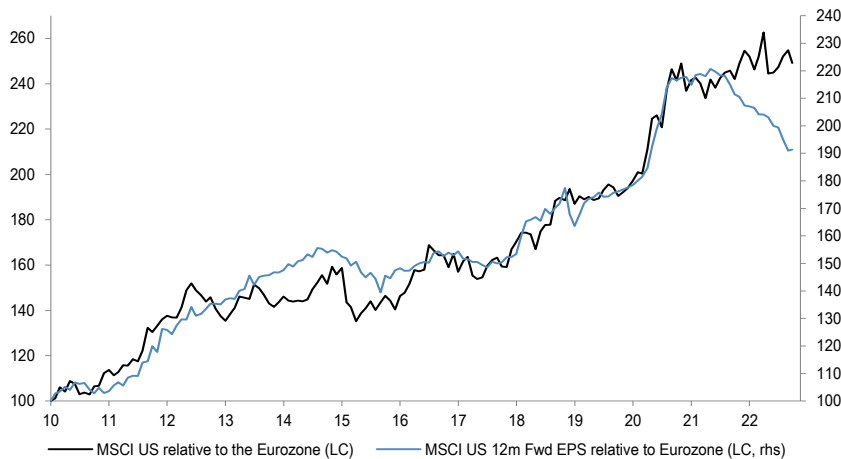
Source: IBES, S&P Global

Regional consensus EPS growth expectations

	2022e	2023e
MSCI World	11.3%	5.9%
S&P 500	9.6%	7.1%
Stoxx 600	18.0%	3.0%
Euro Stoxx	15.6%	3.9%
FTSE 100	22.5%	-0.4%

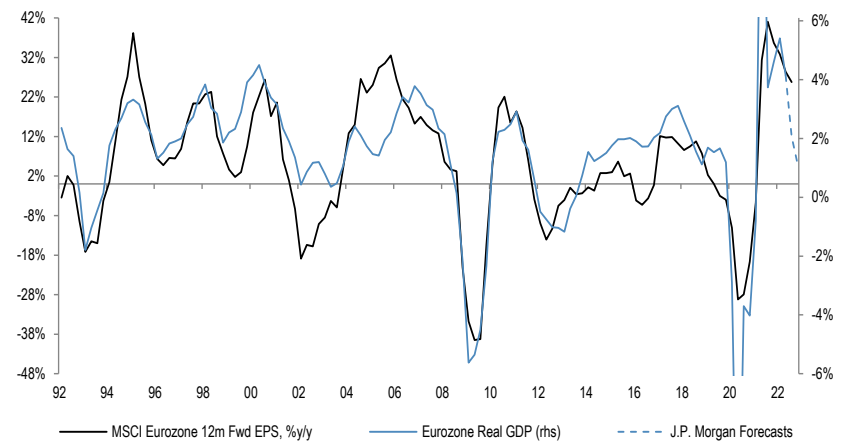
Source: IBES

US EPS relative to Eurozone and relative performance



Source: Datastream

Eurozone earnings vs GDP growth

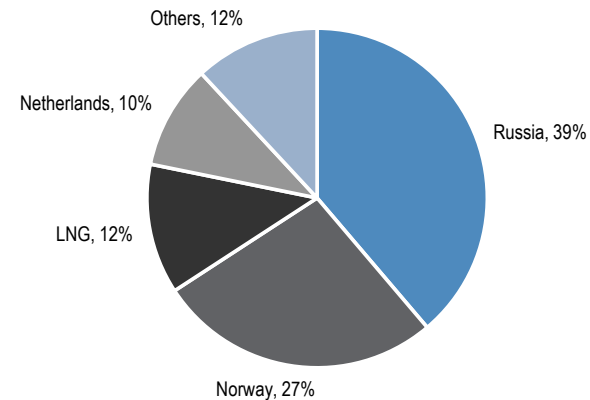


Source: IBES, J.P. Morgan

Geopolitics is a binary call from here... exposure to Russia-Ukraine is small, in terms of revenues, GDP, market cap, apart from commodities...

- We note that the fundamental exposure of Russia to the global economy is relatively low, looking at the GDP, market cap and revenues share. Credit exposure is also not extensive.
- The impact through the commodity channel is very significant, though. Russia accounts for 12% of global crude production, 17% of global natural gas production and greater than 40% of Palladium. It is also a significant exporter of agricultural commodities, producing 11% of the global wheat.

Origin of European natural gas



Source: McKinsey & Company, Energy Insights EU PipeFlow; EntsoG; ALSI; AGSI (2018)

Russia vs World GDP and Market cap share

Russia GDP (in current US\$ trn)	1.5
World GDP, (in current US\$ trn)	84.7
Russia GDP vs World GDP	1.7%
MSCI Russia Market Cap, in \$trn, as of 1 st Feb'22	0.3
MSCI World Market Cap, in \$trn, as of 1 st Feb'22	59.6
MSCI Russia vs MSCI World Market Cap	0.4%

Source: J.P. Morgan

Banks exposure to Russia*

US\$bn	Total	to Russian Banks
UK	13.7	4.9
Italy	9.2	3.4
France	8.7	4.5
Germany	7.4	-
Luxembourg	4.6	0.4
Austria	4.1	2.5
Japan	3.5	0.8
Switzerland	2.8	0.7
Other	34.9	12.0

Source: J.P. Morgan Economics Research * As of Sep '21

...at stock level, exposure is concentrated

- We have identified European and US companies that report meaningful exposures to Russia.

European stocks exposed to Russia

Name	Ticker	Sector	Exposure to Russia
% Sales			
Polymetal Intl	POLY LN	Materials	47%
Evraz	EVR LN	Materials	39%
Nokian	TYRES FH	Discretionary	20%
Renault Group	RNO FP	Discretionary	19%
Mondi	MNDI LN	Materials	12%
Metso Outotec	MOCORP FH	Industrials	8%
Henkel	HEN3 GR	Staples	7%
Kerry Group	KYGA LN	Staples	7%
Ontex Group	ONTEX BB	Staples	7%
Inditex	ITX SM	Discretionary	7%
Epiroc	EPIA SS	Industrials	7%
FLSmidth	FLS DC	Industrials	7%
Danone	BN FP	Staples	6%
Philip Morris	PM US	Staples	6%
Eutelsat	ETL FP	Com. Services	6%
% EBITDA			
Fortum	FORTUM FH	Utilities	21%
Uniper	UN01 GR	Utilities	19%
ADP	ADP FP	Industrials	19%
Buzzi	BZU IM	Materials	7%
% EBIT			
Ferrexpo	FXPO LN	Materials	100%*
Metro	B4B GR	Staples	20%
CCH	CCH LN	Staples	13%
Carlsberg	CARLB DC	Staples	5%
% PBT			
RBI	RBI AV	Financials	35%
OTP	OTP HB	Financials	7%
UCG	UCG IM	Financials	6%
SG	GLE FP	Financials	4%
Asset exposure			
BP	BP/ LN	Energy	20% stake in Rosneft
BASF	BAS GR	Materials	73% stake in Wintershall-DEA JV**

Source: J.P. Morgan; *FXPO exposure to Ukraine; **50% of the JV's production comes from Russia

US stocks exposed to Russia

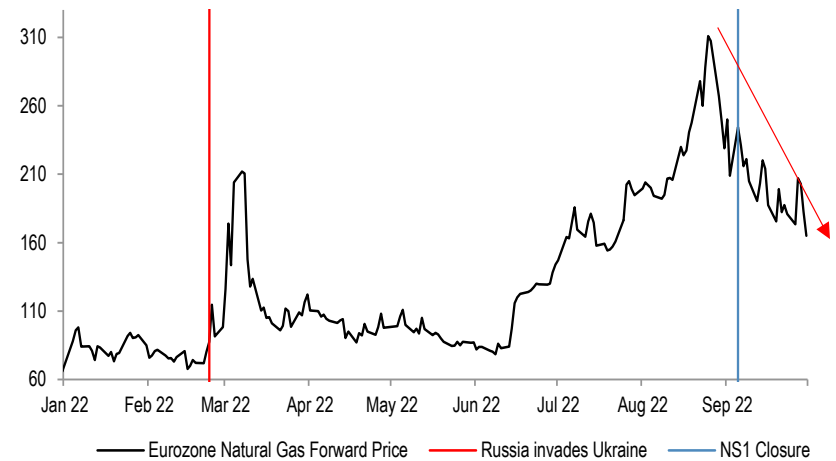
Name	Ticker	Sector	Revenue exposure to Russia + Ukraine
SYLVAMO	SLVM US	Materials	16.6%
KINROSS GOLD	KGC US	Materials	14.0%
ARCONIC	ARNC US	Materials	9.4%
PHILIP MORRIS INTERNATIONAL	PM US	Staples	8.0%
PEPSICO	PEP US	Staples	4.4%
MOHAWK INDUSTRIES	MHK US	Discretionary	4.3%
MCDONALD'S	MCD US	Discretionary	4.2%
CARNIVAL	CCL US	Discretionary	3.8%
MONDELEZ INTERNATIONAL	MDLZ US	Staples	3.5%
COTY	COTY US	Staples	3.1%
AGCO	AGCO US	Industrials	2.8%
KIMBERLY-CLARK	KMB US	Staples	2.8%
AIR LEASE	AL US	Industrials	2.7%
ESTEE LAUDER COMPANIES	EL US	Staples	2.7%
HERBALIFE NUTRITION	HLF US	Staples	2.7%
BUNGE	BG US	Staples	2.6%
ALNYLAM PHARMACEUTICALS	ALNY US	Health Care	2.6%
FORTINET	FTNT US	IT	2.5%
TRIMBLE	TRMB US	IT	2.0%
BOEING	BA US	Industrials	1.1%
UNITED AIRLINES HOLDINGS	UAL US	Industrials	0.9%
GENTHERM	THRM US	Discretionary	0.9%
LINDE	LIN US	Materials	0.7%
DELTA AIR LINES	DAL US	Industrials	0.6%
AMERICAN AIRLINES GROUP	AAL US	Industrials	0.3%

Source: J.P. Morgan US Strategy [report](#)

Natural gas prices could fall, gas storage is above trend, we are not expecting forced shutdowns...

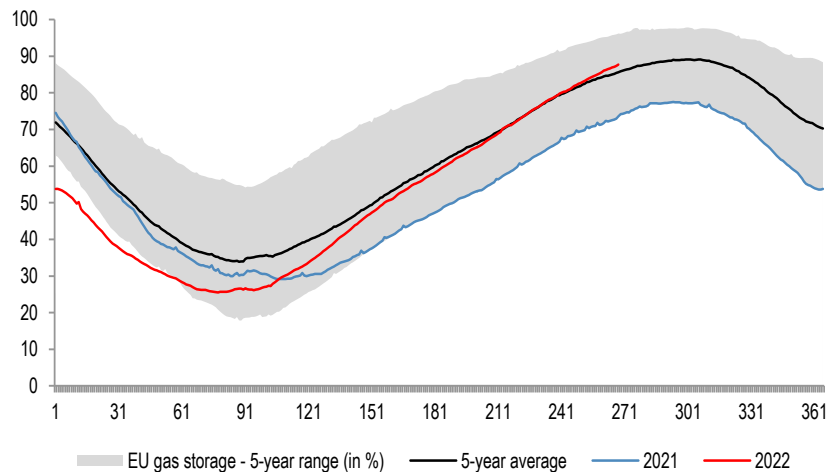
- Natural gas prices are lower most recently, despite the news of Russia cutting the Nord Stream 1 supply. We think that gas prices have downside from here, not only the widely perceived upside risks.
- Europe is importing much more from other sources, including LNG, to make up for the shortfall in Russian pipeline gas flows. Gas storages are currently at 87% of capacity, slightly above the trend over the last few years.
- Most European countries are reporting gas storage at 85% or more of the capacity. At the same time, gas usage in Europe has come down already, by 15-20% vs a year ago.

Eurozone Natural gas price ytd



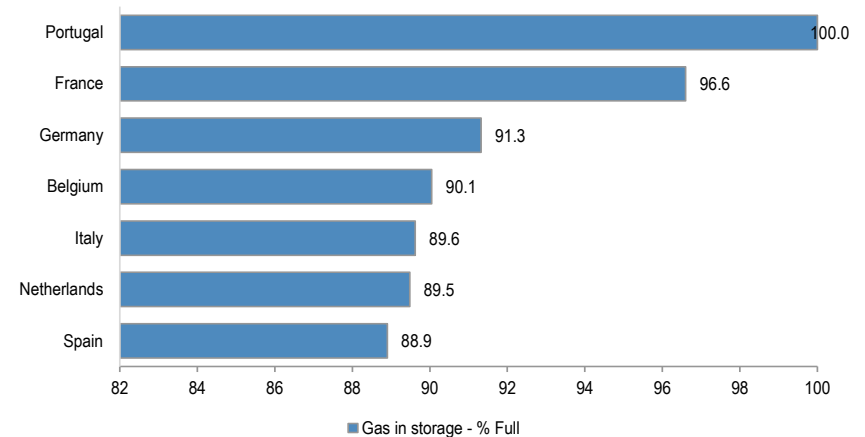
Source: Bloomberg Finance L.P.

Total European Gas Storage



Source: Gas Infrastructure Europe - AGSI

European countries gas storage



Source: Gas Infrastructure Europe - AGSI

...policymakers will not stand still, continued incentives to reduce energy usage will be rolled out...

- European Commission is also trying to install incentives to actively reduce demand for gas and electricity further, and has recently outlined proposals with this in mind. More is likely forthcoming.

EU Commission plans to incentivize the reduction in energy usage		
Proposal announced	Details	Target
Reduce electricity consumption	The Commission proposes an obligation to reduce electricity consumption by at least 5% during selected peak price hours . Member States will be required to identify the 10% of hours with the highest expected price and reduce demand during those peak hours. The Commission also proposes that Member States aim to reduce overall electricity demand by at least 10% until 31 March 2023.	Reduction of gas consumption by 1.2bcm over the winter.
Temporary revenue cap on 'inframarginal' electricity producers	The Commission is also proposing a temporary revenue cap on 'inframarginal' electricity producers , namely technologies with lower costs, such as renewables, nuclear and lignite, which are providing electricity to the grid at a cost below the price level set by the more expensive 'marginal' producers. Revenues above the cap will be collected by Member State governments and used to help energy consumers reduce their bills.	Set the inframarginal revenue cap at €180 EUR/MWh.
A windfall tax to partially capture the huge profits reaped by fossil fuel companies.	The Commission is also proposing a temporary solidarity contribution on excess profits generated from activities in the oil, gas, coal and refinery sectors which are not covered by the inframarginal revenue cap. The revenues would be collected by Member States and redirected to energy consumers, in particular vulnerable households, hard-hit companies, and energy-intensive industries.	-
Expand Energy Prices Toolbox	The Commission is also proposing to expand the Energy Prices Toolbox available to help consumers. The proposals would allow below cost regulated electricity prices for the first time , and expand regulated prices to also cover small and medium-sized enterprises .	-

Source: Various news source

...European governments have also announced measures to shield the consumer and industry from the worst of the energy crisis

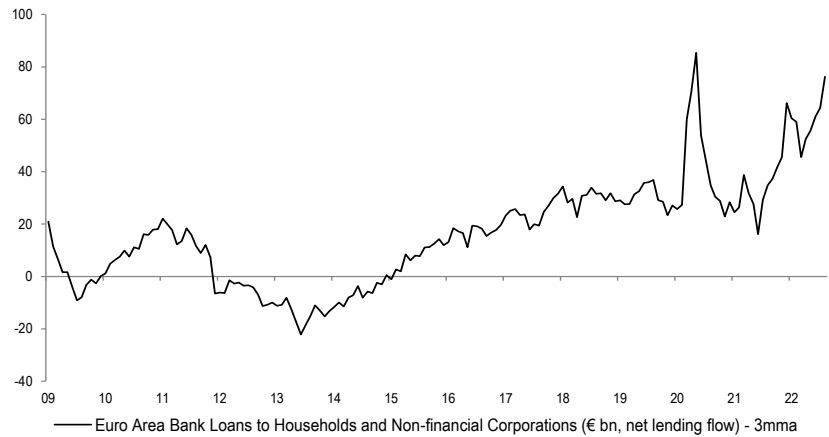
Measures announced by European countries to combat energy crisis

Country	Details
UK	Two-year plan to place a maximum annual cap of £2,500 on soaring energy bills for households from October 1 to address the country's cost-of-living crisis. Cover for businesses would be for 6 months, where the state will pay energy suppliers the difference between new cap and what energy retailers would charge their customers. Consumers also get a £400 subsidy that's already been announced.
France	Allow new wind and solar farms to sell their electricity directly on the market for 18 months before locking in their CfDs. The measure could increase investors' earnings tenfold compared to the CfD model. The government also intends to allow projects that have already won an auction to increase their capacity by up to 40% before completion. Government would help 12 million of France's poorer households cover their energy costs with one time checks of about 100-200 euros. Limit energy price increase to 15%.
Germany	Plans for continued cheaper public transport tickets and tax breaks for energy-intensive companies. Windfall taxes would likely be levied on energy companies to lower the price of gas, oil and coal for consumers. The two previous packages included a gasoline rebate, which expired at the end of August, the nine-euro transportation ticket and an energy price flat payment to workers. According to draft legislation, VAT on gas will drop to 7% from 19% from October until March 2024.
Spain	Spanish businesses, restaurants and museums will not be allowed to set air-conditioners below 27 degrees Celsius in summer or heaters above 19C in winter. Switching off store window lights after 10pm. Workers, the self-employed and the unemployed with incomes lower than €14,000 gross per year will receive direct aid of €200 to deal with rising living costs
Italy	30cents per litre cut to fuel duty. Reduction in VAT to 5% from 22%. Expected to push a new energy aid package to families and businesses worth about 13.5 billion euros.
Netherlands	The Netherlands has cut energy taxes for its 8 million households.
Austria	Chancellor Karl Nehammer said the cap should ease costs for an average household of three by about 500 euros (US\$494) per year. The government will provide around 3-4 billion euros to finance the measure, which will come into effect in December and last through the end of June 2024.
Belgium	Belgium will also cut energy use in public buildings by, for example, requiring air conditioning use to be reduced and heating only be turned up to 19 degrees Celsius maximum. Lighting in public buildings will be switched off between 7 p.m. and 6 a.m. Belgium plans to extend other energy measures currently in force until the end of March 2023, such as a social tariff for low- income families; a 6 percent VAT on electricity, gas and heat; as well as reducing the excise tax on petrol and diesel. Belgium promises to put a price cap on Russian oil.
Denmark	Denmark's government will lower energy use at its public buildings and encouraged residents to cut their own use of gas and electricity further. Temperatures inside public buildings will be capped at 19 degrees Celsius (66 degrees Fahrenheit), compared with 21-23 degrees now and government buildings will no longer be lit from the outside at night. Denmark plans to send 45 billion Danish kroner to support households from soaring costs.
Finland	Finland plans to spend about 800 million euros (\$800 million) on measures to help the households suffering the most from surging electricity prices. The household energy package includes a tax deduction worth 300 million euros, a cut in value added tax during the winter months that will amount to 200 million euros, as well as spending of 300 million euros in handouts for those struggling to pay their power bills Finland is aiming to offer 10 billion euros (\$9.95 billion) in liquidity guarantees.
Bulgaria	Bulgaria introduced a discount of 0.25 leva (\$0.12) per litre of petrol, diesel, liquefied petroleum gas and methane from July until the end of the year for households, and scrapped excise duties on natural gas, electricity and methane. Bulgaria government is providing extra 1.8 billion euros to extend compensation for soaring power prices until the end of 2022.
Sweden	Sweden plans to offer 250 billion Swedish crowns (\$23.2 billion) in liquidity guarantees. Sweden has set aside 6 billion Swedish crowns (\$605 million) to compensate households worst hit by the surge in electricity prices.
Norway	Norway has been subsidising household electricity bills since December and now covers 80% of the portion of power bills above a certain rate. This will be increased to 90% from September, with the scheme to remain in place until at least March 2023.
Poland	Poland has announced tax cuts on energy, petrol and basic food items, as well as cash handouts for households. It has also extended regulated gas prices for households and institutions like schools and hospitals until 2027. Government will fix energy prices for households using upto 2,000 Kwh with additional discounts planned for those that reduce consumption by at least 10% annually. The government in July agreed a one-off payment of 3,000 zlotys (\$648) to households to help cover the rising cost of coal. Prime Minister Mateusz Morawiecki has said the total cost of curbing energy prices in Poland will reach around 50 billion zlotys.

Source: Various news source

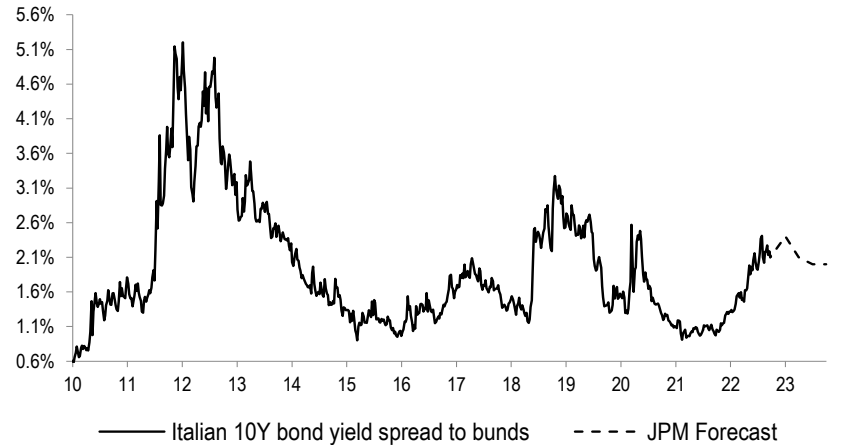
Peripheral spreads have widened, but ECB remains a backstop...

Eurozone bank loans to HH and nonfinancial corporates



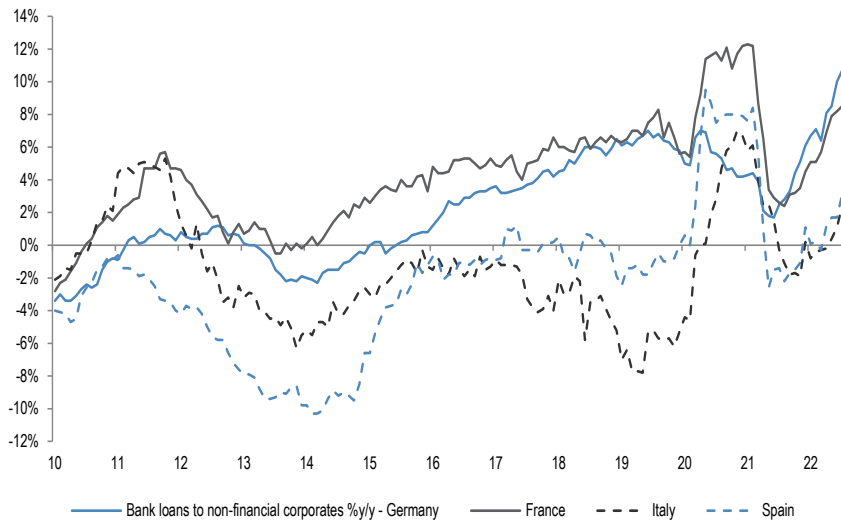
Source: ECB, J.P. Morgan

Peripheral spreads with JPM forecast



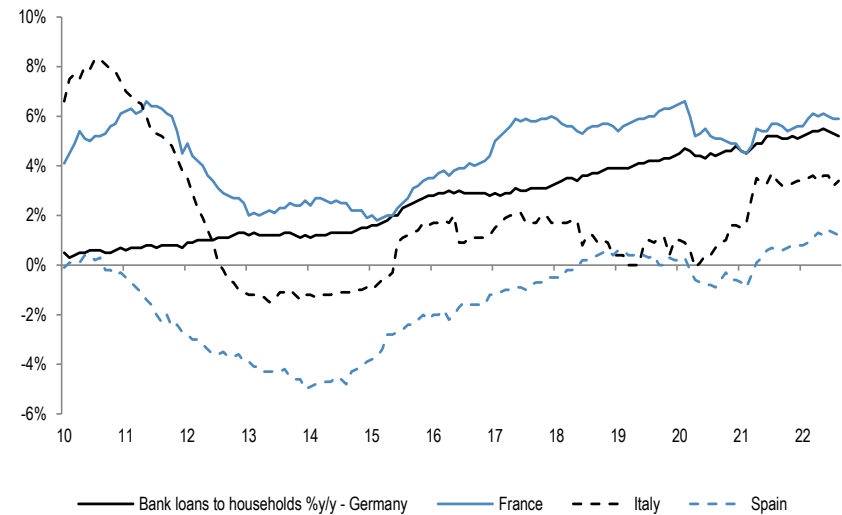
Source: Bloomberg Finance L.P., JPMorgan

Euro area banks loans* to nonfinancial corporates



Source: ECB, *adjusted for securitisation

Euro area bank loans* to households



Source: ECB, *adjusted for securitisation

...Eurozone's fiscal position is better than for other regions; Fiscal expansion to support energy independence, defense and infrastructure underway

- From a fiscal standpoint, Eurozone scores better than the US, UK or Japan.

US, EMU, Japan and UK fiscal positions (% of GDP)

	Gross Debt (% of GDP)						Net Debt (% of GDP)						Primary Balance (% of GDP)					
	2021	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025	2026
United States	133.3	130.7	131.1	131.7	132.5	133.5	101.9	100.8	101.9	103.3	106.0	108.9	-10.8	-6.9	-5.7	-5.2	-5.3	-5.3
Euro area	98.9	96.3	95.4	94.5	93.4	92.2	82.8	80.9	80.5	80.0	79.2	78.4	-6.5	-2.3	-1.3	-1.0	-0.7	-0.7
Japan	256.9	252.3	250.8	251.0	251.3	251.9	171.5	169.2	168.3	168.4	168.7	169.4	-9.0	-3.9	-2.1	-2.1	-2.1	-2.2
United Kingdom	108.5	107.1	109.4	110.5	111.2	111.6	97.2	95.2	97.8	98.7	99.5	99.9	-11.9	-5.6	-3.6	-3.2	-3.1	-2.9

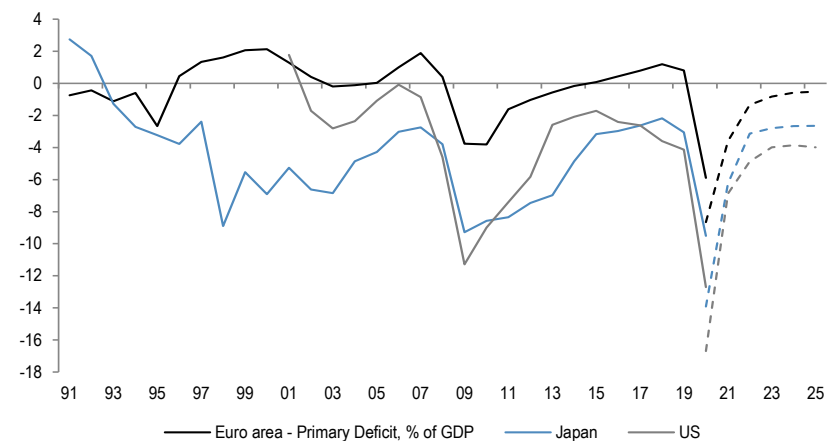
Source: IMF FISCAL MONITOR - October 2021

Fiscal balance, % GDP

	Fiscal balance (% of GDP)						
	US	Japan	Germany	Italy	Spain	France	UK
19	-4.7%	-2.9%	1.5%	-1.5%	-2.9%	-3.1%	-2.1%
20	-15.6%	-9.5%	-4.3%	-9.6%	-11.0%	-9.1%	-12.7%
21e	-12.4%	-8.5%	-5.5%	-9.4%	-8.4%	-8.2%	-8.5%
22e	-6.4%	-6.1%	-2.5%	-5.5%	-5.6%	-5.0%	-4.0%

Source: Bloomberg Finance L.P.

US, Eurozone and Japanese primary fiscal balance



Source: IMF FISCAL MONITOR - October 2021
dotted lines show IMF forecasts

Periphery has underperformed, but it is cheap, and spreads should not keep widening...

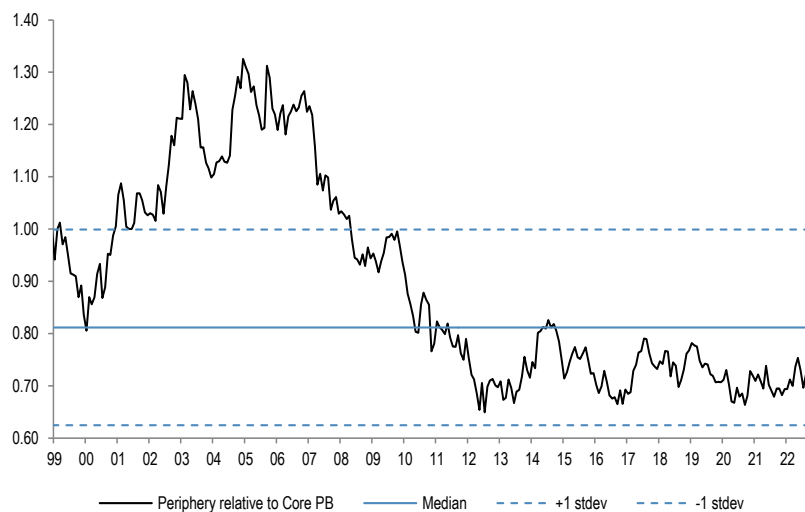
- Italy and Spain feature among the cheapest markets globally. Despite Italy's strong performance last year, the country still trades outright cheap relative to Europe on Fwd. P/E.
- Within Periphery, Italy has significant exposure to Banks, and should do better if the sector rebounds.

MSCI Italy 12m Fwd P/E relative



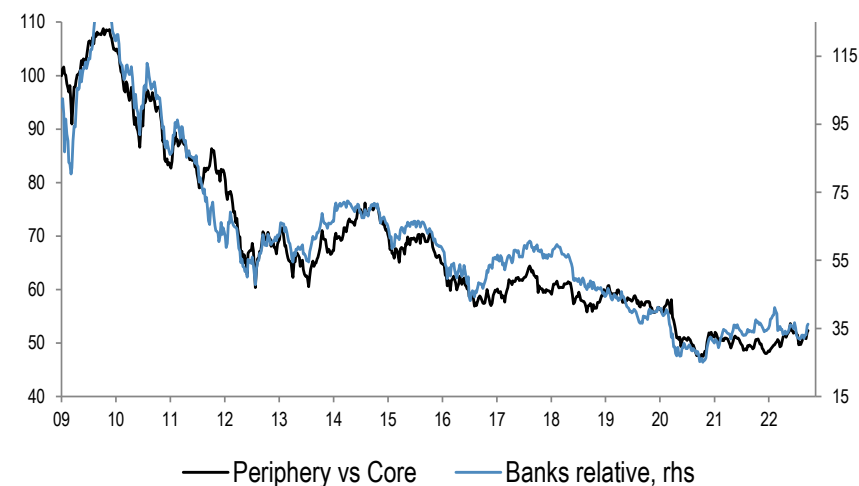
Source: IBES

Periphery vs Core Price to Book



Source: IBES

Periphery vs Core and Eurozone Banks relative



Source: Datastream

...periphery should benefit disproportionately from the EU recovery fund, which is starting to be implemented

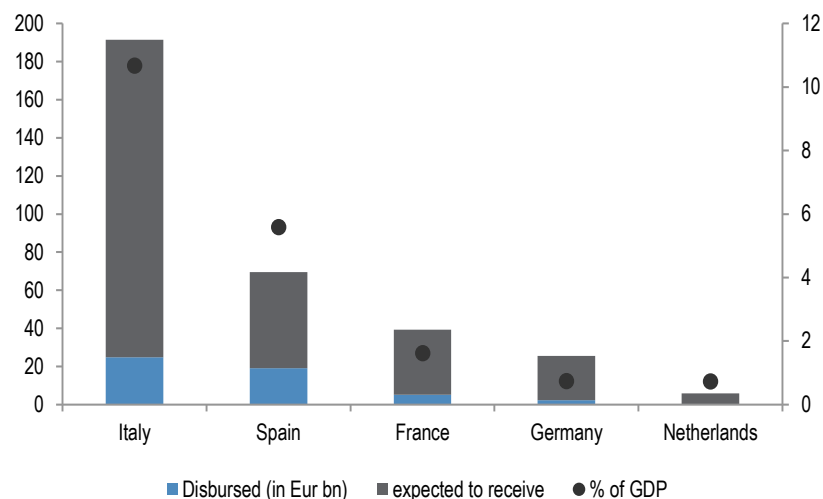
- Peripheral countries are the biggest beneficiaries of the EU recovery fund, in terms of stimulus as a share of GDP. In absolute terms, Italy is receiving the lion's share of the recovery fund, in terms of the value of both loans and grants announced so far.
- Italy and Spain are set to receive more than twice the amount of grants, compared to France and Germany.
- Of the 9.4% of GDP stimulus in Italy, the boost over '22 is expected to amount to 1.8% of GDP in Italy, and 1.9% of GDP in Spain.

EU recovery fund, grant value by country

	€ billion	% of GDP	Already disbursed (€ bn)
Italy	191.5	10.7	24.89
Spain	69.5	5.6	19.04
France	39.4	1.6	5.12
Poland	35.5	6.7	-
Greece	30.5	16.6	3.96
Romania	29.2	13.1	3.79
Germany	25.6	0.7	2.25
Portugal	16.6	7.8	2.16
Hungary	7.2	4.9	-
Czech Republic	7.0	3.1	-
Slovakia	6.3	6.7	0.82
Croatia	6.3	11.6	0.82
Bulgaria	6.3	10.2	-
Netherlands	6.0	0.7	-
Belgium	5.9	1.2	0.77
Austria	3.5	0.9	0.45
Sweden	3.3	0.7	-
Slovenia	2.5	5.1	0.23
Lithuania	2.2	4.6	0.29
Finland	2.1	0.9	0.27
Latvia	1.8	6.0	0.24
Denmark	1.6	0.5	0.20
Cyprus	1.2	5.4	0.16
Ireland	1.0	0.3	-
Estonia	1.0	3.5	0.13
Malta	0.3	2.3	0.04
Luxembourg	0.1	0.2	0.01
Total	503.3	2.7	65.6

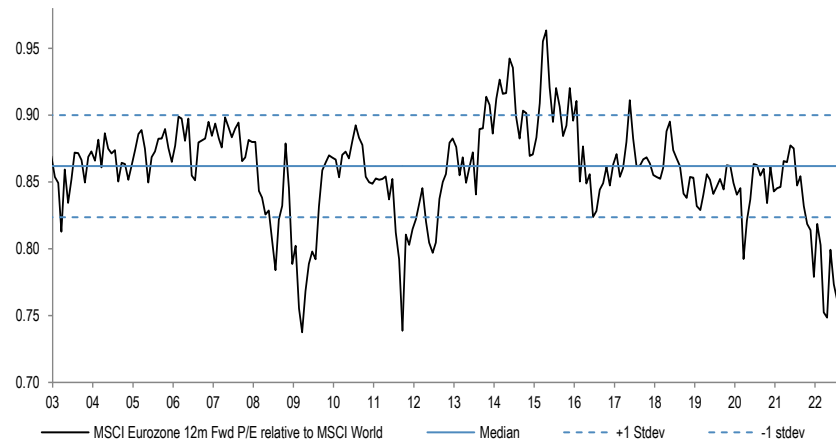
Source: J.P. Morgan Economics Research

EU Recovery fund Grants breakdown by country



Eurozone snapshot

MSCI Eurozone 12m Fwd PE relative to MSCI World



Source: IBES

MSCI Eurozone performance relative to MSCI World



Source: Datastream

Eurozone Sector snapshot

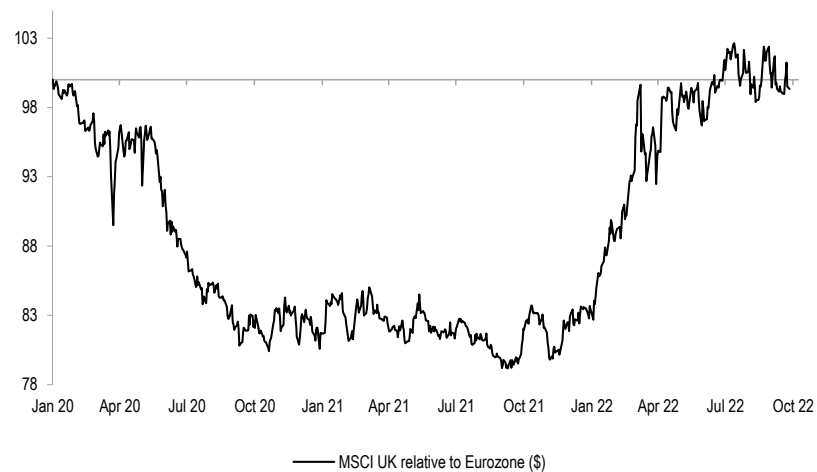
	YTD Performance, %	YTD Total Return, %	Weight in Index		12m Fwd P/E		EPS growth, %	
			Eurozone	vs MSCI World	Current	vs Median since '03	2022e	2023e
Eurozone	-23.3%	-21.1%	100%	0%	10.0	-16%	17%	4%
Energy	1.0%	6.1%	5%	0%	3.6	-63%	107%	-19%
Materials	-28.0%	-25.6%	7%	2%	8.2	-33%	-2%	-19%
Industrials	-27.3%	-25.8%	15%	5%	10.6	-20%	17%	16%
Discretionary	-26.9%	-25.0%	17%	5%	8.3	-32%	18%	3%
Staples	-16.3%	-14.7%	9%	1%	14.1	-5%	11%	10%
Healthcare	-22.8%	-20.9%	8%	-6%	9.4	-34%	8%	7%
Financials	-16.3%	-12.1%	15%	1%	6.0	-40%	5%	8%
IT	-34.6%	-33.9%	13%	-9%	14.7	-16%	6%	20%
Telecoms	-10.1%	-7.9%	5%	-2%	11.0	-5%	31%	10%
Utilities	-14.9%	-11.7%	7%	3%	10.4	-9%	-12%	26%
Real Estate	-45.8%	-43.4%	1%	-2%	8.4	-45%	21%	2%
Cyclicals	-29.2%	-27.7%	38%	13%	10.1	-24%	11%	4%
Defensives	-16.8%	-14.7%	28%	-4%	11.1	-15%	6%	14%

Source: IBES, Datastream

3) OW UK – the recent fiscal newsflow is unwelcome, but not a game changer

- We held a longstanding cautious call on UK equities, ever since 2016. In July '20, post the particularly brutal spell of underperformance for UKX, as the worst of the COVID-19 crisis and resulting dividend cancellations were priced in, we closed our short, moving the UK to Neutral.
- In November we have taken a step further, and raised the UK to an OW in a European, and in a Global portfolio. We don't think that current fiscal uncertainty will change the attractiveness of the UK, and look for BoE to act to stabilize the bond market.

UK relative to Eurozone since Jan '20, common FX



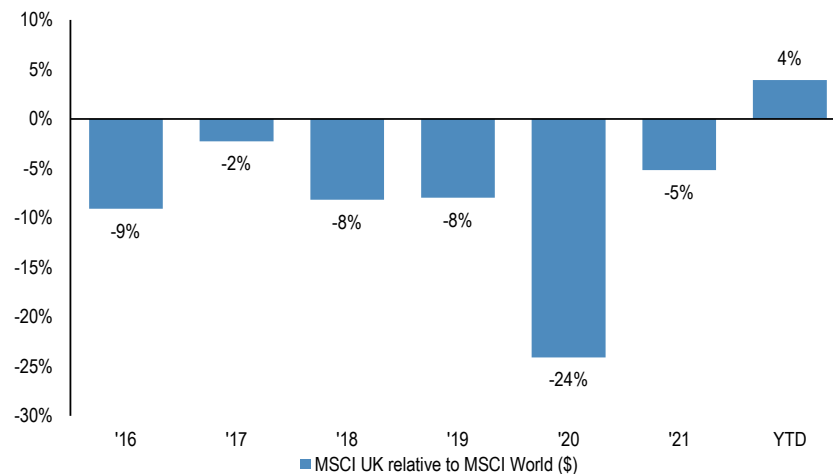
Source: Datastream

MSCI UK relative to MSCI Eurozone and MSCI World



Source: Datastream

UK relative performance in the last 7 years



Source: Bloomberg Finance L.P.

UK is still record cheap

- The UK has de-rated strongly since the 2016 Brexit vote, and is trading near the lowest forward P/E level vs global peers in the last three decades. The UK appears extremely cheap even if one were to exclude Banks and Energy from the calculation, or adjust for sector bias.

MSCI UK 12m Fwd. P/E relative to MSCI World



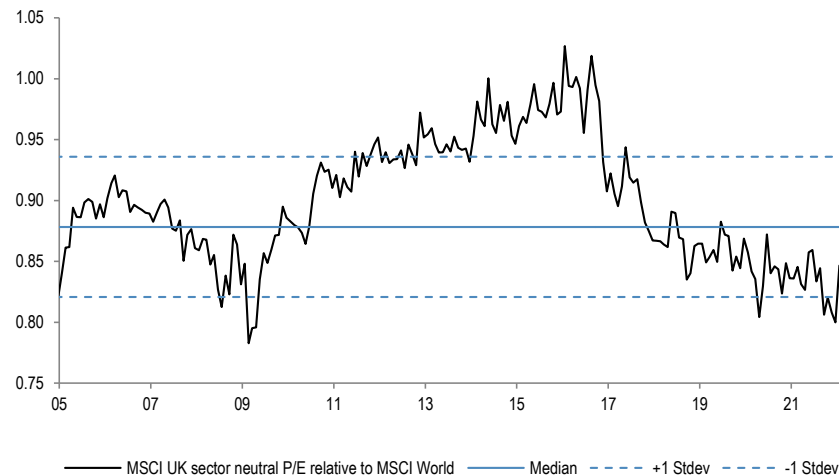
Source: Datastream

MSCI UK 12m Fwd P/E relative, ex Energy and Banks



Source: Datastream

MSCI UK sector neutral 12m Fwd. P/E relative

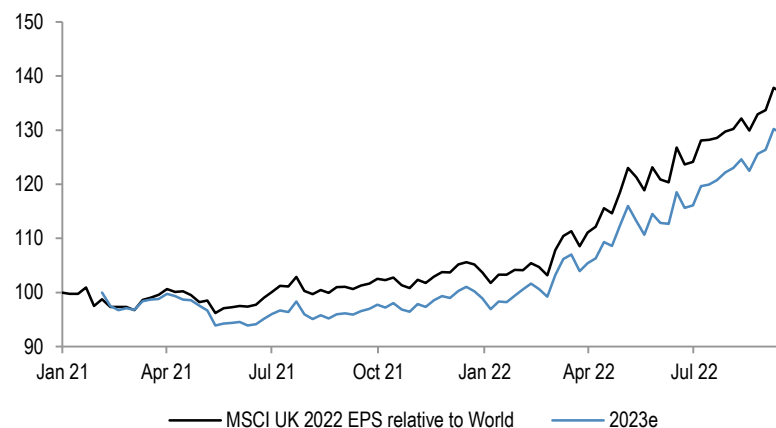


Source: Datastream

Relative earnings prospects are looking encouraging for the UK, as well...

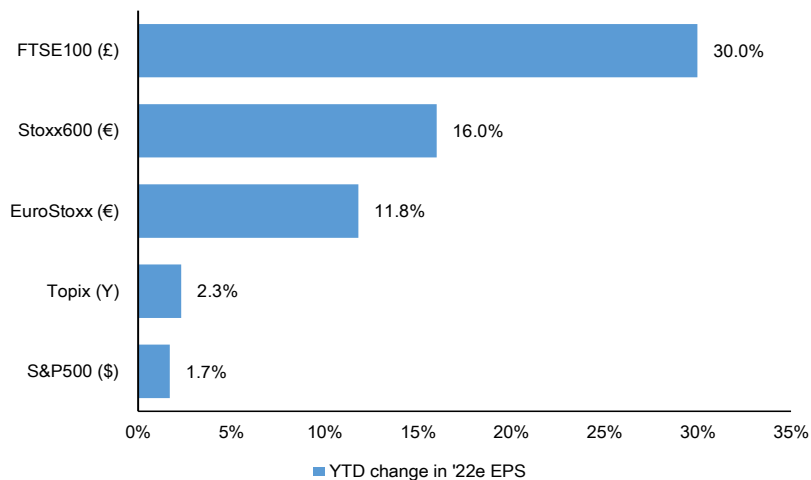
- We also note that earnings for the UK are holding up reasonably well relative to other markets.
- 2022 EPS for FTSE100 has been revised higher by 30% ytd, the most out of the major indices.
- Even excluding Energy, the UK is seeing the most upgrades to earnings this year.

MSCI UK 2022e EPS relative to World



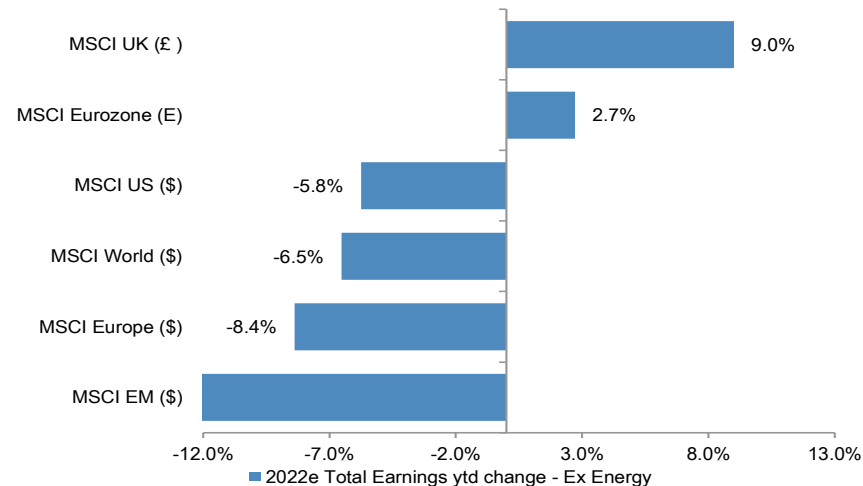
Source: IBES

YTD change in 2022e EPS



Source: IBES

YTD change in 2022e EPS - for ex Energy



Source: Bloomberg Finance L.P.

...also, the UK offers among the highest dividend yield globally...

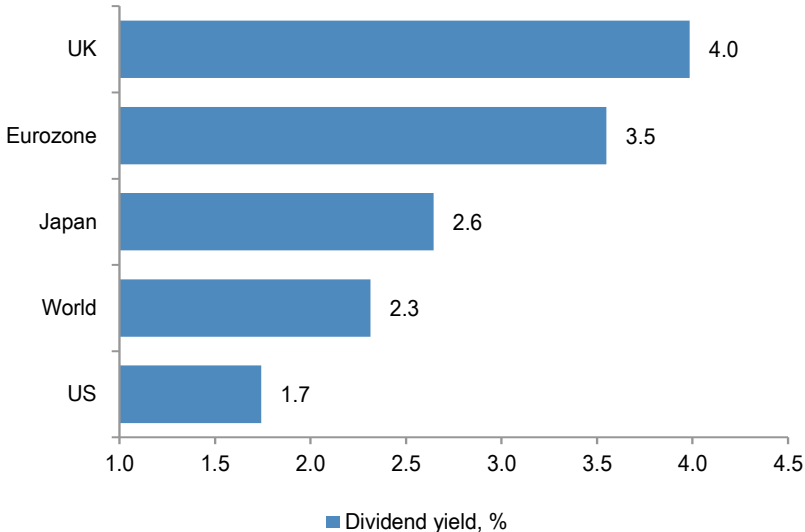
- The UK is traditionally seen as a dividend play, and has a high proportion of income funds vs continental Europe and the US. The UK continues to offer one of the highest dividend yields globally.

Proportion of dividend funds in key regions

	Dividend Funds, proportion of:	
	Total Net Assets	# of Funds
UK	18%	19%
Europe ex UK	6%	7%
US	8%	9%

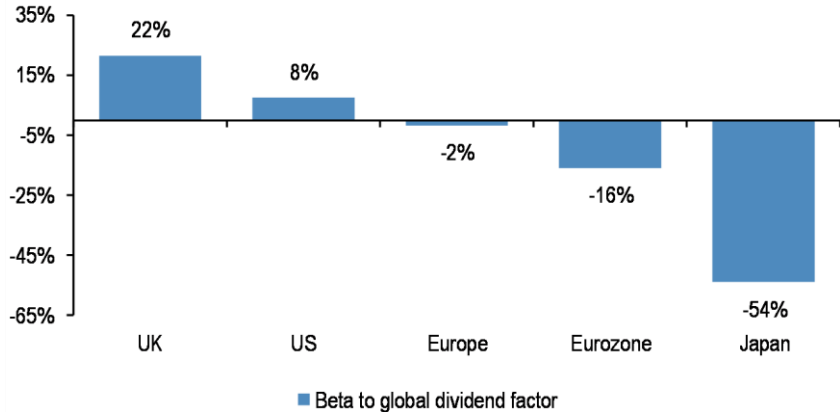
Source: EPFR

Dividend yield for key regional markets



Source: Bloomberg Finance L.P.

Beta to dividend factor

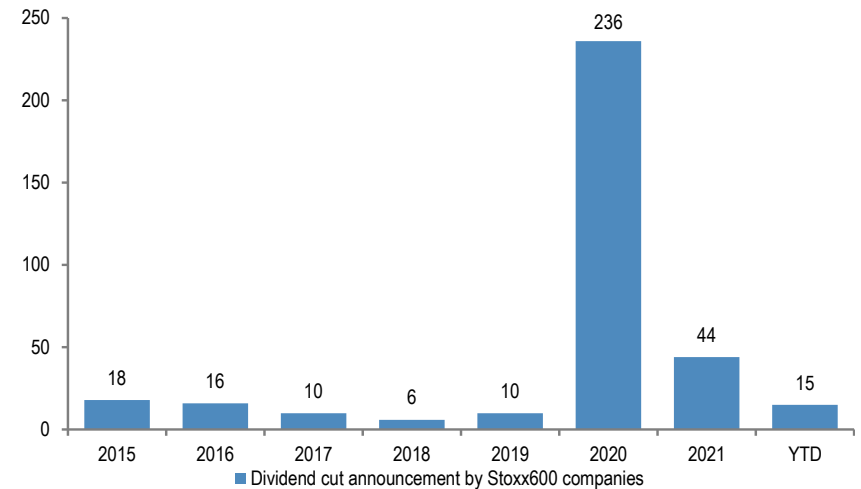


Source: Bloomberg Finance L.P.

...UK suffered disproportionately from dividend cuts in 2020

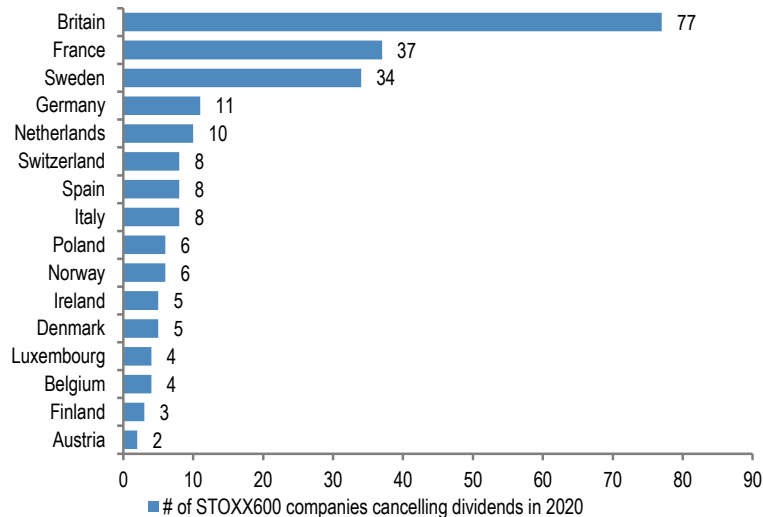
- The UK had suffered disproportionately vs other regions in 2020, enduring significant dividend cancellations. Dividend futures have been stabilising, and importantly the balance sheets of corporates behind them are stronger.

Stoxx600 dividend cut announcements by year



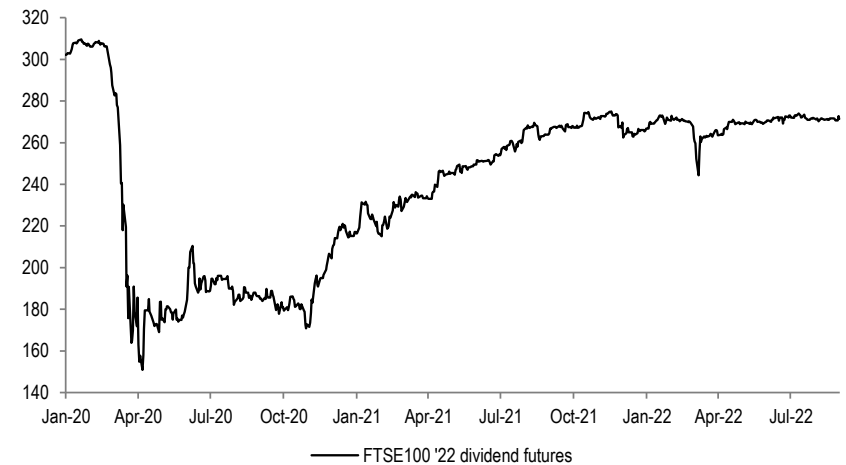
Source: Bloomberg Finance L.P.

Stoxx600 companies cutting dividend in '20, by country



Source: Bloomberg Finance L.P.

FTSE100 dividend futures

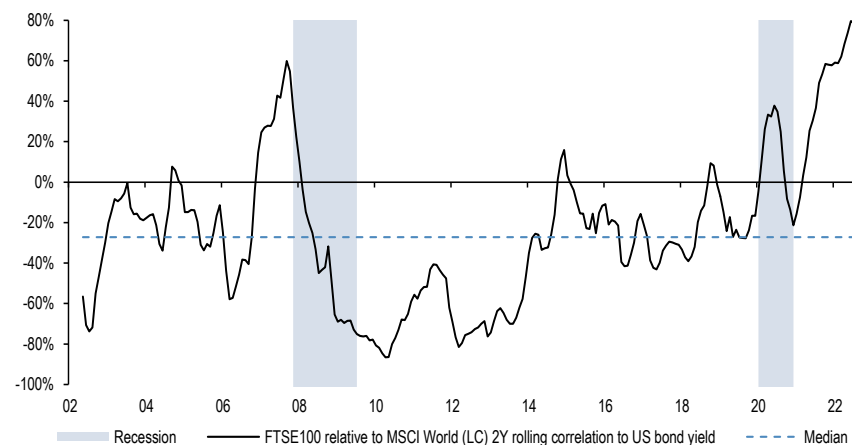


Source: Bloomberg Finance L.P.

Some of the correlations between UK stocks and macro variables are changing... correlation with bond yields has turned clearly positive now...

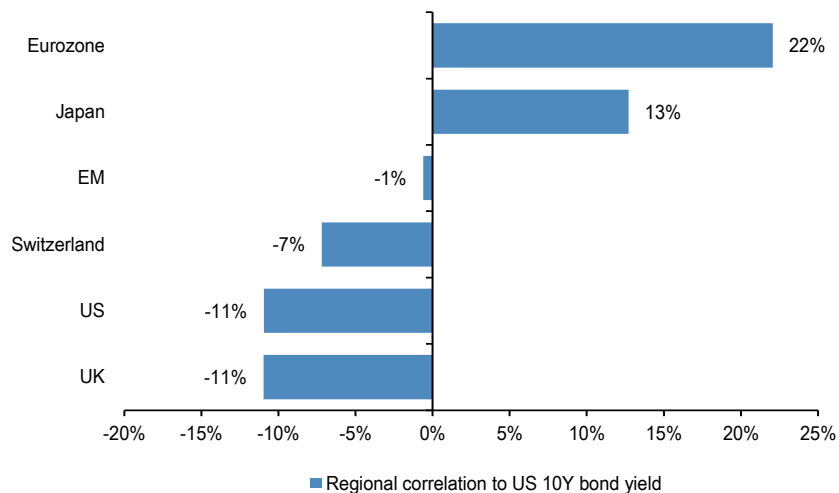
- Historically, UK equities exhibited a clear negative correlation to the bond yields direction.
- We note that this is changing, with UK equities not inversely correlated anymore, if one is considering the last few years only.
- The 2-year rolling correlation between UK relative performance and bond yields has flipped into positive territory. This suggests that any potential increase in bond yields may not be a constraint for the relative performance of UK equities.

FTSE100 relative rolling correlation to US 10Y bond yield



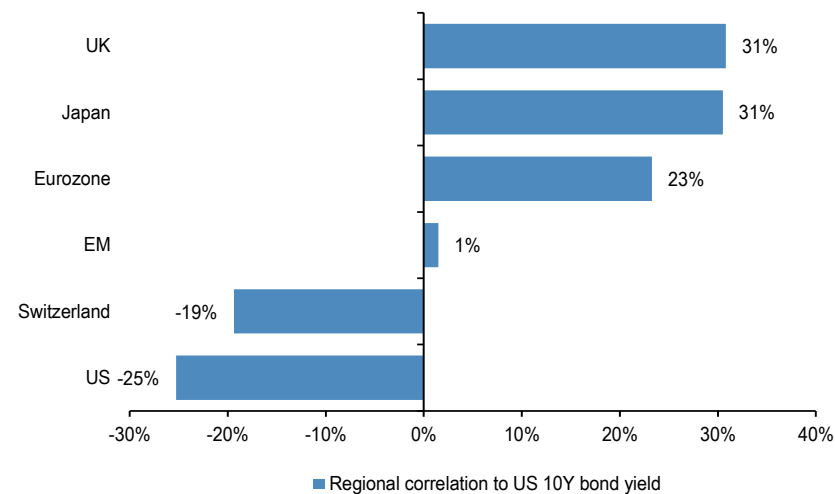
Source: Bloomberg Finance L.P.

Regional correlation to US 10Y bond yield - since 2000



Source: Bloomberg Finance L.P.

Regional correlation to US 10Y bond yield - since 2018

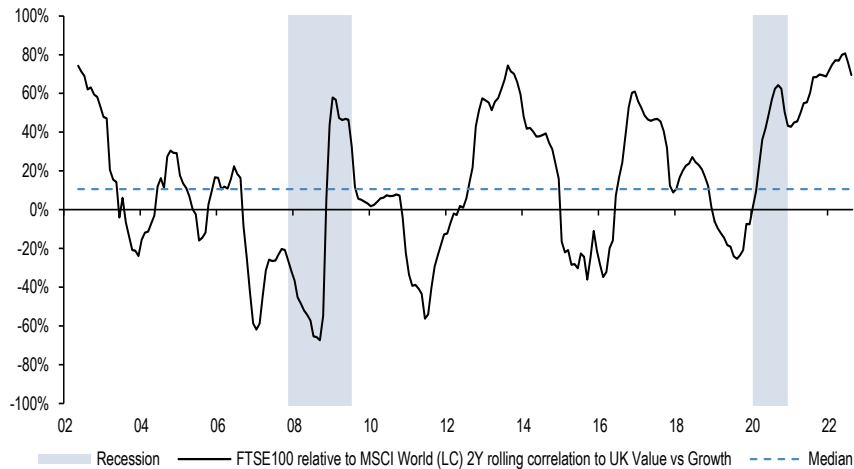


Source: Bloomberg Finance L.P.

...rolling correlations to Value/Growth factors is also changing

- Historically, UK equities tended to struggle during Value rallies.
- We think this inverse correlation might be weakening. Notably, UK performance with UK Value vs Growth factor has shifted into positive territory.

FTSE100 relative rolling correlation to MSCI UK Value vs Growth



Source: Bloomberg Finance L.P.

UK performance during Value rallies

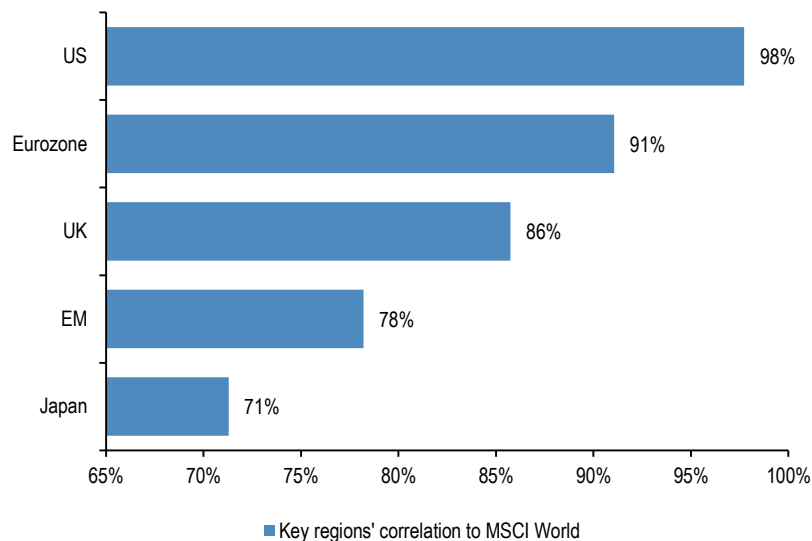
MSCI Europe Value vs Growth			MSCI UK vs Eurozone (1c)
Trough	Peak	% change	
Mar-09	Aug-09	25%	-9%
Apr-13	May-14	10%	-13%
Aug-16	Dec-16	17%	-4%
May-20	Jun-20	10%	-3%
Oct-20	Nov-20	14%	-1%
Average			-6%

Source: Bloomberg Finance L.P.

UK shows a below 1 beta to global equity direction

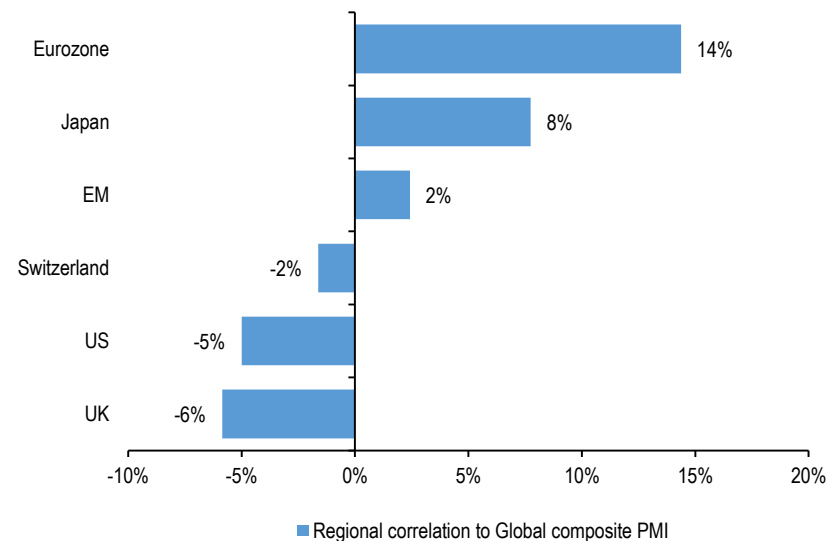
- UK equities still show a beta to global equities direction of less than one. Here, as the markets already doubled since last spring, and especially in the context of the heightened geopolitical uncertainty, the lower than 1 beta might be a positive going forward.
- UK is also less correlated to PMIs. Here too, the bulk of the PMI acceleration phase of the cycle is behind us.

Key regions' beta to MSCI World



Source: Datastream

Regional correlation to global composite PMI

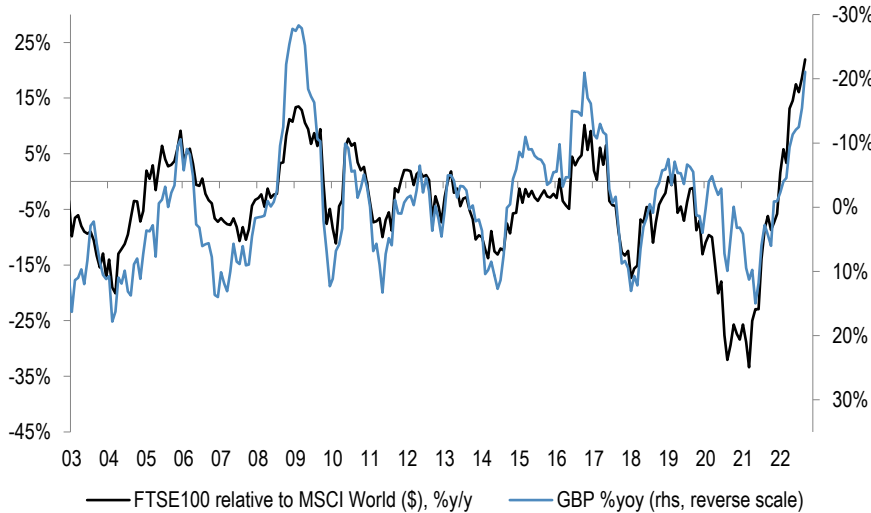


Source: Datastream, S&P Global

Weak GBP is a big tailwind for FTSE100, especially for its earnings

- FTSE100 shows a strong inverse correlation to the GBP, as almost 80% of the index revenues are derived from outside the UK.

FTSE100 relative to World and GBP



Source: Datastream

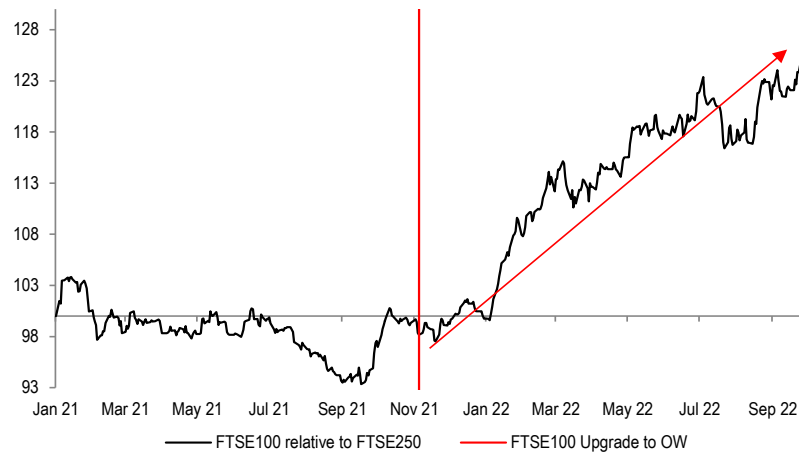
Foreign revenue exposure of FTSE100 and FTSE250

	Ex - UK Exposure	
	FTSE100	FTSE250
Energy	88%	89%
Healthcare	95%	83%
Materials	97%	69%
Telecoms	64%	60%
Real Estate	14%	52%
Industrials	82%	46%
IT	86%	45%
Utilities	48%	45%
Discretionary	56%	45%
Staples	57%	35%
Financials	59%	8%
Market	77%	44%

Source: Bloomberg Finance L.P.

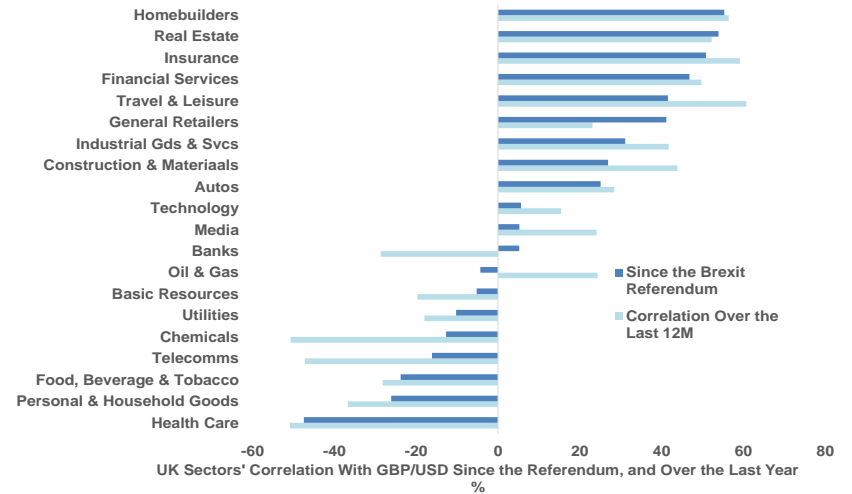
Exporters are likely to keep doing well... we have reversed our long FTSE250 vs FTSE100 call in November, and stay so

FTSE100 vs FTSE250



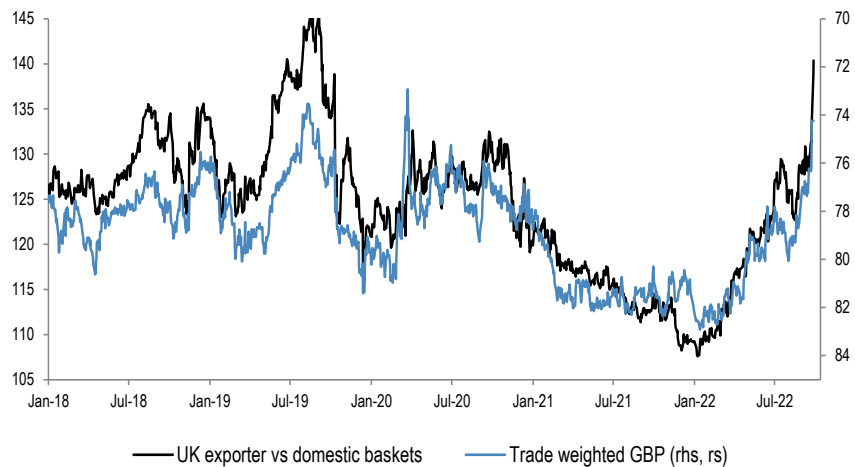
Source: Datastream

UK Sectors correlation to GBP/USD



Source: Datastream

UK Exporters vs Domestic baskets and trade-weighted GBP



Source: J.P. Morgan, Bloomberg Finance L.P.

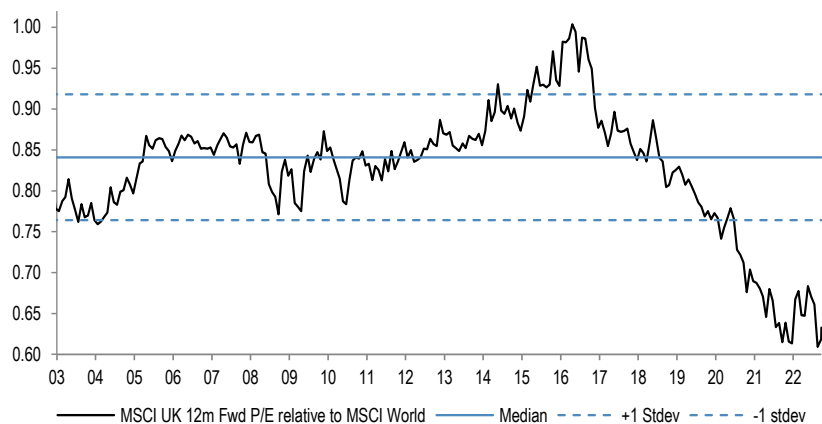
Exporters vs Domestic basket composition

	Domestics weight	Exporters weight	Exporters - Domestic
INDUSTRIALS	0%	14%	14%
HEALTH CARE	10%	23%	12%
IT	0%	9%	9%
STAPLES	14%	18%	4%
ENERGY	0%	0%	0%
MATERIALS	0%	0%	0%
UTILITIES	3%	0%	-3%
COM. SERVICES	14%	9%	-5%
DISCRETIONARY	7%	0%	-7%
REAL ESTATE	28%	18%	-9%
FINANCIALS	24%	9%	-15%

Source: J.P. Morgan

UK snapshot

MSCI UK 12m Fwd PE relative to MSCI World



Source: IBES

MSCI UK performance relative to MSCI World



Source: Datastream

UK Sector snapshot

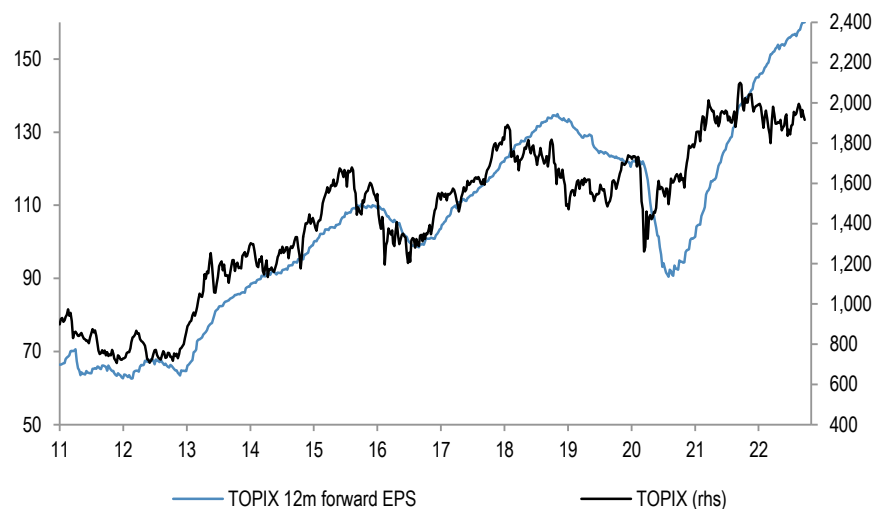
	YTD Perf, %	YTD Total Return, %	Weight in Index		12m Fwd P/E		EPS growth, %	
			UK	vs MSCI World	Current	vs Median since '06	2022e	2023e
UK	-3%	0%	100%	0%	8.9	-25%	21.6%	-0.7%
Energy	35%	39%	14%	9%	4.7	-54%	114.6%	-11.4%
Materials	-4%	3%	9%	5%	6.3	-43%	5.3%	-23.6%
Industrials	-18%	-17%	11%	0%	16.1	28%	16.3%	10.6%
Discretionary	-21%	-19%	5%	-6%	12.1	-7%	19.0%	6.3%
Staples	-2%	1%	21%	13%	13.7	0%	7.5%	8.9%
Healthcare	1%	3%	13%	0%	13.3	7%	8.8%	12.8%
Financials	-4%	0%	17%	4%	7.2	-33%	-9.0%	13.9%
IT	-25%	-24%	1%	-21%	26.5	44%	8.7%	10.2%
Telecoms	-10%	-8%	4%	-3%	10.6	-7%	6.7%	7.2%
Utilities	-4%	-1%	4%	1%	15.8	29%	2.1%	17.9%
Real Estate	-41%	-39%	1%	-2%	16.0	-21%	5.9%	7.5%
Cyclicals	-14%	-10%	26%	-22%	9.9	-19%	9.4%	-12.1%
Defensives	-2%	0%	42%	10%	13.3	5%	7.3%	10.7%

Source: IBES, Datastream

4) Neutral Japan –but positives could be emerging...

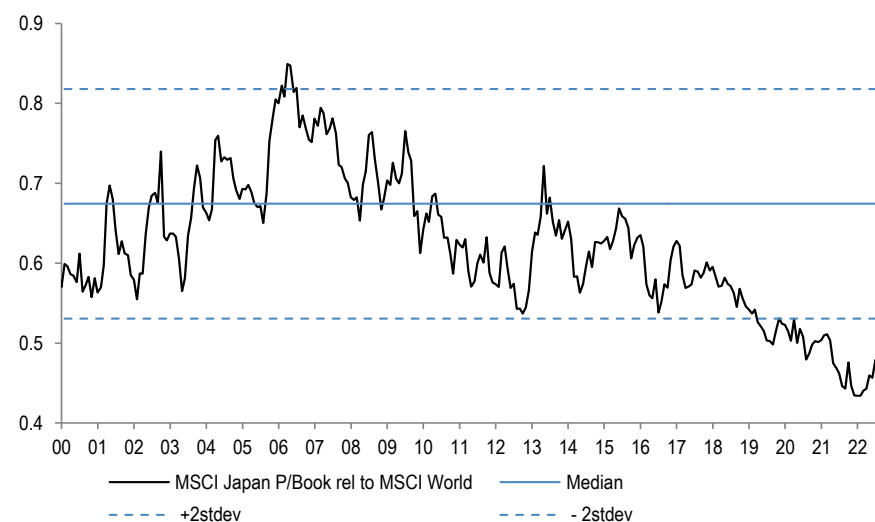
- Japan is a traditional play on the global cycle and Japanese equities continue to trade at record cheap valuations.
- We do not expect much of a move up in JGB yields in the short term, as YCC is in place, which is a constraint.

TOPIX and 12 month forward EPS



Source: IBES, Datastream, J.P. Morgan

MSCI Japan Price to Book relative

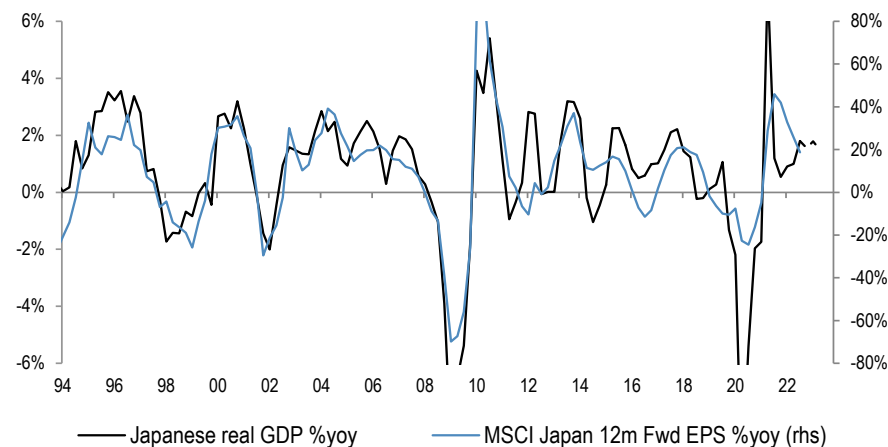


Source: IBES

...Japanese EPS revisions are positively correlated to the global activity momentum...

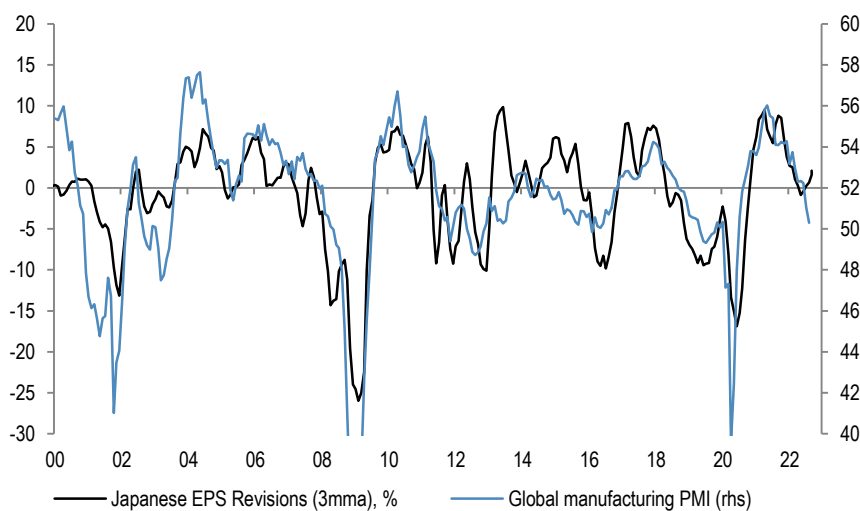
- Japanese EPS revisions are positively correlated to the Global manufacturing PMI, which is a risk.

Japanese 12m Fwd. EPS and GDP



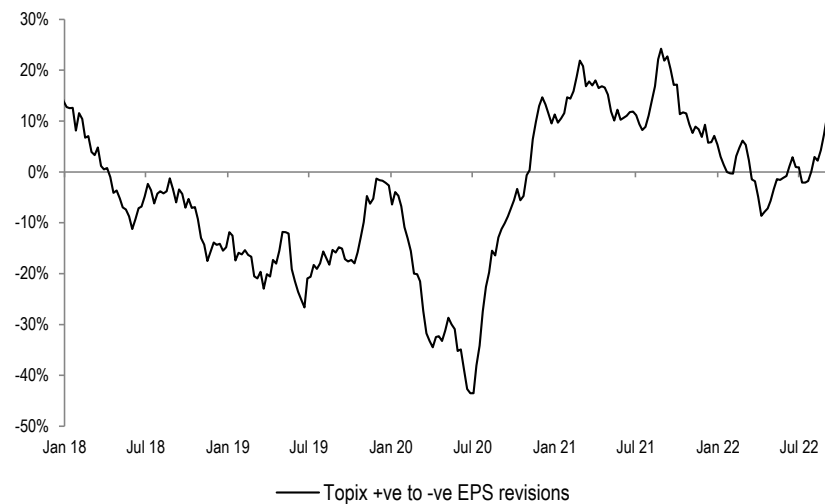
Source: J.P.Morgan, IBES

Japan EPS revisions and Global manufacturing PMI



Source: Datastream, J.P. Morgan

Topix +ve to -ve EPS revisions

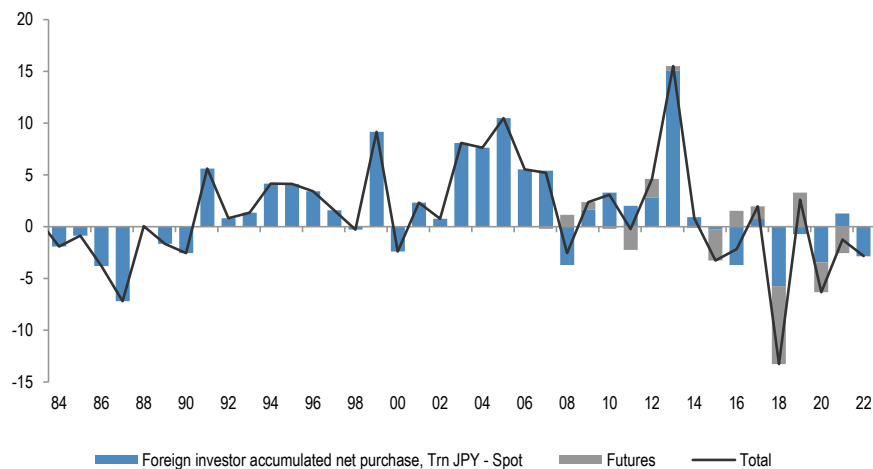


Source: DataStream

...Investor positioning is subdued...

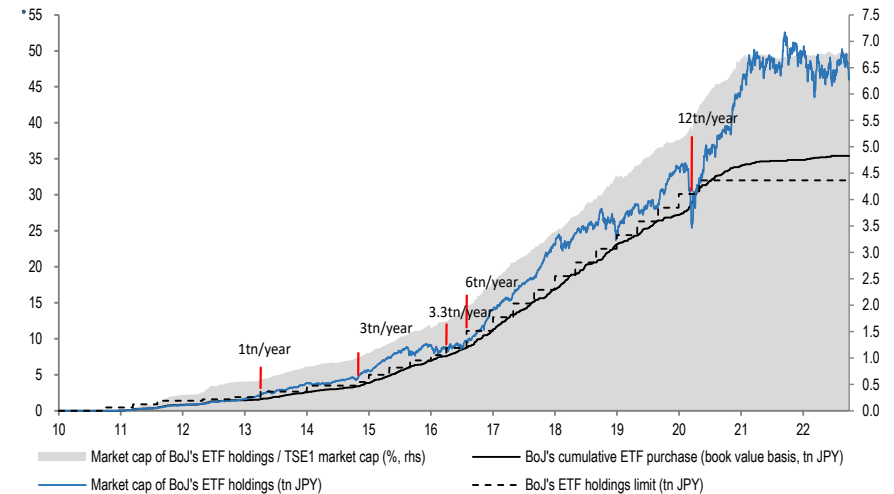
- Foreign investors sold over ¥6 trillion of Japanese equities in 2020. While this is less than the ¥13 trillion outflows from the region in 2018, we note that positioning in Japanese equities is net short in the average investor portfolio. A more positive earnings outlook could help reverse this trend.
- While BoJ is reducing its footprint when it comes to purchasing ETFs, we believe that they would support markets if they are trading weak.
- Positioning by domestic investors is also light, excluding the BoJ purchases. Cumulative flows into Japanese equities are at 10-year lows.

Foreign investors accumulated net purchases



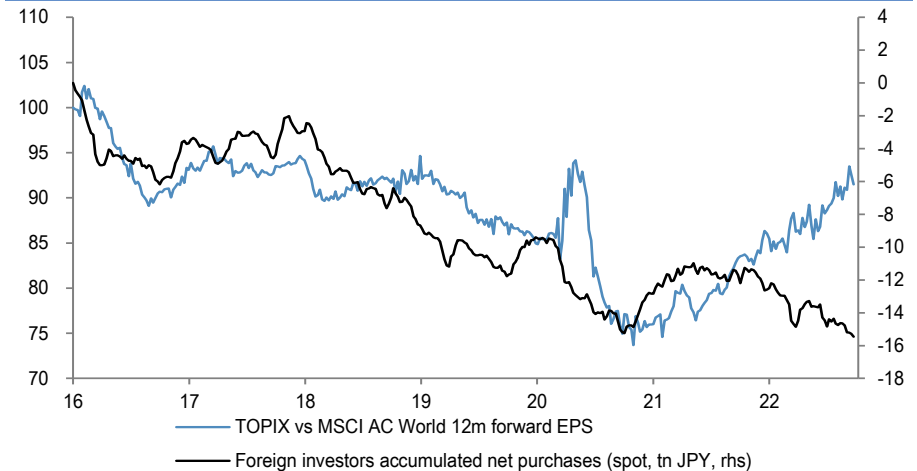
Source: Japan Exchange Group (JPX)

BoJ ETF ownership



Source: BoJ, J.P. Morgan

Foreign investors accumulated net spot purchases and TOPIX EPS relative

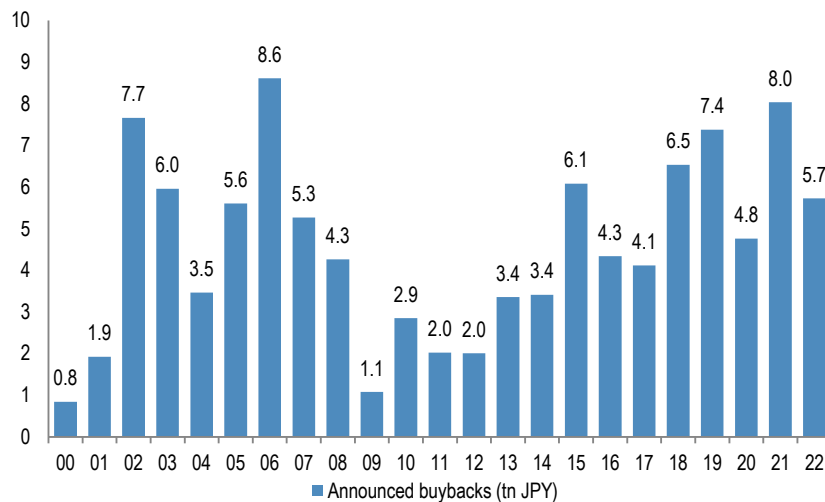


Source: Japan Exchange Group (JPX), IBES

...corporate balance sheets are net cash

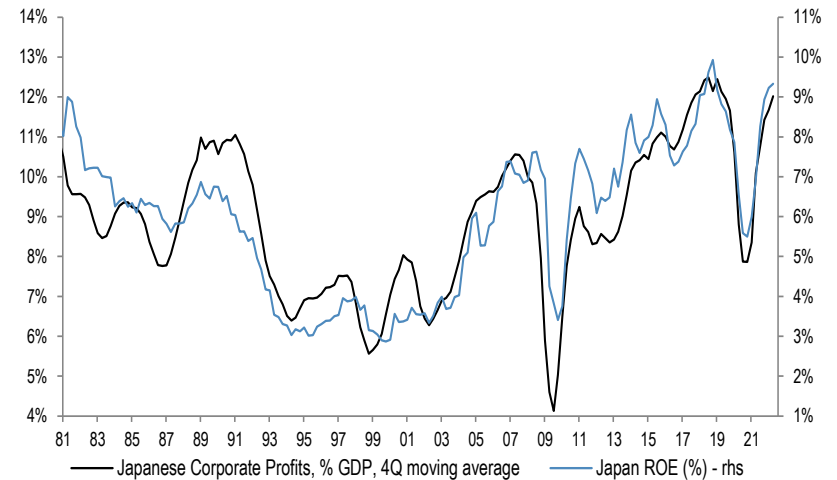
- Japanese corporate balance sheets are extremely robust, with almost 50% of corporates in the Topix1000 having more cash than debt.
- Corporates had significantly improved their profitability over the last few years, through capital discipline, efficiency gains and more shareholder-friendly policies. While in 2020, we saw some deterioration in the trend, we believe that the cash-rich balance sheets help Japanese corporates.

Announced buybacks - TOPIX universe



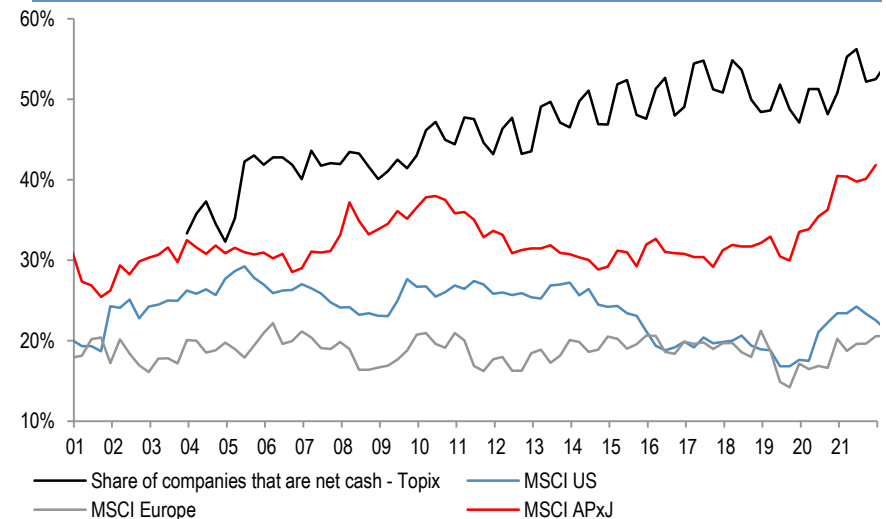
Source: QUICK

Japanese profit margins and RoE



Source: ESRI, Bloomberg Finance L.P.

Net cash firm weightings



Source: Bloomberg Finance L.P.

Yen is expected to weaken further from here, which is typically a big positive for earnings

- While Japan is likely to move higher in absolute terms, we are less optimistic that it can outperform in relative terms. One risk is that the US-Japan interest rate differential and current account balances could lead to more weakness in yen over a medium-term horizon.
- Japanese equities display a clear inverse correlation to the Yen, and tend to do better when the Yen is falling. However, returns in dollar terms are likely to disappoint.

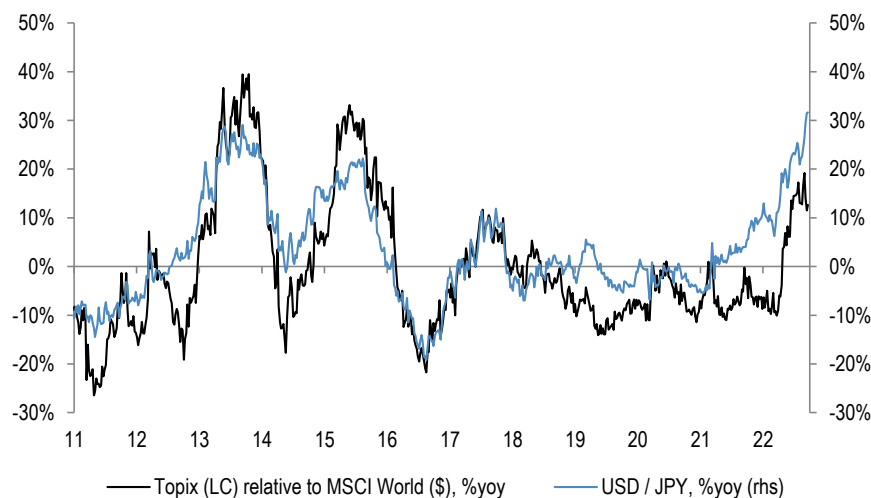
MSCI Japan relative performance (\$) and Yen

MSCI Japan (\$) relative to MSCI World monthly performance

	When JPY is stronger	When JPY is weaker
Median	1.2%	-1.2%
Average	1.5%	-1.3%
# months	306	300

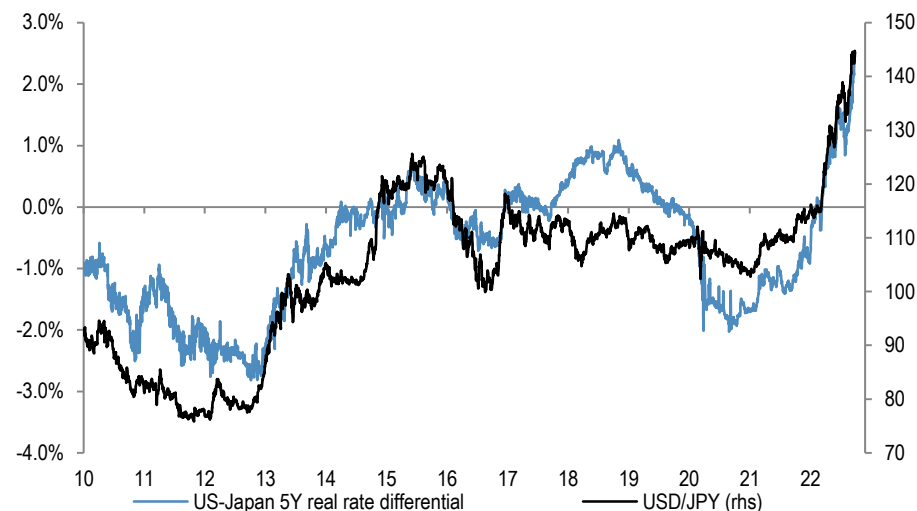
Source: Bloomberg Finance L.P.

Topix relative and Yen



Source: Bloomberg Finance L.P.

US-Japan 5Y interest rate differential and USDJPY



Source: Bloomberg Finance L.P.

Japan typically benefits from higher yields, but Japanese bond yields are likely to stay capped, for now

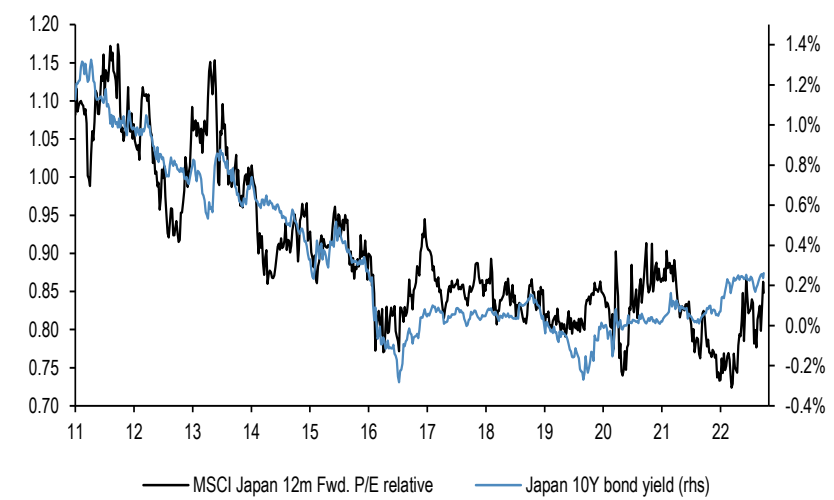
- Japan performs well when bond yields are moving higher.
- Here, our fixed income team expects no significant move up in JGB yields over the next 6-9 months.
- However, we note that a gap has opened up between the level of bond yields and Japanese equities.

JPM forecasts for Japan 10Y bond yield (%)

Current	Forecast for the end of			
	Dec 22	Mar 23	Jun 23	Sep 23
0.23	0.25	0.25	0.25	0.25

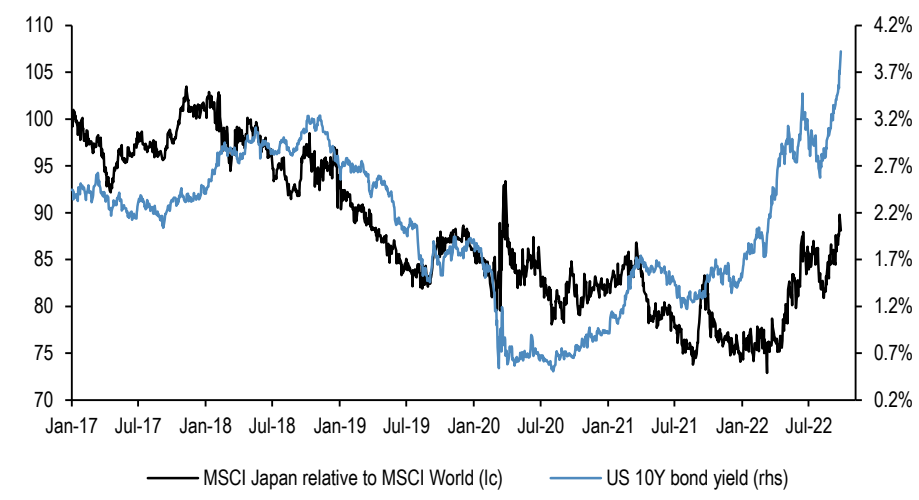
Source: Bloomberg Finance L.P., J.P. Morgan

MSCI Japan 12m forward P/E and bond yields



Source: Bloomberg Finance L.P., J.P. Morgan

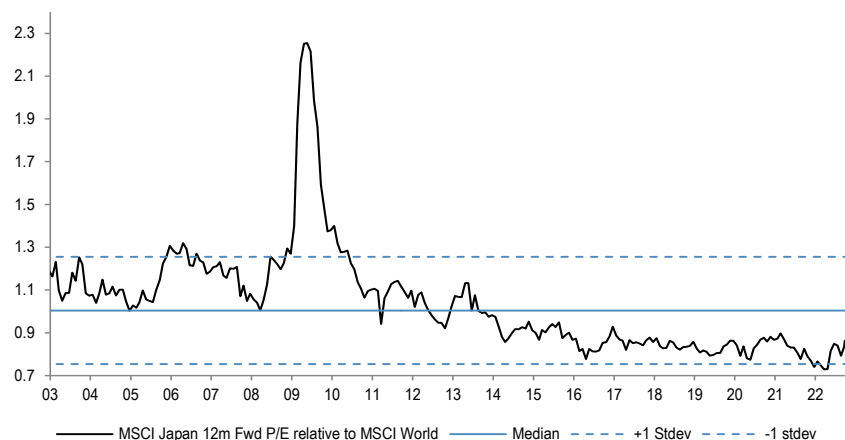
Japan relative and US 10Y bond yield



Source: Bloomberg Finance L.P.

Japan snapshot

MSCI Japan 12m Fwd PE relative to MSCI World



Source: IBES

MSCI Japan performance relative to MSCI World



Source: Datastream

Japan Sector snapshot

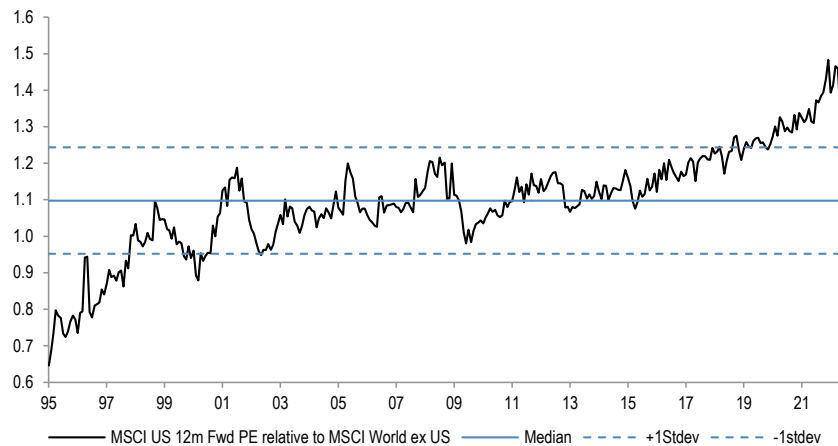
	YTD Perf, %	YTD Total Return, %	Weight in Index		12m Fwd P/E		EPS growth*, %	
			Japan	vs MSCI World	Current	vs Median since '06	2022e	2023e
Japan	-5.0%	-3.6%	100%	0%	12.2	-13%	1%	7%
Energy	29.2%	32.5%	1%	-4%	5.6	-42%	-14%	2%
Materials	-9.9%	-8.2%	5%	0%	8.9	-32%	-5%	9%
Industrials	-6.4%	-5.0%	23%	13%	10.6	-20%	-12%	4%
Discretionary	-8.4%	-7.4%	19%	8%	11.5	-11%	14%	8%
Staples	1.2%	2.6%	7%	-1%	20.5	-2%	9%	10%
Healthcare	-1.9%	-0.9%	10%	-3%	22.9	1%	10%	10%
Financials	10.3%	13.0%	10%	-3%	8.7	-24%	9%	8%
IT	-21.1%	-20.4%	13%	-8%	15.7	-8%	6%	9%
Telecoms	7.3%	8.9%	8%	1%	13.4	3%	-12%	12%
Utilities	24.5%	26.3%	1%	-2%	10.4	-20%	84%	6%
Real Estate	5.2%	7.4%	3%	1%	14.7	-9%	6%	6%
Cyclicals	-11.0%	-9.9%	60%	12%	11.7	-15%	-1%	6%
Defensives	2.6%	3.9%	26%	-5%	17.8	3%	10%	10%

Source: IBES, Datastream, *for the year ending March 2023 and 2024

5) Neutral US – safe haven, but relative EPS outperformance was dramatic and P/Es are at highs...

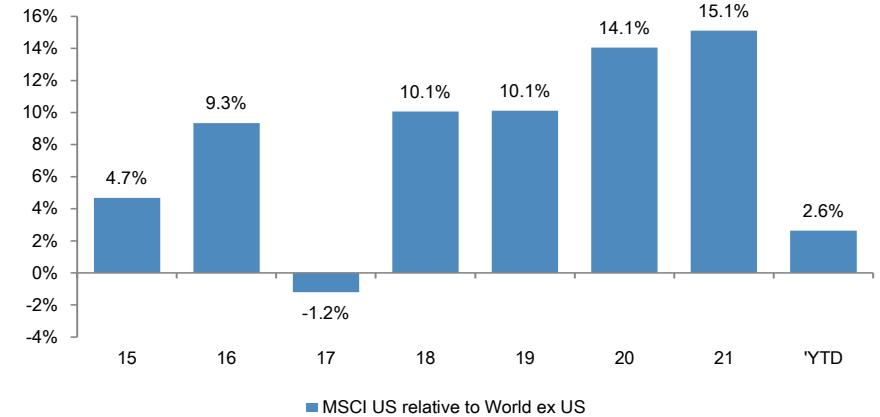
- US equities have been a big winner over the last few years.
- Relative valuations are a clear challenge, where the region is trading extremely expensive versus peers, on most measures.
- Strong US earnings delivery supported its outperformance, and we still expect robust US EPS growth this year. However, the growth differential between the US and RoW may start narrowing.

MSCI US 12m Fwd. P/E relative



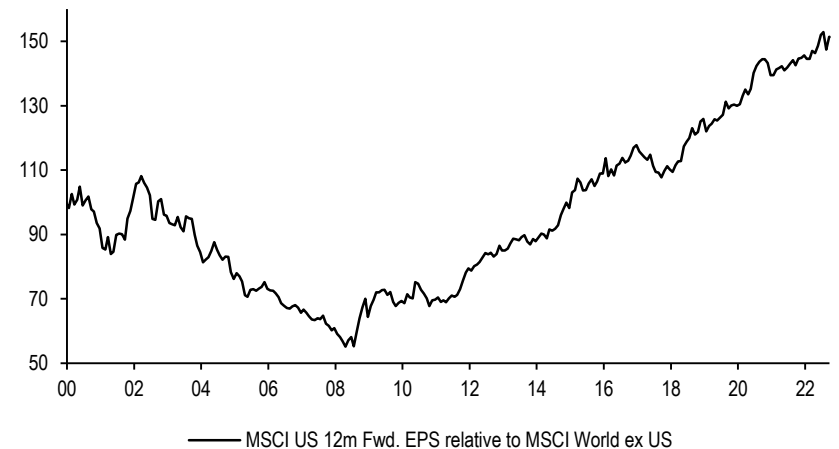
Source: IBES

MSCI US relative to MSCI World ex US (\$)



Source: Datastream

MSCI US 12m Fwd. EPS relative

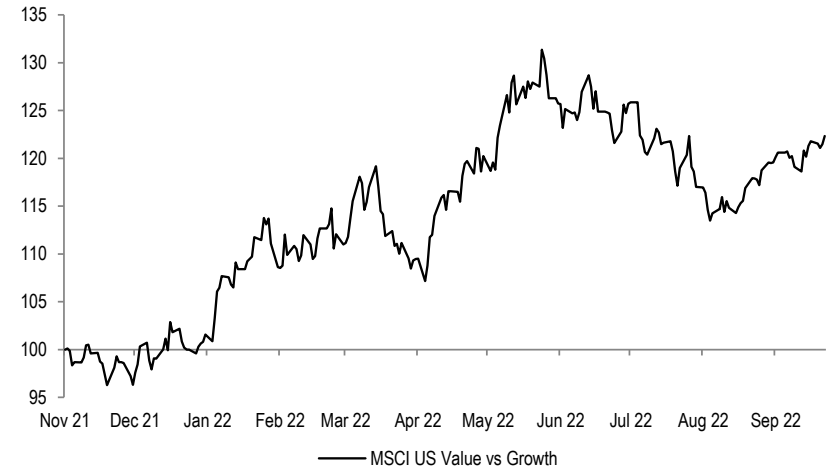


Source: IBES

...US equities exhibit a significant Growth tilt

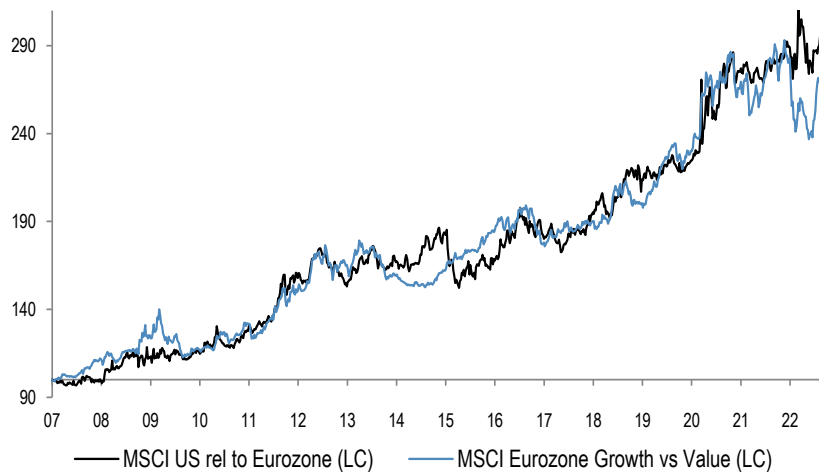
- US leadership over other regions has been consistent with Growth outperforming Value, and Tech outperforming Banks.

US Value vs Growth



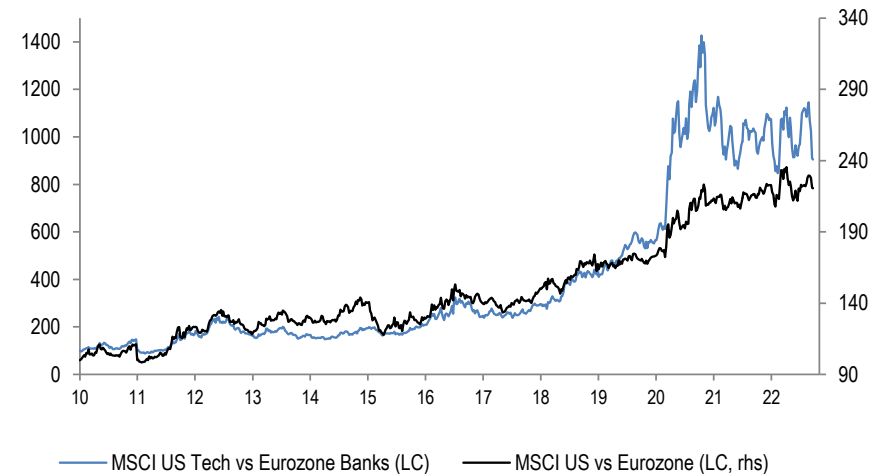
Source: J.P. Morgan

Growth vs Value and US vs Eurozone



Source: Bloomberg Finance L.P.

US vs Eurozone and Tech vs Banks



Source: Bloomberg Finance L.P.

J.P.Morgan

Government and corporate leverage is elevated

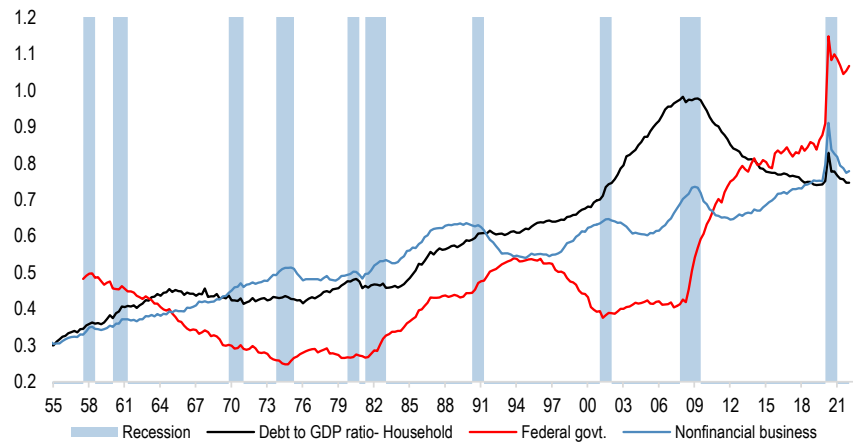
- US corporate and government leverage is elevated.

Median net debt to equity of US, Europe and Japan



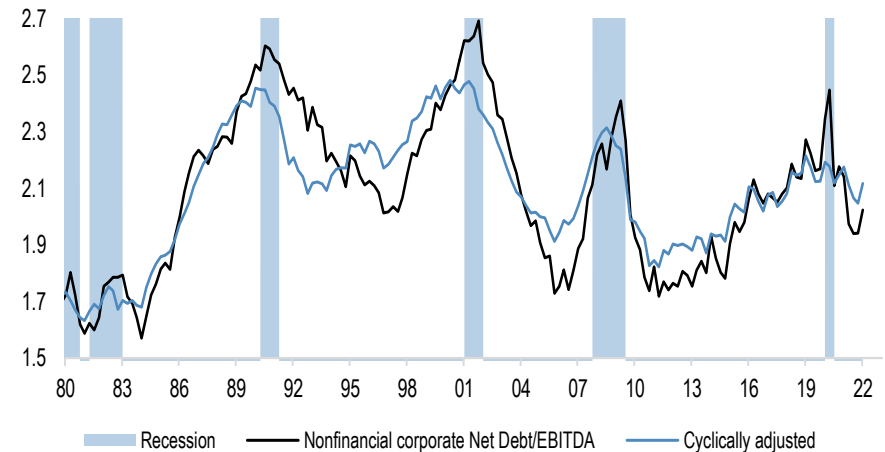
Source: Worldscope

US debt, share of GDP



Source: J.P. Morgan

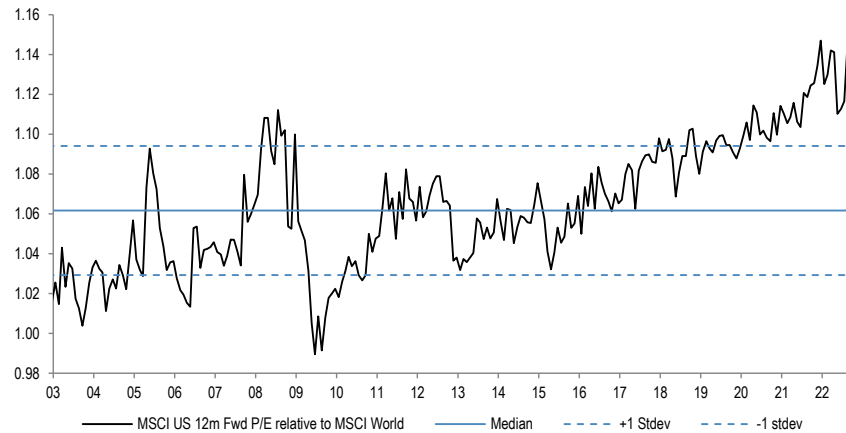
US nonfinancial corporate leverage



Source: J.P. Morgan

US snapshot

MSCI US 12m Fwd PE relative to MSCI World



Source: IBES

MSCI US performance relative to MSCI World



Source: Datastream

US Sector snapshot

	YTD Perf, %	YTD Total Return, %	Weight in Index		12m Fwd P/E		EPS growth, %	
			US	vs MSCI World	Current	vs Median since '06	2022e	2023e
US	-24%	-23%	100%	0%	16.0	3%	8%	8%
Energy	28%	32%	5%	-1%	7.6	-42%	162%	-10%
Materials	-25%	-23%	3%	-2%	11.7	-23%	16%	-10%
Industrials	-20%	-19%	8%	-2%	16.2	1%	13%	19%
Discretionary	-30%	-29%	12%	0%	24.1	30%	7%	35%
Staples	-10%	-8%	7%	-1%	19.2	10%	3%	5%
Healthcare	-14%	-13%	14%	1%	15.8	0%	2%	3%
Financials	-22%	-20%	11%	-3%	10.8	-14%	-13%	13%
IT	-30%	-30%	28%	6%	19.8	20%	10%	8%
Telecoms	-38%	-38%	8%	1%	14.2	-8%	-14%	15%
Utilities	0%	2%	3%	0%	19.0	20%	8%	7%
Real Estate	-27%	-26%	3%	0%	32.2	-20%	-4%	-1%
Cyclicals	-28%	-28%	22%	-3%	19.3	15%	10%	13%
Defensives	-20%	-19%	32%	1%	15.9	-2%	-2%	7%

Source: IBES, Datastream

6) UW Rest of the World

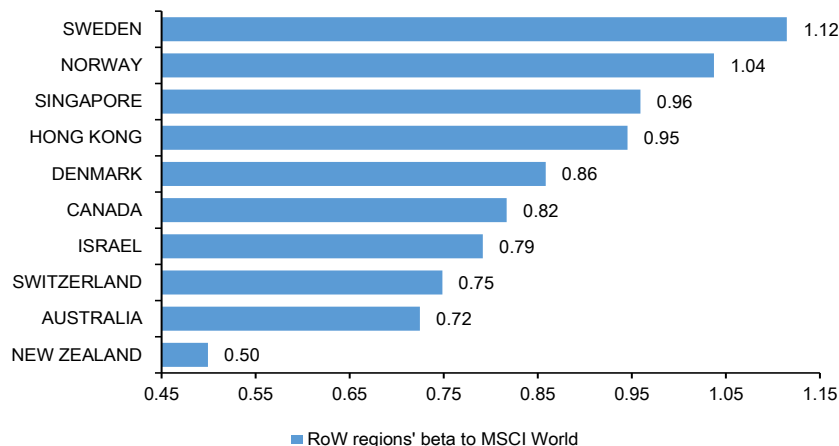
- We hold a generally cautious stance on some of the bigger components of RoW group.
- Switzerland has a clear Defensive tilt and is expensively priced. Australian and Canadian equities could struggle as well.
- HK equities continue to face regulatory pressures.

ROW sector composition and weights in MSCI World

	Weight in MSCI		
	World	Cyclicals	Defensives
Canada	3.5%	31.8	9.0
Switzerland	2.9%	20.6	62.5
Australia	2.2%	34.6	18.0
Sweden	0.9%	58.1	8.2
Hong Kong	0.8%	19.4	12.0
Denmark	0.7%	26.7	68.6
Singapore	0.4%	13.2	2.7
Norway	0.2%	16.3	15.8
Israel	0.2%	50.3	8.7
New Zealand	0.1%	22.9	52.6
ROW	12.1%	29.4	25.8

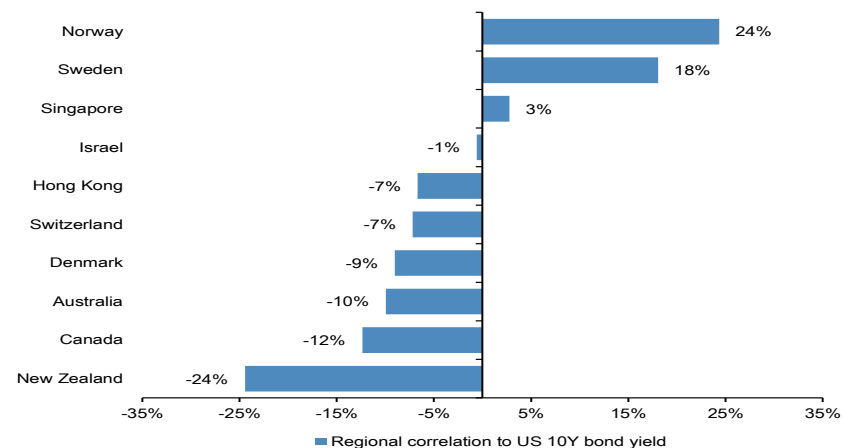
Source: Datastream

RoW beta to MSCI World



Source: Datastream

RoW correlation to US 10Y bond yield



Source: Datastream

Regional and Asset Allocation, with Index targets

Global All country Regional Allocation				
	MSCI Weight	Allocation	Deviation	Recommendation
EM	11.3%	14.0%	2.7%	Overweight
DM	88.7%	86.0%	-2.7%	Underweight
	100.0%	100.0%	0.0%	Balanced

Global Developed Regional Allocation				
	MSCI Weight	Allocation	Deviation	Recommendation
US	69.3%	69.0%	-0.3%	Neutral
Japan	6.4%	7.0%	0.6%	Neutral
Eurozone	9.1%	11.0%	1.9%	Overweight
UK	3.9%	6.0%	2.1%	Overweight
Others*	11.3%	7.0%	-4.3%	Underweight
	100.0%	100.0%	0.0%	Balanced

European Regional Allocation				
	MSCI Weight	Allocation	Deviation	Recommendation
Eurozone	51.1%	55.0%	3.9%	Overweight
United Kingdom	22.1%	26.0%	3.9%	Overweight
Others**	26.8%	19.0%	-7.8%	Underweight
	100.0%	100.0%	0.0%	Balanced

Asset Allocation				
	Benchmark weighting	Allocation	Deviation	Recommendation
Equities	60%	65%	5%	Overweight
Bonds	30%	25%	-5%	Underweight
Cash	10%	10%	0%	Neutral
	100%	100%	0%	Balanced

Source: MSCI, J.P. Morgan, Datastream. All regional recommendations are currency hedged.

**Others include Denmark, Norway, Sweden and Switzerland

*Others include Australia, Canada, Singapore, Hong Kong SAR, Denmark, Norway, Sweden and Switzerland

Note: Our Overweight/Underweight recommendations reflect our belief that the relevant region will out- / underperform the index over the next 6 to 12 months.

***Targets and growth estimates from our regional strategists

Year end Index Targets		
	Dec '22 Target	% upside*
MSCI Eurozone	230	12%
FTSE 100	7300	6%

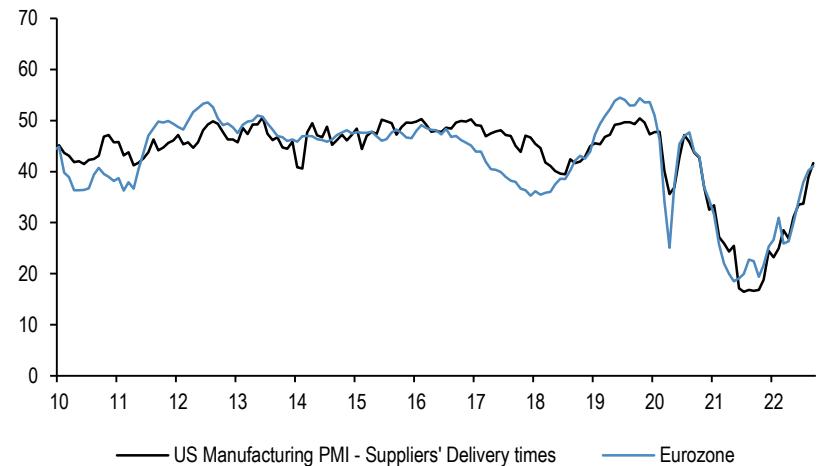
Source: J.P. Morgan, Datastream. *As of COB 29th Sept. 2022

Key Global Sector Calls	
Sector	JPM Recommendation
Banks	Overweight
Mining	Overweight
Energy	Overweight
Telecoms	Overweight
Technology	Neutral
Industrials	Neutral
Discretionary	Neutral
Utilities	Neutral
Staples	Underweight
Healthcare	Underweight
Real Estate	Underweight

Themes and Baskets: 1) Winners from easing supply chain distortions...

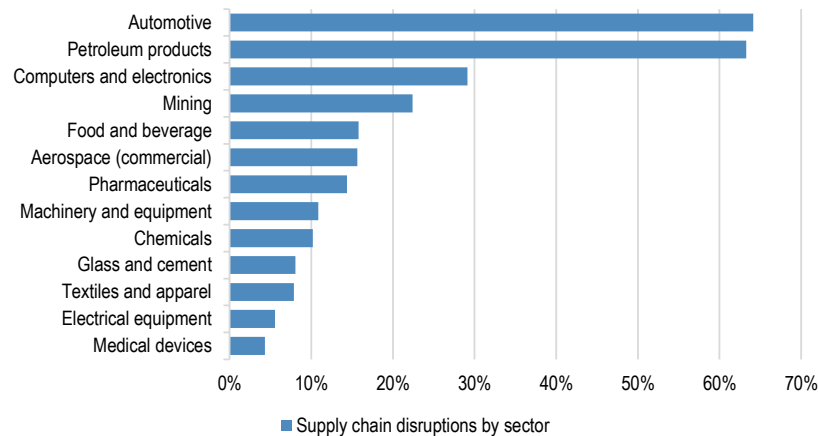
- Supply chain disruptions have been a significant drag on the global output in 2021. The impact is fairly broad-based. Manufacturing, Construction and Retail sectors have been most hit.
- We believe that supply for certain systemically important raw materials / components is likely to improve.

US and Eurozone Manufacturing PMI - delivery time



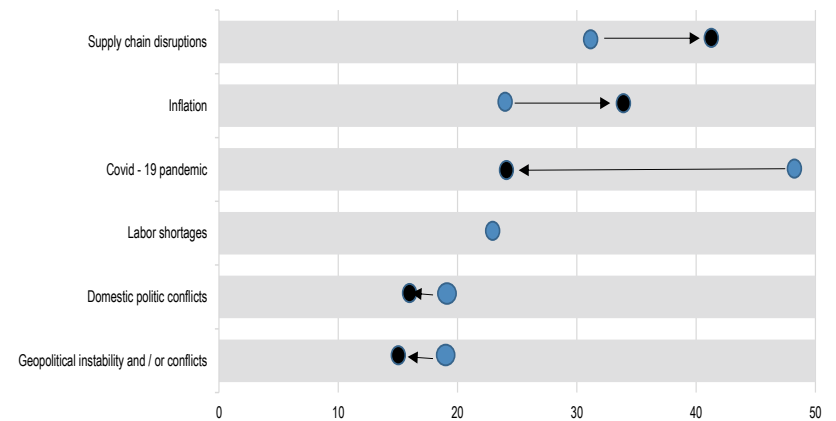
Source: S&P Global

Supply Chain Disruptions by Sector



Source: Statista

Potential risks to economic growth in respondents' countries, next 12m, % of respondents

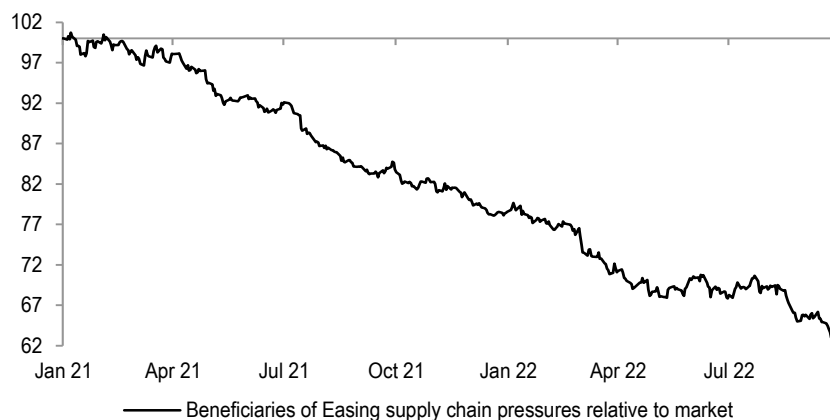


Source: McKinsey survey

...the basket should start to perform better

- A number of companies have been highlighting some improvement in the supply / demand backdrop.
- We have put together a list of 26 names that our sector analysts identified as having been negatively impacted by supply chain constraints, and are likely to benefit if these pressures ease.
- The basket has unsurprisingly underperformed the broader European benchmark in 2021, by 21%, and is down another 19% this year as well. We think these names could find a floor.

Beneficiaries of easing supply chain pressures, price relative to the market



Source: J.P. Morgan, Datastream

Beneficiaries of easing supply chain pressures - JPDEUSC

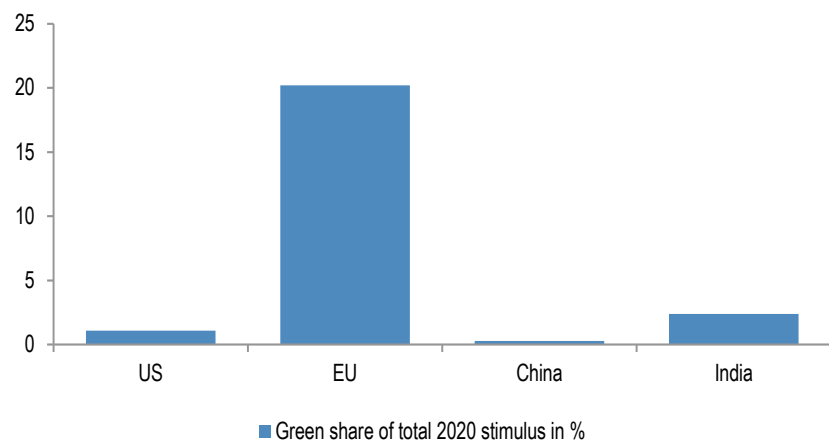
Name	Ticker	GICS Sector	YTD Perf
ASOS PLC	ASC LN	Discretionary	-73.9%
GN Store Nord AS	GN DC	Health care	-63.2%
JD Sports Fashion PLC	JD/ LN	Discretionary	-52.9%
Elekta AB	EKTAB SS	Health care	-52.0%
Koninklijke Philips NV	PHIA NA	Health care	-52.2%
Puma SE	PUM GR	Discretionary	-52.1%
B&M European Value Retail SA	BME LN	Discretionary	-51.2%
adidas AG	ADS GR	Discretionary	-50.0%
Electrolux AB	ELUXB SS	Discretionary	-46.2%
Alstom SA	ALO FP	Industrials	-43.9%
H & M Hennes & Mauritz AB	HMB SS	Discretionary	-40.3%
Valeo	FR FP	Discretionary	-37.7%
Siemens Healthineers AG	SHL GR	Health care	-37.6%
Signify NV	LIGHT NA	Industrials	-32.8%
J Sainsbury PLC	SBRY LN	Staples	-31.4%
Hexagon AB	HEXAB SS	IT	-28.9%
Volkswagen AG	VOW GR	Discretionary	-26.7%
Tesco PLC	TSCO LN	Staples	-25.5%
Vestas Wind Systems A/S	VWS DC	Industrials	-25.5%
Remy Cointreau SA	RCO FP	Staples	-19.5%
Bayerische Motoren Werke AG	BMW GR	Discretionary	-19.3%
HUGO BOSS AG	BOSS GR	Discretionary	-9.3%
Renault SA	RNO FP	Discretionary	-5.8%
Informa PLC	INF LN	Com. Services	1.5%
Unilever PLC	ULVR LN	Staples	3.4%
ConvaTec Group PLC	CTEC LN	Health care	4.3%

Source: Bloomberg Finance L.P., J.P. Morgan, all stocks are liquidity weighted in the basket

2) Retooling/decarbonization of European industry/Infrastructure...

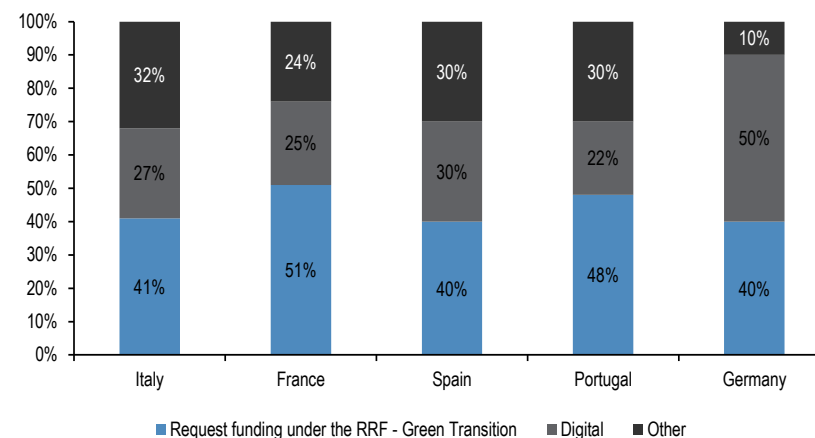
- European countries have been relatively more active in the “greening” of their infrastructure, compared to other regions. The focus is on decarbonization of industry, as well as of the infrastructure/buildings.
- This trend is only likely to accelerate in coming quarters, with 30% of the EU recovery fund earmarked to fight climate change.

Share of funds demarcated for environmental projects, as a proportion of total stimulus



Source: IMP and the Rhodium Group

Potential risks to economic growth in respondents' countries, next 12m, % of respondents



Source: [Oxera](#) *The Recovery and Resilience Facility

...European governments are likely to keep facilitating this theme

- In conjunction with our sector analysts, we have put together a list of companies that should stand to benefit from this retooling process in Europe.

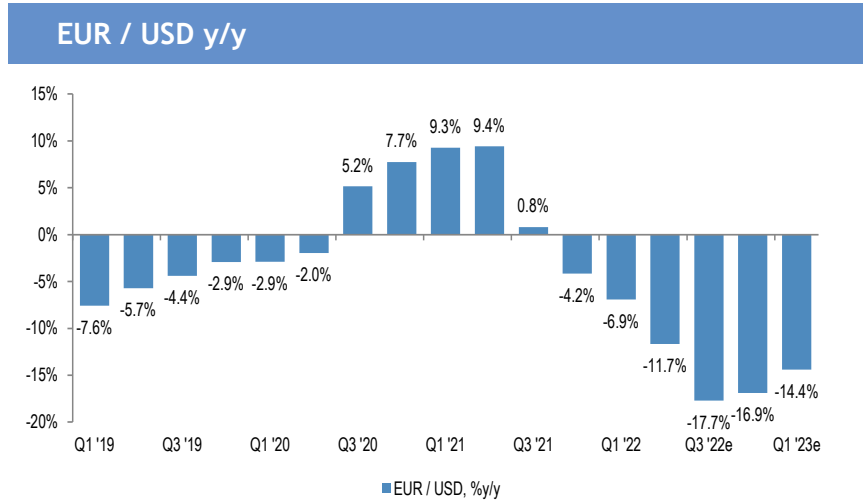
JPM Beneficiaries of retooling / decarbonization of European industry - JPDEURL

Name	Ticker	Sector
Cie de Saint-Gobain	SGO FP	Industrials
Rexel SA	RXL FP	Industrials
ABB Ltd	ABBN SW	Industrials
Siemens AG	SIE GR	Industrials
Wartsila OYJ Abp	WRT1V FH	Industrials
Vestas Wind Systems A/S	VWS DC	Industrials
Airbus SE	AIR FP	Industrials
ROCKWOOL A/S	ROCKB DC	Industrials
Signify NV	LIGHT NA	Industrials
Alstom SA	ALO FP	Industrials
Prysmian SpA	PRY IM	Industrials
Infineon Technologies AG	IFX GR	IT
STMicroelectronics NV	STM FP	IT
Air Liquide SA	AI FP	Materials
Antofagasta PLC	ANTO LN	Materials
Norsk Hydro ASA	NHY NO	Materials
Sika AG	SIKA SW	Materials
Iberdrola SA	IBE SM	Utilities
Endesa SA	ELE SM	Utilities
Enel SpA	ENEL IM	Utilities
Terna - Rete Elettrica Naziona	TRN IM	Utilities
SSE PLC	SSE LN	Utilities
E.ON SE	EOAN GR	Utilities
Electricite de France SA	EDF FP	Utilities
Engie SA	ENGI FP	Utilities
RWE AG	RWE GR	Utilities
Drax Group PLC	DRX LN	Utilities

Source: J.P. Morgan

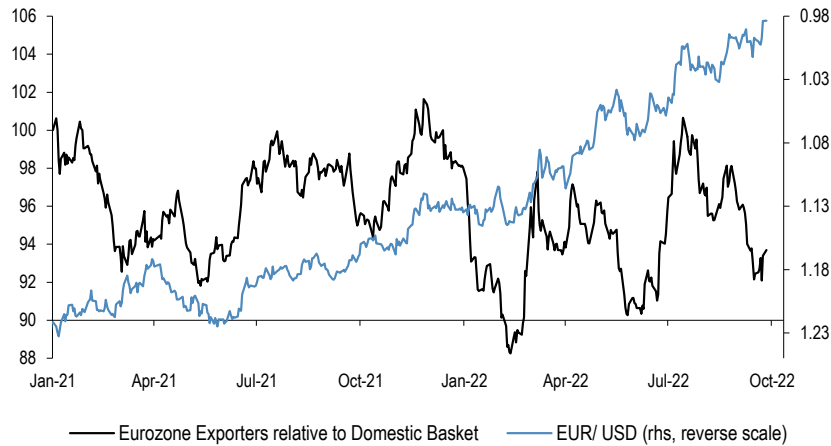
3) FX exposure: a) Eurozone...

- The gap between Eurozone Exporters relative performance and EUR/USD remains.



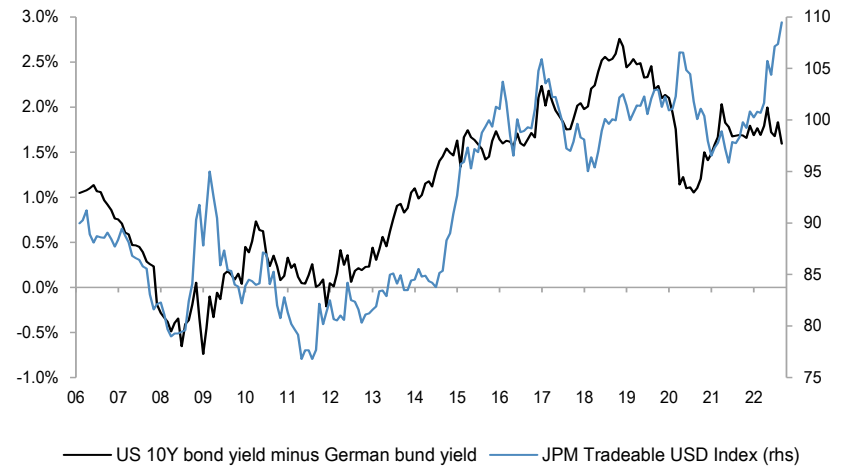
Source: Bloomberg Finance L.P., J.P.Morgan

Eurozone Exporters relative and EUR/USD



Source: Bloomberg Finance L.P., J.P.Morgan

US minus German yield spread and USD

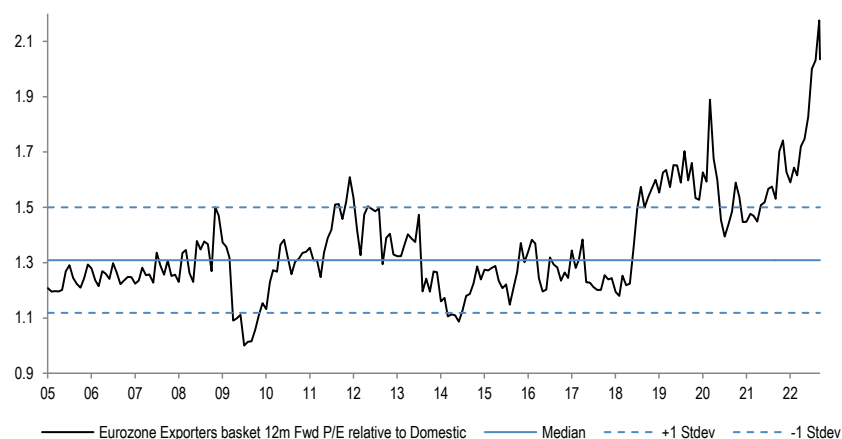


Source: Bloomberg Finance L.P.

...valuations for the Exporters appear stretched

- Valuations of Exporters vs Domestic plays remain in outright expensive territory.
- Our basket of Eurozone Exporters comprises of stocks with the highest international revenue exposure and could be hurt if Euro strengthens from here.

Eurozone Exporters 12m fwd. P/E relative to Domestic



Source: IBES, J.P.Morgan

JPM Eurozone Exporters - JPDEEZEX

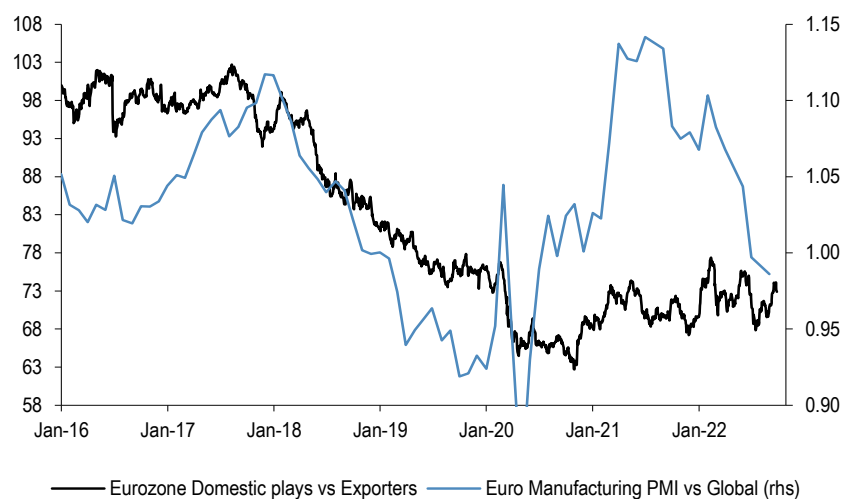
Name	Ticker	Sector	Ex-W.E. exposure
Swiss Re AG	SREN SW	Financials	87%
Fresenius Medical Care AG & Co	FME GR	Health care	84%
Pernod Ricard SA	RI FP	Staples	80%
L'Oreal SA	OR FP	Staples	79%
LVMH Moët Hennessy Louis Vuitton	MC FP	Discretionary	79%
Hannover Rueck SE	HNR1 GR	Financials	77%
Publicis Groupe SA	PUB FP	Com. Services	77%
Hermes International	RMS FP	Discretionary	77%
Sanofi	SAN FP	Health care	76%
Remy Cointreau SA	RCO FP	Staples	75%
HelloFresh SE	HFG GR	Staples	75%
Wolters Kluwer NV	WKL NA	Industrials	75%
Cie Financiere Richemont SA	CFR SW	Discretionary	75%
Kering SA	KER FP	Discretionary	74%
Sampo Oyj	SAMPO FH	Financials	73%
UCB SA	UCB BB	Health care	72%
Merck KGaA	MRK GR	Health care	71%
adidas AG	ADS GR	Discretionary	70%
Puma SE	PUM GR	Discretionary	70%
MTU Aero Engines AG	MTX GR	Industrials	70%
Muenchener Rueckversicherungs-	MUV2 GR	Financials	70%
Bureau Veritas SA	BVI FP	Industrials	70%
Bayer AG	BAYN GR	Health care	70%
Airbus SE	AIR FP	Industrials	68%
Dassault Systemes SE	DSY FP	IT	65%
Moncler SpA	MONC IM	Discretionary	64%
Acerinox SA	ACX SM	Materials	62%
HeidelbergCement AG	HEI GR	Materials	61%
Accor SA	AC FP	Discretionary	61%
Volkswagen AG	VOW GR	Discretionary	60%
Sodexo SA	SW FP	Discretionary	60%
Davide Campari-Milano NV	CPR IM	Staples	60%
Koninklijke Ahold Delhaize NV	AD NA	Staples	60%
Iberdrola SA	IBE SM	Utilities	60%
SAP SE	SAP GR	IT	60%
Safran SA	SAF FP	Industrials	59%
Bayerische Motoren Werke AG	BMW GR	Discretionary	59%
Zurich Insurance Group AG	ZURN SW	Financials	57%
GEA Group AG	G1A GR	Industrials	55%
Ubisoft Entertainment SA	UBI FP	Com. Services	55%

Source: Bloomberg Finance L.P., J.P. Morgan, all stocks are liquidity weighted in the basket

b) Eurozone domestic exposure

- Domestic plays are likely to be under pressure as Eurozone enters recession.

Eurozone Domestic vs Exporters and Euro vs Global PMI



Source: Bloomberg Finance L.P., J.P. Morgan, S&P Global

JPM Eurozone Domestic - JPDEEZDR

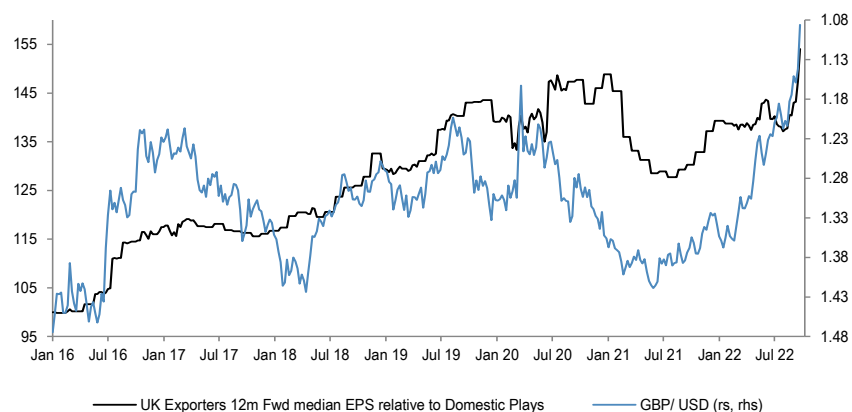
Name	Ticker	Sector	W.E. exposure
CaixaBank SA	CABK SM	Financials	100%
Gecina SA	GFC FP	Real Estate	100%
Merlin Properties Socimi SA	MRL SM	Real Estate	100%
Proximus SADP	PROX BB	Com. Services	100%
Koninklijke KPN NV	KPN NA	Com. Services	100%
ASR Nederland NV	ASRNL NA	Financials	100%
Eiffage SA	FGR FP	Industrials	95%
Assicurazioni Generali SpA	G IM	Financials	95%
Intesa Sanpaolo SpA	ISP IM	Financials	91%
ABN AMRO Bank NV	ABN NA	Financials	90%
Worldline SA/France	WLN FP	IT	88%
ProSiebenSat.1 Media SE	PSM GR	Com. Services	86%
Vinci SA	DG FP	Industrials	82%
UniCredit SpA	UCG IM	Financials	80%
NN Group NV	NN NA	Financials	78%
Credit Agricole SA	ACA FP	Financials	77%
KBC Group NV	KBC BB	Financials	75%
Carrefour SA	CA FP	Staples	72%
ING Groep NV	INGA NA	Financials	71%
Indra Sistemas SA	IDR SM	IT	70%
Renault SA	RNO FP	Discretionary	69%
APERAM SA	APAM NA	Materials	67%
Cie de Saint-Gobain	SGO FP	Industrials	66%
Edenred	EDED FP	IT	64%
Industria de Diseno Textil SA	ITX SM	Discretionary	63%
Allianz SE	ALV GR	Financials	61%
BNP Paribas SA	BNP FP	Financials	61%
BNP Paribas SA	BNP FP	Financials	61%
Deutsche Post AG	DPW GR	Industrials	60%
Alstom SA	ALO FP	Industrials	60%
Capgemini SE	CAP FP	IT	60%
Atos SE	ATO FP	IT	60%
Outokumpu Oyj	OUT1V FH	Materials	59%
ArcelorMittal SA	MT NA	Materials	57%
AXA SA	CS FP	Financials	56%
voestalpine AG	VOE AV	Materials	55%
Banco Comercial Portugues SA	BCP PL	Financials	55%
Ipsen SA	IPN FP	Health care	52%
Rexel SA	RXL FP	Industrials	50%
Prysmian SpA	PRY IM	Industrials	50%
Siemens AG	SIE GR	Industrials	50%
Evonik Industries AG	EVK GR	Materials	48%
Assa Abloy AB	ASSAB SS	Industrials	37%
Banco Bilbao Vizcaya Argentari	BBVA SM	Financials	30%
Signify NV	LIGHT NA	Industrials	30%
Legrand SA	LR FP	Industrials	30%
Banco Santander SA	SAN SM	Financials	29%
Compass Group PLC	CPG LN	Discretionary	26%
Nordea Bank Abp	NDA SS	Financials	20%

Source: Bloomberg Finance L.P., J.P. Morgan, all stocks are liquidity weighted in the basket

c) UK Exporters' performance is closely linked to the direction of GBP

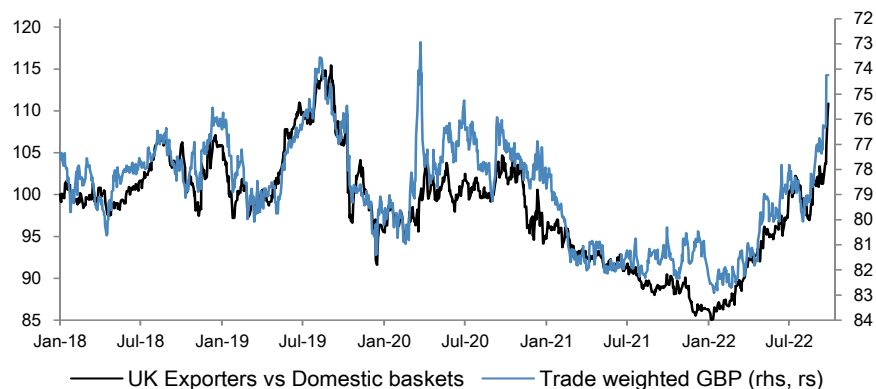
- UK exporters display a clear negative correlation with FX, and should be helped by a weaker GBP.

UK Exporters vs Domestic earnings and GBP



Source: Datastream, J.P. Morgan

UK Exporters vs Domestic baskets vs trade-weighted GBP



Source: Bloomberg Finance L.P., J.P. Morgan

JPM UK Exporters - JPDEUKEX

Name	Ticker	Sector	ex-UK exposure
Prudential PLC	PRU LN	Financials	100%
British American Tobacco PLC	BATS LN	Staples	99%
WPP PLC	WPP LN	Com. Services	96%
RELX PLC	REL LN	Industrials	96%
Spirax-Sarco Engineering PLC	SPX LN	Industrials	95%
Diageo PLC	DGE LN	Staples	95%
Unilever PLC	ULVR LN	Staples	95%
Smith & Nephew PLC	SN/ LN	Health care	95%
GSK PLC	GSK LN	Health care	95%
Standard Chartered PLC	STAN LN	Financials	94%
Imperial Brands PLC	IMB LN	Staples	92%
ConvaTec Group PLC	CTEC LN	Health care	92%
Pearson PLC	PERSON LN	Com. Services	91%
Rolls-Royce Holdings PLC	RR/ LN	Industrials	90%
Rentokil Initial PLC	RTO LN	Industrials	90%
Beazley PLC	BEZ LN	Financials	90%
Bunzl PLC	BNZL LN	Industrials	88%
Halma PLC	HLMA LN	IT	84%
Sage Group PLC/The	SGE LN	IT	80%
HSBC Holdings PLC	HSBA LN	Financials	67%
JD Sports Fashion PLC	JD/ LN	Discretionary	59%
ASOS PLC	ASC LN	Discretionary	58%

Source: Bloomberg Finance L.P., J.P. Morgan, all tocks are liquidity weighted in the basket

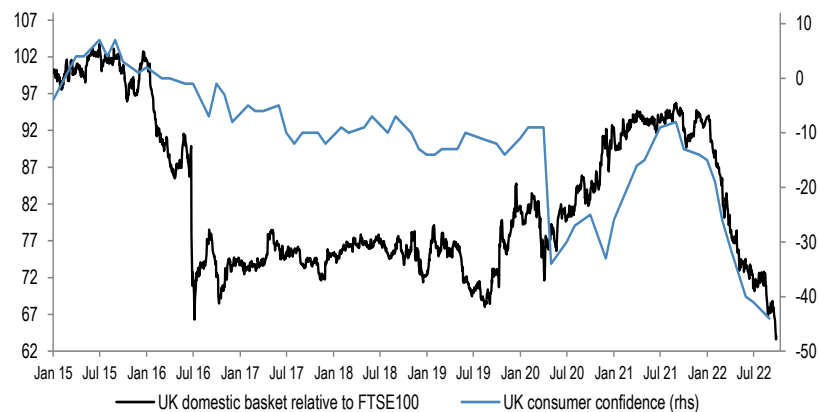
d) Within UK, domestic plays to remain under pressure

- Domestic stocks benefitted from the domestic reopening. However, we didn't like them this year, and they should stay under pressure.

UK Domestic basket relative to Exporters



UK Domestic basket relative and confidence



Source: J.P. Morgan, Bloomberg Finance L.P.

JPM UK Domestic - JPDEUKDM

Name	Ticker	Sector	UK exposure
Barratt Developments PLC	BDEV LN	Discretionary	100%
Berkeley Group Holdings PLC	BKG LN	Discretionary	100%
Persimmon PLC	PSN LN	Discretionary	100%
J Sainsbury PLC	SBRY LN	Staples	100%
British Land Co PLC/The	BLND LN	Real Estate	100%
Land Securities Group PLC	LAND LN	Real Estate	100%
Auto Trader Group PLC	AUTO LN	Com. Services	100%
Rightmove PLC	RMV LN	Com. Services	100%
Direct Line Insurance Group PL	DLG LN	Financials	100%
Travis Perkins PLC	TPK LN	Industrials	99%
Taylor Wimpey PLC	TW/LN	Discretionary	97%
Whitbread PLC	WTB LN	Discretionary	96%
Lloyds Banking Group PLC	LLOY LN	Financials	95%
BT Group PLC	BT/A LN	Com. Services	95%
NatWest Group PLC	NWG LN	Financials	95%
Tesco PLC	TSCO LN	Staples	93%
Phoenix Group Holdings PLC	PHNX LN	Financials	93%
B&M European Value Retail SA	BME LN	Discretionary	92%
Marks & Spencer Group PLC	MKS LN	Staples	91%
Centrica PLC	CNA LN	Utilities	90%
Legal & General Group PLC	LGEN LN	Financials	89%
Next PLC	NXT LN	Discretionary	84%
Ocado Group PLC	OCDO LN	Staples	80%
Aviva PLC	AV/ LN	Financials	80%
Admiral Group PLC	ADM LN	Financials	78%
ITV PLC	ITV LN	Com. Services	71%
Royal Mail PLC	RMG LN	Industrials	70%
Barclays PLC	BARC LN	Financials	51%
easyJet PLC	EZJ LN	Industrials	44%

Source: Bloomberg Finance L.P., J.P. Morgan, all stocks are liquidity weighted in the basket

4) EM exposure

- We believe that the risk-reward for EM equities is favourable, given the likely peaking in USD and bottoming out in China liquidity.
- Our EM exposure basket comprises of stocks with the highest exposure to the region, and most geared to EM growth recovery.

EM exposure basket price relative



Source: Bloomberg Finance L.P.

JPM EM exposure - JPDEEMEX

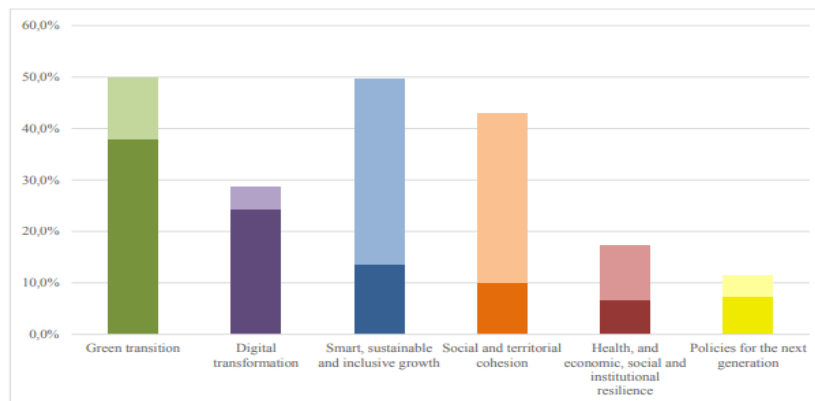
Name	Ticker	Sector	EM exposure
Prudential PLC	PRU LN	Financials	100%
Standard Chartered PLC	STAN LN	Financials	87%
Banco Bilbao Vizcaya Argentari	BBVA SM	Financials	70%
Anglo American PLC	AAL LN	Materials	68%
Coca-Cola HBC AG	CCH LN	Staples	65%
Swatch Group AG/The	UHR SW	Discretionary	65%
HSBC Holdings PLC	HSBA LN	Financials	62%
Anheuser-Busch InBev SA/NV	ABI BB	Staples	62%
Pernod Ricard SA	RI FP	Staples	60%
Unilever PLC	ULVR LN	Staples	58%
Rio Tinto PLC	RIO LN	Materials	58%
Wartsila OYJ Abp	WRT1V FH	Industrials	56%
MTU Aero Engines AG	MTX GR	Industrials	55%
Carlsberg AS	CARLB DC	Staples	50%
Heineken NV	HEIA NA	Staples	50%
SGS SA	SGSN SW	Industrials	50%
Hermes International	RMS FP	Discretionary	50%
Glencore PLC	GLEN LN	Materials	47%
Epiroc AB	EPIA SS	Industrials	46%
Burberry Group PLC	BRBY LN	Discretionary	46%
LVMH Moet Hennessy Louis Vuit	MC FP	Discretionary	46%
Accor SA	AC FP	Discretionary	45%
Airbus SE	AIR FP	Industrials	45%
Banco Santander SA	SAN SM	Financials	44%
Akzo Nobel NV	AKZA NA	Materials	43%
Engie SA	ENGI FP	Utilities	43%
Givaudan SA	GIVN SW	Materials	42%
Nokia Oyj	NOKIA FH	IT	42%
Cie Financiere Richemont SA	CFR SW	Discretionary	42%
Kering SA	KER FP	Discretionary	41%
Spirax-Sarco Engineering PLC	SPX LN	Industrials	40%
ABB Ltd	ABBN SW	Industrials	40%
Remy Cointreau SA	RCO FP	Staples	40%
Bureau Veritas SA	BVI FP	Industrials	40%
Atlas Copco AB	ATCOA SS	Industrials	39%
Covestro AG	1COV GR	Materials	38%
Telefonica SA	TEF SM	Com. Services	38%
Ageas SA/NV	AGS BB	Financials	38%
KBC Group NV	KBC BB	Financials	36%
Telefonaktiebolaget LM Ericsson	ERICB SS	IT	36%
HeidelbergCement AG	HEI GR	Materials	35%
BASF SE	BAS GR	Materials	33%
Hikma Pharmaceuticals PLC	HIK LN	Health care	33%
Antofagasta PLC	ANTO LN	Materials	32%
Signify NV	LIGHT NA	Industrials	31%
Sanofi	SAN FP	Health care	30%
Puma SE	PUM GR	Discretionary	30%
adidas AG	ADS GR	Discretionary	30%
APERAM SA	APAM NA	Materials	28%
Edenred	EDEN FP	IT	28%
Carrefour SA	CA FP	Staples	28%
Legrand SA	LR FP	Industrials	25%
InterContinental Hotels Group	IHG LN	Discretionary	25%
Sodexo SA	SW FP	Discretionary	25%
Halma PLC	HLMA LN	IT	24%
Moncler SpA	MONC IM	Discretionary	23%
Sika AG	SIKA SW	Materials	22%
Enel SpA	ENEL IM	Utilities	20%
Hexagon AB	HEXAB SS	IT	15%
Naturgy Energy Group SA	NTGY SM	Utilities	15%
HUGO BOSS AG	BOSS GR	Discretionary	13%
Vestas Wind Systems A/S	VWS DC	Industrials	12%
Zurich Insurance Group AG	ZURN SW	Financials	12%
Allianz SE	ALV GR	Financials	10%

Source: Bloomberg Finance L.P., J.P. Morgan, all the stocks are liquidity weighed in the basket

5a) Beneficiaries of EU Recovery Fund

- We have compiled a basket of stocks that are well placed to benefit from the EU Recovery Fund, in our view.

Share of RRF funds contributing to each policy pillar



Legend: The darker-coloured parts of the columns represent those measures which have been tagged and assigned to the pillar as primary policy area, while the lighter-coloured parts represent measures tagged as secondary policy area.

Source: Eurostat

Name	Ticker	Sector
Telefonica SA	TEF SM	Com. Services
Vodafone Group PLC	VOD LN	Com. Services
Assicurazioni Generali SpA	G IM	Financials
Koninklijke Philips NV	PHIA NA	Health care
Siemens Healthineers AG	SHL GR	Health care
Elekta AB	EKTAB SS	Health care
Getinge AB	GETIB SS	Health care
ROCKWOOL A/S	ROCKB DC	Industrials
Volvo AB	VOLVB SS	Industrials
ABB Ltd	ABBN SW	Industrials
Alstom SA	ALO FP	Industrials
Assa Abloy AB	ASSAB SS	Industrials
Signify NV	LIGHT NA	Industrials
Legrand SA	LR FP	Industrials
Prysmian SpA	PRY IM	Industrials
Rexel SA	RXL FP	Industrials
Siemens AG	SIE GR	Industrials
Vestas Wind Systems A/S	VWS DC	Industrials
Atlas Copco AB	ATCOA SS	Industrials
Cie de Saint-Gobain	SGO FP	Industrials
Infineon Technologies AG	IFX GR	IT
STMicroelectronics NV	STM FP	IT
Sika AG	SIKA SW	Materials
Air Liquide SA	AI FP	Materials
ArcelorMittal SA	MT NA	Materials
Outokumpu Oyj	OUT1V FH	Materials
Acerinox SA	ACX SM	Materials
Antofagasta PLC	ANTO LN	Materials
Norsk Hydro ASA	NHY NO	Materials
Endesa SA	ELE SM	Utilities
Enel SpA	ENEL IM	Utilities
Engie SA	ENGI FP	Utilities
Iberdrola SA	IBE SM	Utilities
Red Electrica Corp SA	REE SM	Utilities
Terna - Rete Elettrica Nazionale	TRN IM	Utilities
Snam SpA	SRG IM	Utilities
Orsted AS	ORSTED DC	Utilities
RWE AG	RWE GR	Utilities

Source: J.P. Morgan

5b) Beneficiaries of US Infrastructure Plan

- We have a basket of 24 European names that are specifically exposed to increasing US infrastructure spend.

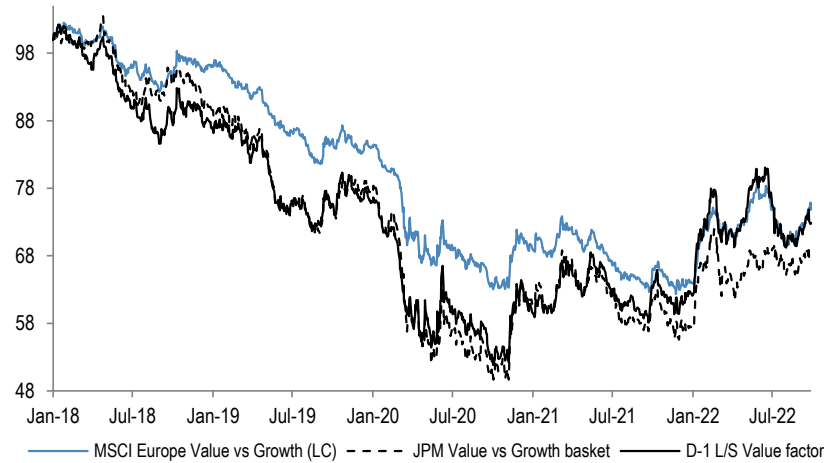
JPM European beneficiaries of US Infra. Plan - JPDUSINF

Name	Ticker	Sector	US revenue exposure
Deutsche Telekom AG	DTE GR	Com. Services	58%
Siemens Healthineers AG	SHL GR	Health care	39%
Assa Abloy AB	ASSAB SS	Industrials	39%
Halma PLC	HLMA LN	IT	39%
Getinge AB	GETIB SS	Health care	38%
Koninklijke Philips NV	PHIA NA	Health care	37%
Hexagon AB	HEXAB SS	IT	35%
Rexel SA	RXL FP	Industrials	35%
Vestas Wind Systems A/S	VWS DC	Industrials	33%
Air Liquide SA	AI FP	Materials	31%
Prysmian SpA	PRY IM	Industrials	30%
Siemens AG	SIE GR	Industrials	27%
Volvo AB	VOLVB SS	Industrials	27%
HeidelbergCement AG	HEI GR	Materials	25%
Elekta AB	EKTAB SS	Health care	25%
Iberdrola SA	IBE SM	Utilities	24%
Signify NV	LIGHT NA	Industrials	22%
Epiroc AB	EPIA SS	Industrials	21%
ArcelorMittal SA	MT NA	Materials	20%
ABB Ltd	ABBN SW	Industrials	17%
Alstom SA	ALO FP	Industrials	15%
Infineon Technologies AG	IFX GR	IT	13%
STMicroelectronics NV	STM FP	IT	11%
Ferrovial SA	FER SM	Industrials	7%

Source: J.P. Morgan

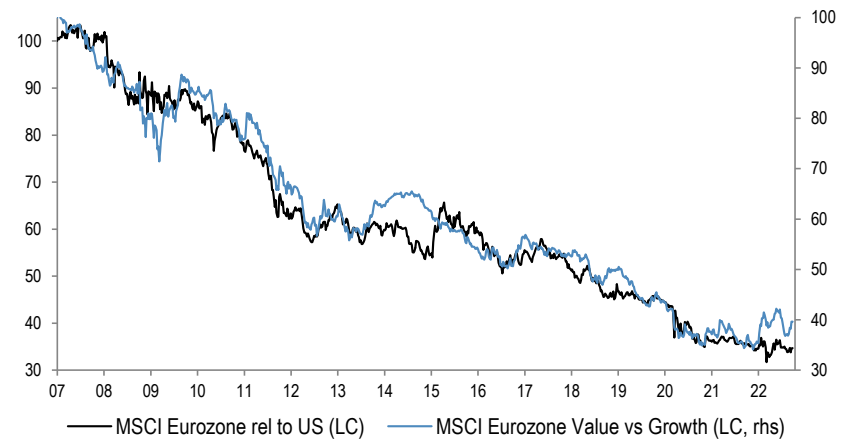
6) Value vs Growth: Style leadership is closely linked to the direction of bond yields...

Value style performance vs Growth



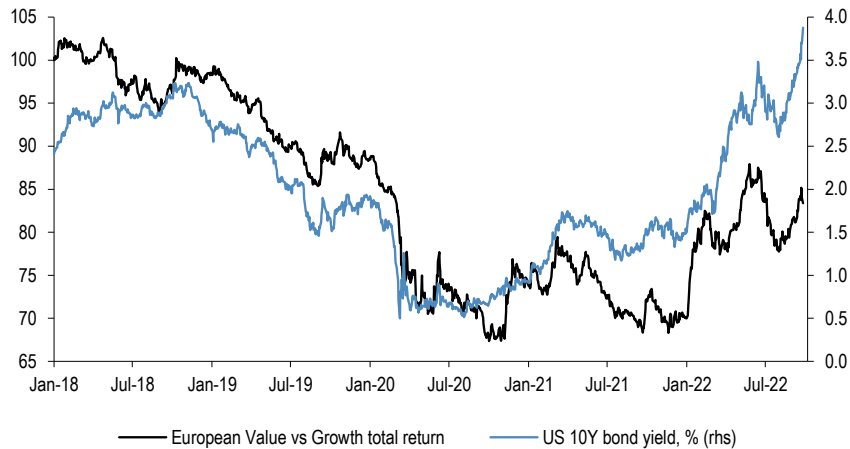
Source: Bloomberg Finance L.P., J.P. Morgan

Eurozone vs US and Value vs Growth



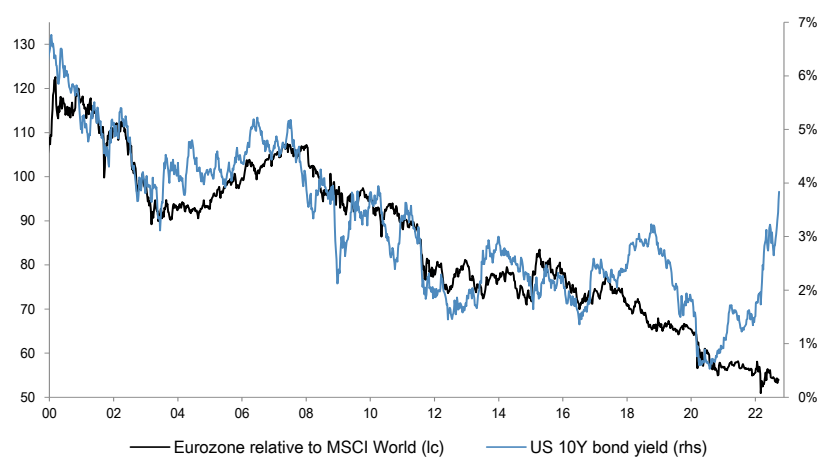
Source: Datastream

MSCI Europe Value vs Growth and US bond yields



Source: Datastream

Eurozone relative to World and US 10Y bond yield



Source: Datastream

...Value valuations appear attractive; the gap could start closing with bond yields

European Value vs Growth trailing P/E



Source: Datastream

European Value vs Growth P/Book and US 10Y bond yields



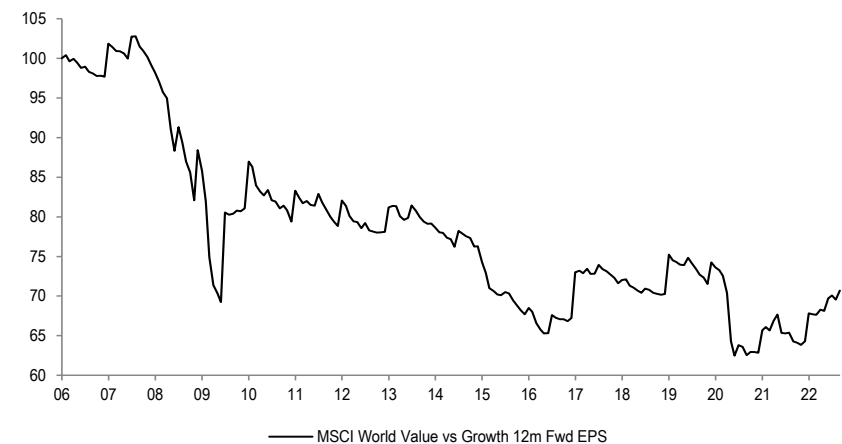
Source: Datastream

MSCI Europe - Value and Growth sectoral composition

	Sector Weights			
	MSCI Europe	Value	Growth	Value vs Growth
Financials	16.3%	27.3%	4.7%	22.6%
Utilities	4.5%	8.1%	0.7%	7.5%
Energy	4.3%	7.2%	0.4%	6.8%
Com. Services	4.0%	6.4%	1.7%	4.7%
Real Estate	8.4%	9.8%	6.2%	3.6%
Materials	1.3%	1.9%	0.4%	1.6%
Staples	12.7%	11.4%	17.7%	-6.3%
IT	14.7%	11.5%	18.2%	-6.7%
Industrials	13.6%	9.3%	18.3%	-9.1%
Discretionary	12.0%	6.4%	17.0%	-10.6%
Healthcare	8.2%	0.7%	14.7%	-14.1%

Source: Datastream

MSCI World Value vs Growth EPS momentum



Source: Datastream

a) European Value and Growth baskets

JPM European Value - JPDEVALU

Name	Ticker	Sector	Price/ Book
TELECOM ITALIA	TIT IM	COM. SERVICES	0.2
UNIPER SE (XET)	UN01 GR	UTILITIES	0.2
JUST EAT TAKEAWAY.COM	TKWY NA	DISCRETIONARY	0.3
AROUNDTOWN (XET)	AT1 GR	REAL ESTATE	0.3
CREDIT SUISSE GROUP	CSGN SW	FINANCIALS	0.3
DEUTSCHE BANK (XET)	DBK GR	FINANCIALS	0.3
STANDARD CHARTERED	STAN LN	FINANCIALS	0.3
RENAULT	RNO FP	DISCRETIONARY	0.3
SOCIETE GENERALE	GLE FP	FINANCIALS	0.4
COMMERZBANK (XET)	CBK GR	FINANCIALS	0.4
NN GROUP	NN NA	FINANCIALS	0.4
CHOC.LINDT &SPRUENGLI PAR	LISN SW	STAPLES	0.5
ARCELORMITTAL	MT NA	MATERIALS	0.5
VOESTALPINE	VOE AV	MATERIALS	0.5
KION GROUP (XET)	KGX GR	INDUSTRIALS	0.6
SAINSBURY J	SBRY LN	STAPLES	0.6
HEIDELBERGCEMENT (XET)	HEI GR	MATERIALS	0.6
SMITH & NEPHEW	SN/ LN	HEALTH CARE	0.6
AERCAP HOLDINGS N V	R1D GR	INDUSTRIALS	0.7
FRESENIUS (XET)	FRE GR	HEALTH CARE	0.7
EDF	EDF FP	UTILITIES	0.8
ALSTOM	ALO FP	INDUSTRIALS	0.8
TESCO	TSCO LN	STAPLES	0.9
ENI	ENI IM	ENERGY	0.9
A P MOLLER MAERSK A	MAERSKB DC	INDUSTRIALS	0.9
OMV	OMV AV	ENERGY	1.0
SAINT GOBAIN	SGO FP	INDUSTRIALS	1.0
ASSOCIATED BRIT.FOODS	ABF LN	STAPLES	1.1
PHILIPS ELTN.KONINKLIJKE	PHIA NA	HEALTH CARE	1.1
ACS ACTIV.CONSTR.Y SERV.	ACS SM	INDUSTRIALS	1.1
BP	BP/ LN	ENERGY	1.1
BRITISH AMERICAN TOBACCO	BATS LN	STAPLES	1.2
CARREFOUR	CA FP	STAPLES	1.2
GRIFOLS ORD CL A	GRF SM	HEALTH CARE	1.3
WORLDLINE	WLN FP	IT	1.4
SANOFI	SAN FP	HEALTH CARE	1.5
NOKIA	NOKIA FH	IT	1.5
UCB	UCB BB	HEALTH CARE	1.5
Telefonaktiebolaget LM Ericsson	ERICB SS	IT	2.2

Source: Datastream, J.P. Morgan, all stocks are equally weighted in the baskets

JPM European Growth - JPDEGROW

Name	Ticker	Sector	Price/ Book
NOVO NORDISK 'B'	NOVOB DC	HEALTH CARE	24.0
ADYEN	ADYEN NA	IT	22.5
COLOPLAST B	COLOB DC	HEALTH CARE	22.4
ASML HOLDING	ASML NA	IT	18.5
JD SPORTS FASHION	JD/ LN	DISCRETIONARY	16.8
SGS 'N'	SGSN SW	INDUSTRIALS	15.1
HERMES INTL.	RMS FP	DISCRETIONARY	13.8
RELX	REL LN	INDUSTRIALS	13.3
ROCHE HOLDINGS 'B'	ROG SW	HEALTH CARE	12.7
TEMENOS N	TEMN SW	IT	12.3
DIAGEO	DGE LN	STAPLES	10.9
VAT GROUP	VACN SW	INDUSTRIALS	10.4
NIBE INDUSTRIER	NIBEB SS	INDUSTRIALS	10.0
NOVOZYMES B	NZYMB DC	MATERIALS	9.2
RATIONAL (XET)	RAA GR	INDUSTRIALS	8.3
ORION B	ORNBV FH	HEALTH CARE	8.3
PARTNERS GROUP HOLDING	PGHN SW	FINANCIALS	8.2
EMS-CHEMIE 'N'	EMSN SW	MATERIALS	8.1
KUEHNE UND NAGEL INTERNATIONAL	KNIN SW	INDUSTRIALS	8.0
GENMAB	GMAB DC	HEALTH CARE	7.7
NEXT	NXT LN	DISCRETIONARY	7.6
L'OREAL	OR FP	STAPLES	7.6
HARGREAVES LANSDOWN	HL/ LN	FINANCIALS	7.1
GIVAUDAN 'N'	GIVN SW	MATERIALS	6.9
DAVIDE CAMPARI MILANO	CPR IM	STAPLES	6.8
DEMANT	DEMANT DC	HEALTH CARE	6.4
JERONIMO MARTINS	JMT PL	STAPLES	6.2
RECKITT BENCKISER GROUP	RKT LN	STAPLES	6.0
NESTLE 'N'	NESN SW	STAPLES	5.6
ST.JAMES'S PLACE ORD	STJ LN	FINANCIALS	5.3
SEVERN TRENT	SVT LN	UTILITIES	5.2
ADMIRAL GROUP	ADM LN	FINANCIALS	4.9
NESTE	NESTE FH	ENERGY	4.8
KPN KON	KPN NA	COM. SERVICES	4.7
ORSTED	ORSTED DC	UTILITIES	4.6
FINECOBANK SPA	FBK IM	FINANCIALS	4.4
DEUTSCHE BOERSE (XET)	DB1 GR	FINANCIALS	4.4
EQUINOR	EQNR NO	ENERGY	3.4
TENARIS	TEN IM	ENERGY	1.5
WAREHOUSES DE PAUW	WDP BB	REAL ESTATE	1.5

b) Beneficiaries vs Losers of rising bond yields

JPM Rising bond yield beneficiaries - JPDERBYB

Name	Ticker	Sector	10Y Correlation to BY
ABN AMRO BANK	ABN NA	FINANCIALS	37%
BNP PARIBAS	BNP FP	FINANCIALS	34%
SOCIETE GENERALE	GLE FP	FINANCIALS	33%
CREDIT AGRICOLE	ACA FP	FINANCIALS	31%
CNH INDUSTRIAL	CNHI IM	INDUSTRIALS	29%
UNICREDIT	UCG IM	FINANCIALS	29%
RENAULT	RNO FP	DISCRETIONARY	29%
ARCELORMITTAL	MT NA	MATERIALS	28%
COMMERZBANK (XET)	CBK GR	FINANCIALS	28%
DEUTSCHE BANK (XET)	DBK GR	FINANCIALS	27%
BANCO SANTANDER	SAN SM	FINANCIALS	27%
AXA	CS FP	FINANCIALS	27%
CREDIT SUISSE GROUP	CSGN SW	FINANCIALS	27%
ING GROEP	INGA NA	FINANCIALS	27%
VOESTALPINE	VOE AV	MATERIALS	26%
JULIUS BAER GRUPPE	BAER SW	FINANCIALS	26%
RANDSTAD	RAND NA	INDUSTRIALS	25%
BBV.ARGENTARIA	BBVA SM	FINANCIALS	25%
ERSTE GROUP BANK	EBS AV	FINANCIALS	25%
AMUNDI (WI)	AMUN FP	FINANCIALS	25%
KBC GROUP	KBC BB	FINANCIALS	24%
NN GROUP	NN NA	FINANCIALS	24%
STELLANTIS	STLA IM	DISCRETIONARY	23%
INTESA SANPAOLO	ISP IM	FINANCIALS	22%
UBS GROUP	UBSG SW	FINANCIALS	22%
AVIVA	AV/ LN	FINANCIALS	20%
BARCLAYS	BARC LN	FINANCIALS	20%
HSBC HOLDINGS	HSBA LN	FINANCIALS	20%
EXOR ORD	EXO IM	FINANCIALS	20%
EURAZEO	RF FP	FINANCIALS	20%
TENARIS	TEN IM	ENERGY	19%
BASF (XET)	BAS GR	MATERIALS	19%
DNB BANK	DNB NO	FINANCIALS	19%
MERCEDES-BENZ GROUP(XET) N	MBG GR	DISCRETIONARY	19%
ABB LTD N	ABBN SW	INDUSTRIALS	19%
STANDARD CHARTERED	STAN LN	FINANCIALS	19%
SAINT GOBAIN	SGO FP	INDUSTRIALS	19%
SIEMENS (XET)	SIE GR	INDUSTRIALS	19%
RIO TINTO	RIO LN	MATERIALS	18%

JPM Rising bond yield losers - JPDERBYL

Name	Ticker	Sector	10Y Correlation to BY
ELIA GROUP	ELI BB	UTILITIES	-38%
LEG IMMOBILIEN (XET)	LEG GR	REAL ESTATE	-35%
UNILEVER (UK)	ULVR LN	STAPLES	-35%
NESTLE 'N'	NESN SW	STAPLES	-34%
VONOVIA (XET)	VNA GR	REAL ESTATE	-32%
UNITED UTILITIES GROUP	UU/ LN	UTILITIES	-30%
GLAXOSMITHKLINE	GSK LN	HEALTH CARE	-30%
INFRASTRUTTURE WIRELESS ITALIANE			
SPA NPV	INW IM	COM. SERVICES	-29%
RECKITT BENCKISER GROUP	RKT LN	STAPLES	-29%
SNAM	SRG IM	UTILITIES	-28%
DIAGEO	DGE LN	STAPLES	-28%
SSE	SSE LN	UTILITIES	-28%
SWEDISH MATCH	SWMA SS	STAPLES	-28%
CELLNEX TELECOM	CLNX SM	COM. SERVICES	-27%
BARRY CALLEBAUT	BARN SW	STAPLES	-27%
SWISSCOM 'R'	SCMN SW	COM. SERVICES	-27%
BEIERSDORF (XET)	BEI GR	STAPLES	-26%
TERNA RETE ELETTRICA NAZ	TRN IM	UTILITIES	-26%
ASTRAZENECA	AZN LN	HEALTH CARE	-26%
SEVERN TRENT	SVT LN	UTILITIES	-26%
ROCHE HOLDINGS 'B'	ROG SW	HEALTH CARE	-26%
GIVAUDAN 'N'	GIVN SW	MATERIALS	-25%
CHRISTIAN HANSEN HOLDING	CHR DC	MATERIALS	-25%
RELX	REL LN	INDUSTRIALS	-24%
BRITISH AMERICAN TOBACCO	BATS LN	STAPLES	-24%
NOVO NORDISK 'B'	NOVOB DC	HEALTH CARE	-24%
IMPERIAL BRANDS	IMB LN	STAPLES	-24%
RECORDATI INDUA.CHIMICA	REC IM	HEALTH CARE	-23%
L'OREAL	OR FP	STAPLES	-22%
BUNZL	BNZL LN	INDUSTRIALS	-22%
DANONE	BN FP	STAPLES	-22%
ESSILORLUXOTTICA	EL FP	DISCRETIONARY	-21%
KONINKLIJKE AHOLD DELHAIZE	AD NA	STAPLES	-21%
WAREHOUSES DE PAUW	WDP BB	REAL ESTATE	-21%
FASTIGHETS BALDER B	BALDB SS	REAL ESTATE	-20%
PROXIMUS	PROX BB	COM. SERVICES	-20%
DAVIDE CAMPARI MILANO	CPR IM	STAPLES	-19%
COLOPLAST B	COLOB DC	HEALTH CARE	-19%
SYMRISE (XET)	SY1 GR	MATERIALS	-19%

Source: Datastream, J.P. Morgan, all stocks are liquidity weighted in the baskets

c) Beneficiaries vs Losers of rising oil prices

JPM Rising oil prices beneficiaries - JPDEOILW

Name	Ticker	Sector	Correlation to Oil
ARCELORMITTAL	MT NA	MATERIALS	67%
CNH INDUSTRIAL	CNHI IM	INDUSTRIALS	65%
TENARIS	TEN IM	ENERGY	58%
GLENCORE	GLEN LN	MATERIALS	57%
ABN AMRO BANK	ABN NA	FINANCIALS	54%
SAINT GOBAIN	SGO FP	INDUSTRIALS	52%
RICHEMONT N	CFR SW	DISCRETIONARY	52%
ANGLO AMERICAN	AAL LN	MATERIALS	50%
COVESTRO (XET)	1COV GR	MATERIALS	50%
VOESTALPINE	VOE AV	MATERIALS	49%
OMV	OMV AV	ENERGY	47%
ENI	ENI IM	ENERGY	47%
STANDARD CHARTERED	STAN LN	FINANCIALS	45%
BASF (XET)	BAS GR	MATERIALS	45%
BBV.ARGENTARIA	BBVA SM	FINANCIALS	44%
ING GROEP	INGA NA	FINANCIALS	43%
VOLKSWAGEN (XET)	VOW GR	DISCRETIONARY	43%
OCI	OCI NA	MATERIALS	43%
BANCO SANTANDER	SAN SM	FINANCIALS	43%
SOLVAY	SOLB BB	MATERIALS	42%
FORTUM	FORTUM FH	UTILITIES	42%
BNP PARIBAS	BNP FP	FINANCIALS	42%
EQUINOR	EQNR NO	ENERGY	41%
SHELL (LON)	SHEL LN	ENERGY	41%
A P MOLLER MAERSK A	MAERSKB DC	INDUSTRIALS	39%
MERCEDES-BENZ GROUP(XET) N	MBG GR	DISCRETIONARY	39%
THE SWATCH GROUP	UHR SW	DISCRETIONARY	39%
PUBLICIS GROUPE	PUB FP	COM. SERVICES	39%
AVIVA	AVI LN	FINANCIALS	38%
AIRBUS	AIR FP	INDUSTRIALS	38%
ALFA LAVAL	ALFA SS	INDUSTRIALS	36%
ANTOFAGASTA	ANTO LN	MATERIALS	36%
SIEMENS (XET)	SIE GR	INDUSTRIALS	36%
BARCLAYS	BARC LN	FINANCIALS	36%
JOHNSON MATTHEY	JMAT LN	MATERIALS	35%
ABB LTD N	ABBN SW	INDUSTRIALS	35%
NORSK HYDRO	NHY NO	MATERIALS	35%
NATWEST GROUP	NWG LN	FINANCIALS	34%
SOCIETE GENERALE	GLE FP	FINANCIALS	33%

Source: Datastream, J.P. Morgan, all stocks are liquidity weighted in the baskets

JPM Rising oil prices losers - JPDEOILL

Name	Ticker	Sector	Correlation to Oil
INFRASTRUTTURE WIRELESS ITALIANE			
SPA NPV	INW IM	COM. SERVICES	-57%
ELIA GROUP	ELI BB	UTILITIES	-57%
TERNA RETE ELETTRICA NAZ	TRN IM	UTILITIES	-57%
RECKITT BENCKISER GROUP	RKT LN	STAPLES	-57%
LEG IMMOBILIEN (XET)	LEG GR	REAL ESTATE	-56%
ORKLA	ORK NO	STAPLES	-55%
CELLNEX TELECOM	CLNX SM	COM. SERVICES	-54%
SWISSCOM 'R'	SCMN SW	COM. SERVICES	-54%
ROCHE HOLDING	ROG SW	HEALTH CARE	-54%
VONOVIA (XET)	VNA GR	REAL ESTATE	-53%
COLOPLAST B	COLOB DC	HEALTH CARE	-53%
UNITED UTILITIES GROUP	UU/ LN	UTILITIES	-52%
SYMRISE (XET)	SY1 GR	MATERIALS	-51%
EURONEXT	ENX FP	FINANCIALS	-50%
NESTLE 'N'	NESN SW	STAPLES	-50%
HANNOVER RUECK (XET)	HNR1 GR	FINANCIALS	-50%
SEVERN TRENT	SVT LN	UTILITIES	-50%
NOVARTIS 'R'	NOVN SW	HEALTH CARE	-49%
FRESENIUS MED.CARE (XET)	FME GR	HEALTH CARE	-49%
ENAGAS	ENG SM	UTILITIES	-49%
GIVAUDAN 'N'	GIVN SW	MATERIALS	-48%
BIOMERIEUX	BIM FP	HEALTH CARE	-48%
CHRISTIAN HANSEN HOLDING	CHR DC	MATERIALS	-48%
LONDON STOCK EXCHANGE GROUP	LSEG LN	FINANCIALS	-47%
RELX	REL LN	INDUSTRIALS	-46%
SMITH & NEPHEW	SN/ LN	HEALTH CARE	-46%
WAREHOUSES DE PAUW	WDP BB	REAL ESTATE	-46%
KONE B	KNEBV FH	INDUSTRIALS	-46%
SANOFI	SAN FP	HEALTH CARE	-45%
PROXIMUS	PROX BB	COM. SERVICES	-45%
TELEFONICA DTL. (XET) HLDG.	O2D GR	COM. SERVICES	-45%
KONINKLIJKE AHOLD DELHAIZE	AD NA	STAPLES	-45%
GENMAB	GMAB DC	HEALTH CARE	-45%
UCB	UCB BB	HEALTH CARE	-44%
L AIR LQE.SC.ANYME. POUR L ETUDE			
ET L EPXTN.	AI FP	MATERIALS	-43%
FERROVIAL	FER SM	INDUSTRIALS	-43%
AUTO TRADER GROUP	AUTO LN	COM. SERVICES	-43%
BEIERSDORF (XET)	BEI GR	STAPLES	-42%
CHOC.LINDT &SPRUENGLI PAR	LISN SW	STAPLES	-42%
ASTRAZENECA	AZN LN	HEALTH CARE	-42%

d) Beneficiaries vs Losers of rising inflation

JPM Rising inflation beneficiaries - JPDEINFW

Name	Ticker	Sector	Correlation to				Average correlation
			Yield Curve	US Inflation forwards	EUR Inflation Forwards	S&P GSCI	
ARCELORMITTAL	MT NA	Materials	19%	18%	21%	39%	24%
TENARIS	TEN IM	Energy	12%	17%	22%	40%	23%
GLENORE	GLEN LN	Materials	12%	21%	21%	32%	22%
ABN AMRO BANK	ABN NA	Financials	26%	25%	21%	10%	20%
BNP PARIBAS	BNP FP	Financials	25%	25%	20%	12%	20%
SOCIETE GENERALE	GLE FP	Financials	25%	22%	23%	11%	20%
ING GROEP	INGA NA	Financials	18%	21%	22%	18%	20%
KBC GROUP	KBC BB	Financials	18%	28%	14%	16%	19%
ANGLO AMERICAN	AAL LN	Materials	12%	12%	11%	37%	18%
CREDIT AGRICOLE	ACA FP	Financials	22%	23%	16%	9%	18%
DEUTSCHE BANK (XET)	DBK GR	Financials	18%	22%	15%	15%	17%
AXA	CS FP	Financials	16%	18%	17%	17%	17%
BANCO SANTANDER	SAN SM	Financials	19%	21%	14%	14%	17%
ENI	ENI IM	Energy	15%	6%	11%	35%	17%
EXOR ORD	EXO IM	Financials	12%	18%	19%	17%	16%
DNB BANK	DNB NO	Financials	13%	20%	8%	24%	16%
VOESTALPINE	VOE AV	Materials	16%	13%	14%	22%	16%
SAINT GOBAIN	SGO FP	Industrials	12%	13%	20%	20%	16%
EURAZEO	RF FP	Financials	19%	11%	17%	17%	16%
CREDIT SUISSE GROUP	CSGN SW	Financials	17%	18%	14%	14%	16%
ANTOFAGASTA	ANTO LN	Materials	14%	8%	9%	32%	16%
NORSK HYDRO	NHY NO	Materials	8%	9%	15%	30%	16%
AVIVA	AV/ LN	Financials	15%	22%	7%	18%	15%
LEGAL & GENERAL	LGEN LN	Financials	10%	22%	16%	12%	15%
BARCLAYS	BARC LN	Financials	15%	23%	14%	8%	15%
BBVA ARGENTARIA	BBVA SM	Financials	17%	16%	16%	11%	15%
TOTALENERGIES	TTE FP	Energy	7%	9%	11%	32%	15%
ALLIANZ (XET)	ALV GR	Financials	5%	22%	19%	13%	15%
JULIUS BAER GRUPPE	BAER SW	Financials	14%	18%	18%	10%	15%
ARKEMA	AKE FP	Materials	12%	13%	17%	16%	14%
BASF (XET)	BAS GR	Materials	15%	10%	9%	23%	14%
ERSTE GROUP BANK	EBS AV	Financials	11%	19%	10%	17%	14%
UNICREDIT	UCG IM	Financials	18%	15%	14%	10%	14%
HEIDELBERGCEMENT (XET)	HEI GR	Materials	18%	8%	13%	17%	14%
SANDVIK	SAND SS	Industrials	14%	14%	10%	17%	14%
COMMERZBANK (XET)	CBK GR	Financials	13%	15%	18%	7%	13%
AERCAP HOLDINGS N V	AER US	Industrials	9%	10%	14%	20%	13%
RIO TINTO	RIO LN	Materials	19%	-6%	7%	33%	13%
OMV	OMV AV	Energy	8%	11%	5%	29%	13%
COVESTRO (XET)	1COV GR	Materials	13%	8%	12%	19%	13%

Source: Datastream, J.P. Morgan, all stocks are liquidity weighted in the baskets

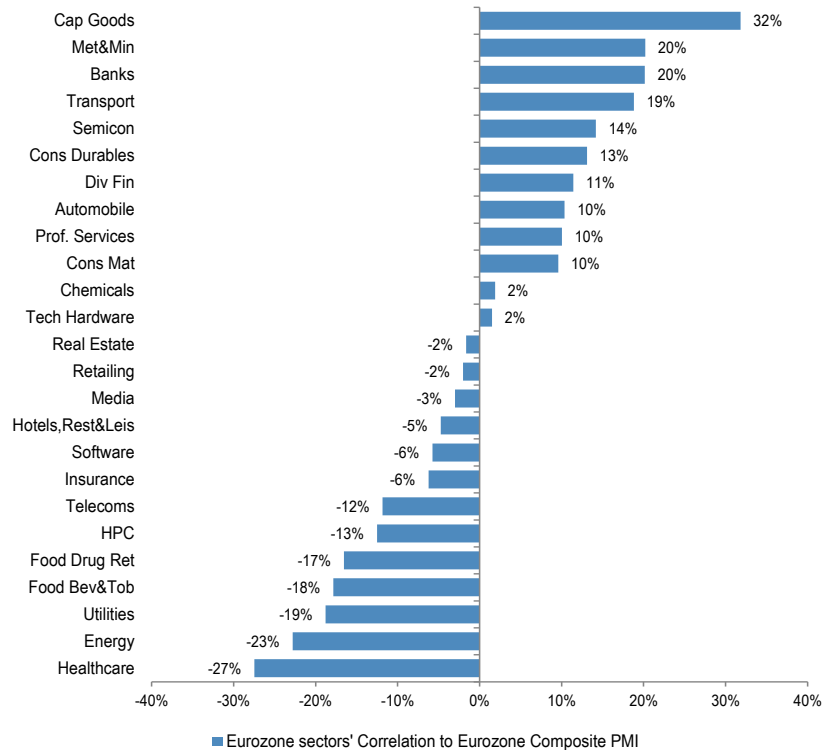
JPM Rising inflation losers - JPDEINFL

Name	Ticker	Sector	Correlation to				Average correlation
			Yield Curve	US Inflation forwards	EUR Inflation Forwards	S&P GSCI	
RECKITT BENCKISER GROUP	RKT LN	Staples	-19%	-16%	-20%	-38%	-24%
UNILEVER (UK)	ULVR LN	Staples	-21%	-22%	-20%	-29%	-23%
NESTLE 'N'	NESN SW	Staples Com.	-20%	-20%	-20%	-31%	-23%
SWISSCOM 'R'	SCMN SW	Services	-18%	-20%	-15%	-35%	-22%
GLAXOSMITHKLINE	GSK LN	Health Care	-21%	-15%	-17%	-35%	-22%
ELIA GROUP	ELI BB	Utilities	-19%	-18%	-16%	-28%	-20%
NOVARTIS 'R'	NOVN SW	Health Care	-15%	-17%	-21%	-26%	-20%
DIAGEO	DGE LN	Staples	-16%	-17%	-17%	-26%	-19%
DANONE	BN FP	Staples	-13%	-21%	-16%	-27%	-19%
VONOVIA (XET)	VNA GR	Real Estate	-24%	-19%	-15%	-15%	-18%
LEG IMMOBILIEN (XET)	LEG GR	Real Estate	-26%	-18%	-15%	-15%	-18%
TERNA RETE ELETTRICA NAZTRN IM		Utilities	-14%	-23%	-14%	-22%	-18%
INFRASTRUTTURA WIRELESS ITALIANE SPA		Com.					
NPV	INW IM	Services	-19%	-21%	-15%	-19%	-18%
UNITED UTILITIES GROUP	UU/ LN	Utilities	-23%	-13%	-15%	-23%	-18%
ASTRAZENECA	AZN LN	Health Care	-20%	-9%	-16%	-26%	-18%
ROCHE HOLDINGS 'B'	ROG SW	Health Care	-16%	-14%	-13%	-28%	-18%
RECORDATI INDUA.CHIMICA	REC IM	Health Care	-11%	-23%	-10%	-26%	-18%
UNIPER SE (XET)	UN01 GR	Utilities	-4%	-16%	-22%	-28%	-18%
SEVERN TRENT	SVT LN	Utilities	-17%	-16%	-21%	-17%	-18%
SNAM	SRG IM	Utilities	-14%	-18%	-10%	-25%	-17%
BARRY CALLEBAUT	BARN SW	Staples	-18%	-15%	-16%	-18%	-17%
BEIERSDORF (XET)	BEI GR	Staples	-16%	-15%	-14%	-23%	-17%
SWEDISH MATCH	SWMA SS	Staples	-18%	-17%	-14%	-18%	-17%
COLOPLAST B	COLOB DC	Health Care	-16%	-12%	-17%	-21%	-16%
DIASORIN	DIA IM	Health Care	-8%	-20%	-16%	-21%	-16%
IMPERIAL BRANDS	IMB LN	Staples	-17%	-10%	-18%	-18%	-16%
FRESENIUS MED.CARE (XET)	FME GR	Health Care	-12%	-15%	-10%	-25%	-15%
L'OREAL	OR FP	Staples	-12%	-17%	-7%	-24%	-15%
BIOMERIEUX	BIM FP	Health Care	-12%	-10%	-15%	-23%	-15%
CHOCOLADEFABRIKEN							
LINDT & SPRUENGLI	LISN SW	Staples	-8%	-18%	-12%	-18%	-14%
ESSILORLUXOTTICA	EL FP	Discretionary	-12%	-14%	-11%	-19%	-14%
BRITISH AMERICAN TOBACCO	BATS LN	Staples Com.	-15%	-10%	-16%	-16%	-14%
PROXIMUS	PROX BB	Services	-6%	-12%	-13%	-25%	-14%
KONINKLIJKE AHOLD							
DELHAIZE	AD NA	Staples	-12%	-12%	-3%	-27%	-13%
SSE	SSE LN	Utilities Com.	-14%	-11%	-12%	-14%	-13%
VODAFONE GROUP	VOD LN	Services	-11%	-10%	-18%	-13%	-13%
DAVIDE CAMPARI MILANO	CPR IM	Staples	-12%	-11%	-13%	-14%	-13%
ASSOCIATED BRIT.FOODS	ABF LN	Staples	-11%	-11%	-11%	-17%	-12%
NOVO NORDISK 'B'	NOVOB DC	Health Care	-15%	-5%	-8%	-21%	-12%

7) European Cyclical vs Defensives: closely linked to the PMI momentum

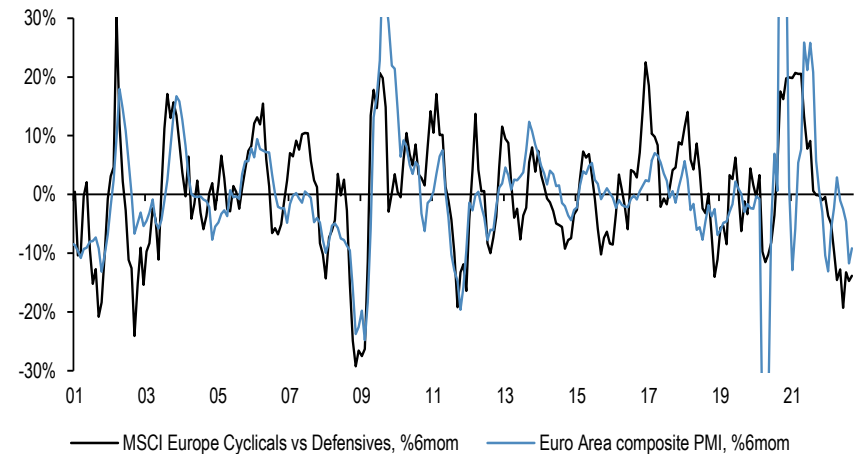
- Cyclical vs Defensives relative performance is strongly linked to PMI direction.
- At a sector level, Industrials & Financials display the highest positive correlation to PMIs.

European sectors correlation to Eurozone composite PMI



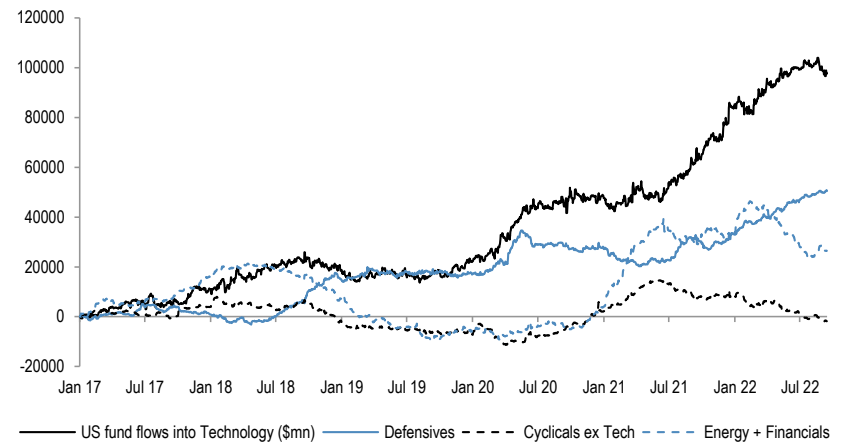
Source: S&P Global, Datastream

European Cyclical vs Defensives and PMI



Source: Datastream

Flows: US Cyclical vs Defensives



Source: Flows & Liquidity team, J.P. Morgan

Baskets of European Cyclical and Defensive

JPM European Cyclical - JPDEECYC

Name	Ticker	Sector
Norsk Hydro ASA	NHY NO	Materials
OCI NV	OCI NA	Materials
Solvay SA	SOLB BB	Materials
Antofagasta PLC	ANTO LN	Materials
BASF SE	BAS GR	Materials
Svenska Cellulosa AB SCA	SCAB SS	Materials
ArcelorMittal SA	MT NA	Materials
Evonik Industries AG	EVK GR	Materials
Aeroports de Paris	ADP FP	Industrials
Rolls-Royce Holdings PLC	RR/ LN	Industrials
AerCap Holdings NV	AER US	Industrials
Safran SA	SAF FP	Industrials
MTU Aero Engines AG	MTX GR	Industrials
Vinci SA	DG FP	Industrials
Alstom SA	ALO FP	Industrials
VAT Group AG	VACN SW	Industrials
Deutsche Lufthansa AG	LHA GR	Industrials
Smiths Group PLC	SMIN LN	Industrials
Eiffage SA	FGR FP	Industrials
Thales SA	HO FP	Industrials
Getlink SE	GET FP	Industrials
DCC PLC	DCC LN	Industrials
Ferrovial SA	FER SM	Industrials
Brenntag SE	BNR GR	Industrials
Taylor Wimpey PLC	TW/ LN	Discretionary
Whitbread PLC	WTB LN	Discretionary
Cie Financiere Richemont SA	CFR SW	Discretionary
Barratt Developments PLC	BDEV LN	Discretionary
Sodexo SA	SW FP	Discretionary
Persimmon PLC	PSN LN	Discretionary
Cie Generale des Etablissement	ML FP	Discretionary
Compass Group PLC	CPG LN	Discretionary
Bayerische Motoren Werke AG	BMW GR	Discretionary
Amadeus IT Group SA	AMS SM	IT
Temenos AG	TEMN SW	IT
ASM International NV	ASM NA	IT
Capgemini SE	CAP FP	IT
Edenred	EDEN FP	IT
Telefonaktiebolaget LM Ericsson	ERICB SS	IT
Worldline SA/France	WLN FP	IT

JPM European Defensive - JPDEDEF

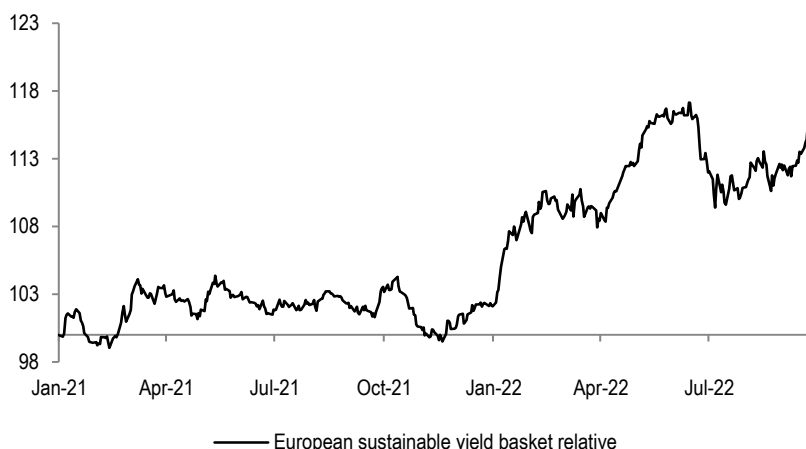
Name	Ticker	Sector
Essity AB	ESSITYB SS	Staples
Orkla ASA	ORK NO	Staples
Beiersdorf AG	BEI GR	Staples
Reckitt Benckiser Group PLC	RKT LN	Staples
Remy Cointreau SA	RCO FP	Staples
Jeronimo Martins SGPS SA	JMT PL	Staples
Swedish Match AB	SWMA SS	Staples
Salmar ASA	SALM NO	Staples
Koninklijke Ahold Delhaize NV	AD NA	Staples
Henkel AG & Co KGaA	HEN3 GR	Staples
Carrefour SA	CA FP	Staples
Danone SA	BN FP	Staples
DiaSorin SpA	DIA IM	Health care
Carl Zeiss Meditec AG	AFX GR	Health care
BioMerieux	BIM FP	Health care
Novo Nordisk A/S	NOVOB DC	Health care
Coloplast A/S	COLOB DC	Health care
Sanofi	SAN FP	Health care
Telia Co AB	TELIA SS	Com. Services
Scout24 SE	G24 GR	Com. Services
Tele2 AB	TEL2B SS	Com. Services
Auto Trader Group PLC	AUTO LN	Com. Services
Ubisoft Entertainment SA	UBI FP	Com. Services
Bolloré SE	BOL FP	Com. Services
Koninklijke KPN NV	KPN NA	Com. Services
Telefonica Deutschland Holding	O2D GR	Com. Services
Proximus SADP	PROX BB	Com. Services
Infrastrutture Wireless Italia	INW IM	Com. Services
Telecom Italia SpA/Milano	TIT IM	Com. Services
Pearson PLC	PSON LN	Com. Services
Severn Trent PLC	SVT LN	Utilities
Endesa SA	ELE SM	Utilities
Fortum Oyj	FORTUM FH	Utilities
Terna - Rete Elettrica Nazionale	TRN IM	Utilities
United Utilities Group PLC	UU/ LN	Utilities
Enagas SA	ENG SM	Utilities
Naturgy Energy Group SA	NTGY SM	Utilities
Acciona SA	ANA SM	Utilities
Uniper SE	UN01 GR	Utilities
Enel Group SA/NV	ELI BB	Utilities

Source: Datastream, J.P. Morgan, all stocks are equally weighted in the baskets

8a) Sustainable yield baskets

- We compile a list of 40 high- and sustainable-yielding European stocks, with safe dividends and strong balance sheets.

JPM Sustainable yield basket price relative



Source: Bloomberg Finance L.P.

JPM European Sustainable yield basket - JPDESDIV

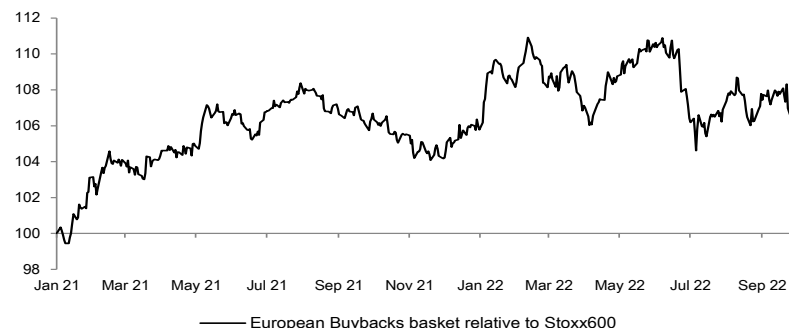
Name	Ticker	Sector	DY
AP Moller - Maersk A/S	MAERSKB DC	Industrials	22.6%
OCI NV	OCI NA	Materials	15.4%
K+S AG	SDF GR	Materials	13.6%
Glencore PLC	GLEN LN	Materials	10.0%
Randstad NV	RAND NA	Industrials	9.8%
Barratt Developments PLC	BDEV LN	Discretionary	9.7%
Credit Agricole SA	ACA FP	Financials	9.1%
Banco Bilbao Vizcaya Argentari	BBVA SM	Financials	8.7%
Engie SA	ENGI FP	Utilities	8.6%
Proximus SADP	PROX BB	Com. Services	8.3%
BASF SE	BAS GR	Materials	8.1%
Intesa Sanpaolo SpA	ISP IM	Financials	7.9%
Imperial Brands PLC	IMB LN	Staples	7.9%
Volvo AB	VOLVB SS	Industrials	7.9%
Aviva PLC	AV/ LN	Financials	7.6%
Bayerische Motoren Werke AG	BMW GR	Discretionary	7.6%
Svenska Handelsbanken AB	SHBA SS	Financials	7.3%
Nordea Bank Abp	NDA SS	Financials	7.2%
Fortum Oyj	FORTUM FH	Utilities	7.1%
Covestro AG	1COV GR	Materials	6.8%
British American Tobacco PLC	BATS LN	Staples	6.8%
J Sainsbury PLC	SBRY LN	Staples	6.4%
Telefonica SA	TEF SM	Com. Services	6.3%
Vodafone Group PLC	VOD LN	Com. Services	6.1%
Swedbank AB	SWEDA SS	Financials	6.1%
Orpea SA	ORP FP	Health care	6.0%
Berkeley Group Holdings PLC	BKG LN	Discretionary	6.0%
Norsk Hydro ASA	NHY NO	Materials	6.0%
Danske Bank A/S	DANSKE DC	Financials	6.0%
Tesco PLC	TSCO LN	Staples	5.8%
Eni SpA	ENI IM	Energy	5.6%
Publicis Groupe SA	PUB FP	Com. Services	5.6%
Deutsche Post AG	DPW GR	Industrials	5.5%
KBC Group NV	KBC BB	Financials	5.5%
Julius Baer Group Ltd	BAER SW	Financials	5.4%
Skandinaviska Enskilda Banken	SEBA SS	Financials	5.4%
Volkswagen AG	VOW GR	Discretionary	5.4%
Industria de Diseno Textil SA	ITX SM	Discretionary	5.2%
Kuehne + Nagel International A	KNIN SW	Industrials	5.0%

Source: Bloomberg Finance L.P., stocks equally weighed in the basket

8b) European Buybacks basket

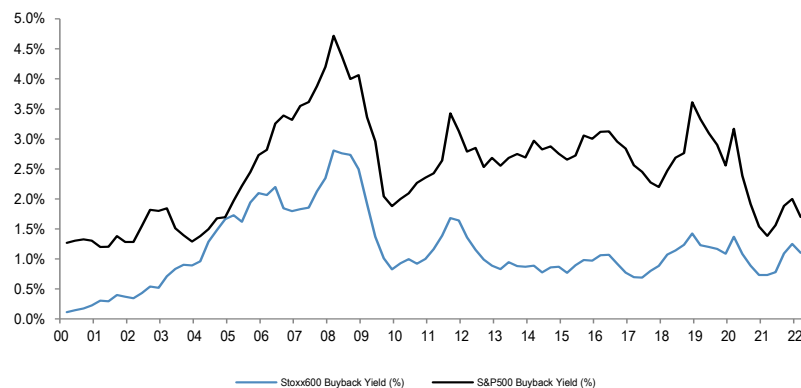
- We believe stocks engaging in buybacks will be rewarded by the market.
- We compile a list of stocks that are currently doing a buyback/are expected to do one in 2022.

European buybacks price relative



Source: Bloomberg Finance L.P., J.P. Morgan

European and US buybacks volumes



Source: Bloomberg Finance L.P., J.P. Morgan

JPM European Buybacks basket - JPDEEUBB

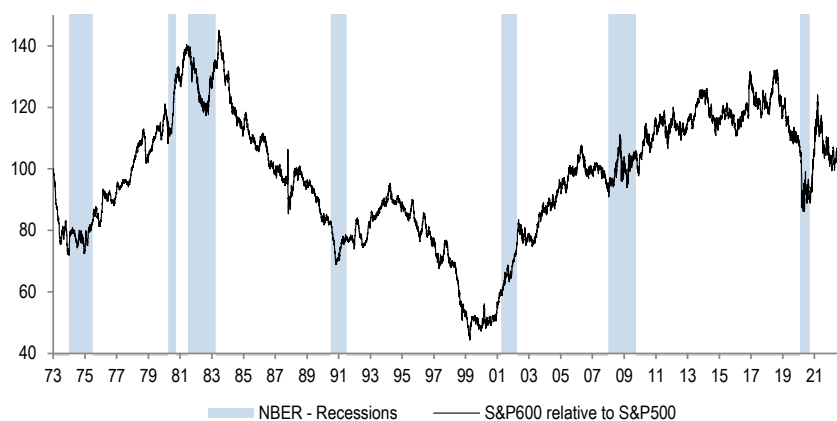
Name	Ticker	Sector	Buyback yield
adidas AG	ADS GR	Discretionary	17.0%
Telia Co AB	TELIA SS	Com. Services	14.1%
DSV A/S	DSV DC	Industrials	10.0%
WPP PLC	WPP LN	Com. Services	10.0%
AP Moller - Maersk A/S	MAERSKB DC	Industrials	10.0%
Rexel SA	RXL FP	Industrials	9.0%
BP PLC	BP/ LN	Energy	8.9%
UBS Group AG	UBSG SW	Financials	8.8%
Standard Chartered PLC	STAN LN	Financials	8.8%
NatWest Group PLC	NWG LN	Financials	8.7%
UniCredit SpA	UCG IM	Financials	8.6%
Scout24 SE	G24 GR	Com. Services	8.0%
Pennon Group PLC	PNN LN	Utilities	7.7%
Nordea Bank Abp	NDA SS	Financials	7.1%
ArcelorMittal SA	MT NA	Materials	7.0%
ABB Ltd	ABBN SW	Industrials	7.0%
CaixaBank SA	CABK SM	Financials	6.4%
Eni SpA	ENI IM	Energy	6.2%
Pearson PLC	PSO LN	Com. Services	6.0%
ABN AMRO Bank NV	ABN NA	Financials	5.5%
Sampo Oyj	SAMPO FH	Financials	5.3%
Kingfisher PLC	KGF LN	Discretionary	5.2%
Equinor ASA	EQNR NO	Energy	5.1%
Barratt Developments PLC	BDEV LN	Discretionary	5.1%
Acerinox SA	ACX SM	Materials	5.0%
Vivendi SE	VIV FP	Com. Services	5.0%
Carrefour SA	CA FP	Staples	5.0%
Novartis AG	NOVN SW	Health care	5.0%
Hikma Pharmaceuticals PLC	HIK LN	Health care	5.0%
InterContinental Hotels Group	IHG LN	Discretionary	4.8%
Intesa Sanpaolo SpA	ISP IM	Financials	4.8%
Lloyds Banking Group PLC	LLOY LN	Financials	4.5%
Taylor Wimpey PLC	TW/ LN	Discretionary	4.4%
Tesco PLC	TSCO LN	Staples	4.3%
Pandora A/S	PNDORA DC	Discretionary	4.0%
APERAM SA	APAM NA	Materials	4.0%
Burberry Group PLC	BRBY LN	Discretionary	4.0%
Berkeley Group Holdings PLC	BKG LN	Discretionary	4.0%
Vinci SA	DG FP	Industrials	4.0%
Julius Baer Group Ltd	BAER SW	Financials	3.9%
Banco Santander SA	SAN SM	Financials	3.9%
Novo Nordisk A/S	NOVOB DC	Health care	3.8%
Barclays PLC	BARC LN	Financials	3.7%
Koninklijke Ahold Delhaize NV	AD NA	Staples	3.6%
Jyske Bank A/S	JYSK DC	Financials	3.4%
Nestle SA	NESN SW	Staples	3.4%
Henkel AG & Co KGaA	HEN3 GR	Staples	3.1%
Royal Mail PLC	RMG LN	Industrials	3.0%
Carlsberg AS	CARLB DC	Staples	2.9%
Next PLC	NXT LN	Discretionary	2.9%

Source: Bloomberg Finance L.P., J.P. Morgan, all stocks are liquidity weighted in the basket

9) US small cap valuations still look cheap...

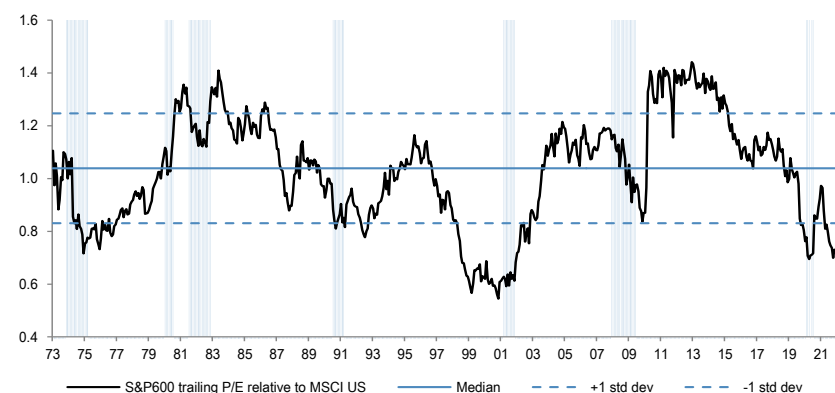
- The rebound in US small-caps has stalled.
- US small-cap valuations are trading on the cheap side of fair value relative to large caps.

S&P600 relative to S&P500



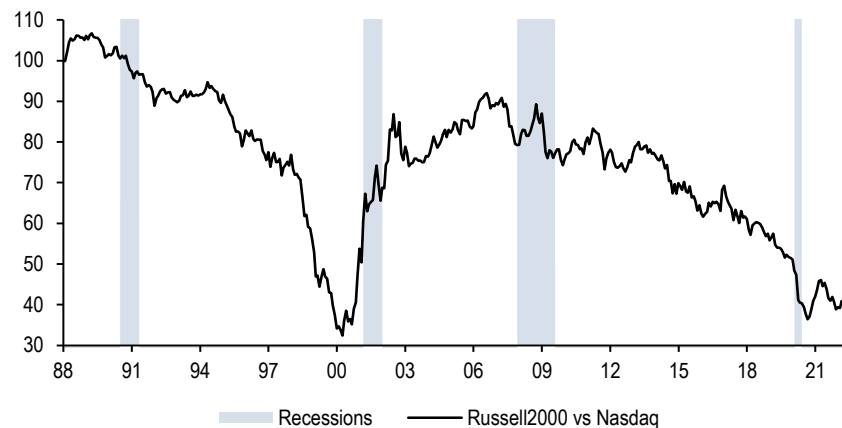
Source: Datastream

S&P600 small caps trailing P/E relative to MSCI US



Source: Datastream, shaded bars denote recession

Russell2000 relative to Nasdaq



Source: Datastream

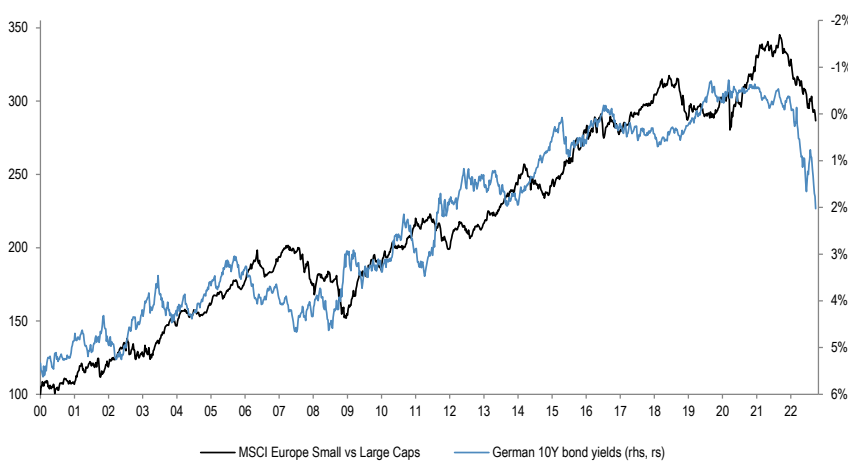
...Eurozone small caps have derated as well

Europe small vs large caps



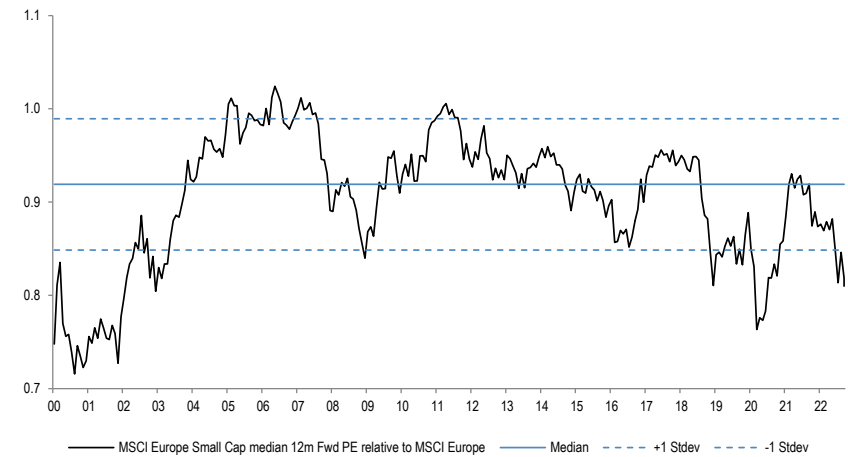
Source: Datastream

Europe small vs large caps vs German 10Y bond yields



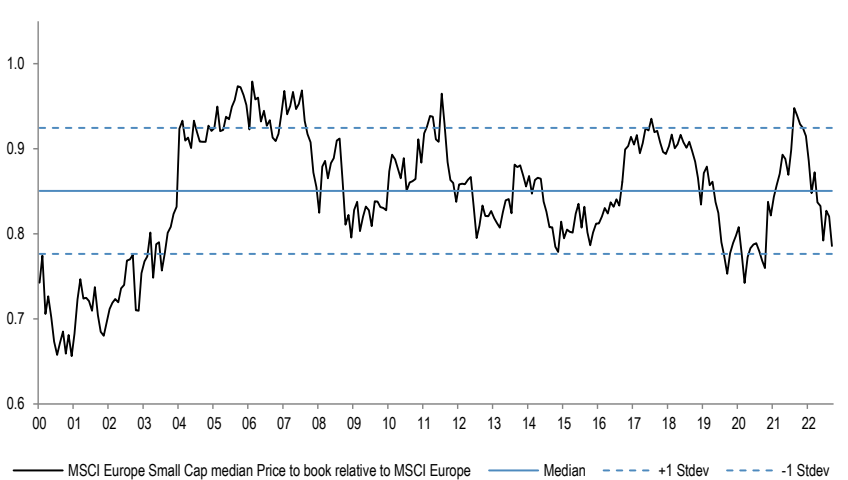
Source: Datastream

European small-cap 12m Fwd P/E relative to large caps



Source: Datastream, IBES

European small-cap Price to Book relative to large caps



Source: Datastream

European Sector Allocation

European sector allocation				
	MSCI Europe Weights	Allocation	Deviation	Recommendation
Energy	4.6%	6.0%	1.4%	OW
Materials	7.8%	9.0%	1.2%	OW
				N
				N
				OW
Industrials	15.1%	14.0%	-1.1%	N
				N
				OW
				OW
				N
Consumer Discretionary	10.5%	12.0%	1.5%	N
				OW
				N
				OW
				OW
				N
Consumer Staples	12.5%	10.0%	-2.5%	UW
				UW
				UW
				UW
				UW
Healthcare	14.5%	12.0%	-2.5%	UW
Financials	15.8%	18.0%	2.2%	OW
				OW
				OW
Real Estate	1.3%	0.0%	-1.3%	UW
Information Technology	8.8%	8.0%	-0.8%	N
				UW
				N
				N
Communication Services	4.9%	6.0%	1.1%	OW
				OW
				N
Utilities	4.2%	5.0%	0.8%	N

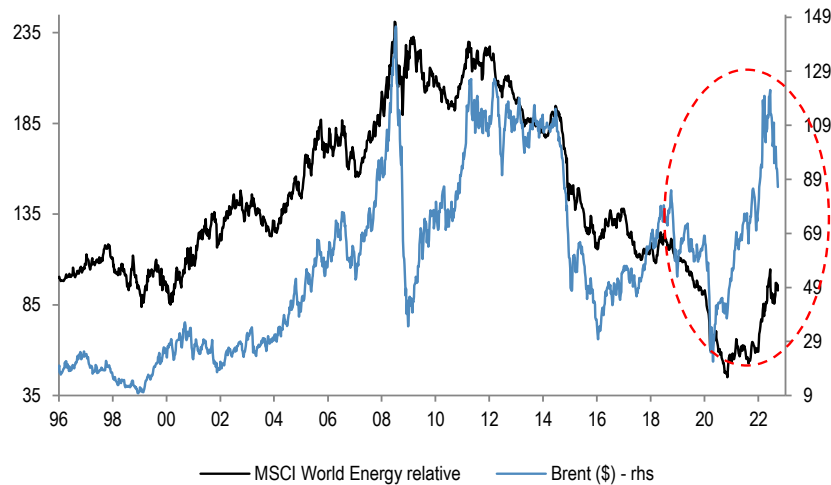
Source: MSCI, J.P. Morgan, Datastream

ENERGY: OVERWEIGHT

We upgraded to OW in August of last year, but a tactical stalling ahead...

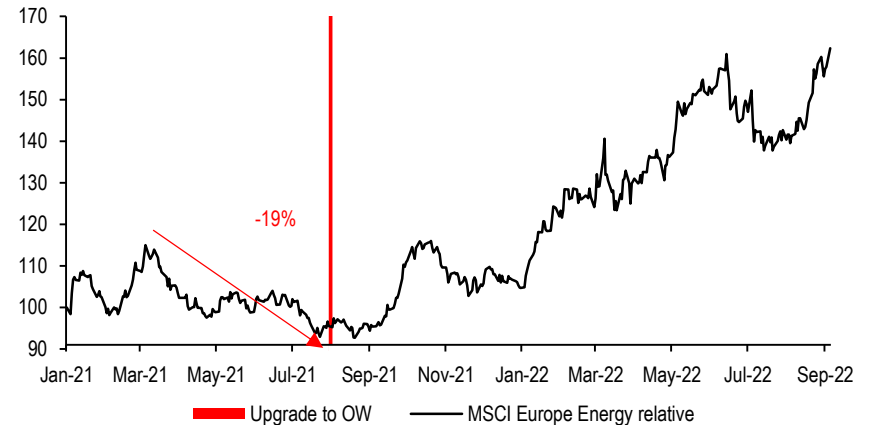
- Up until late August last year, Energy sector was the worst performing of all the European sectors, underperforming the benchmark by nearly 20% from March '21 high. The oil price surge lifted sentiment on the space and the sector outperformed strongly since. This could be a point to consider taking some profits, tactically.

Energy sector relative performance vs oil price



Source: Datastream

MSCI Europe Energy price relative

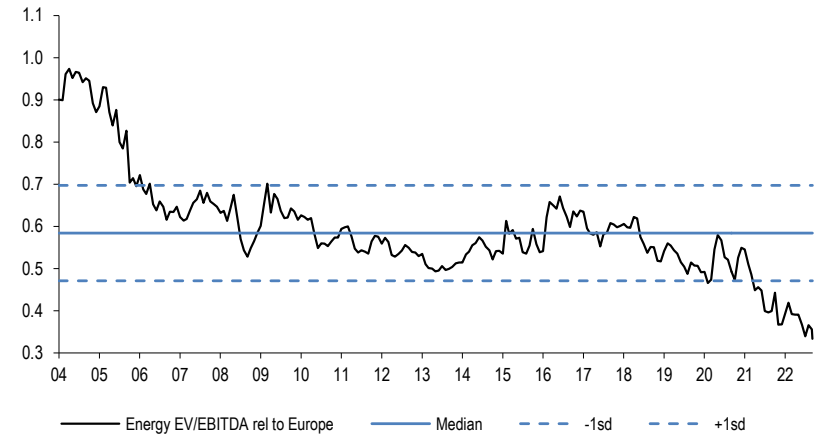


Source: Datastream

....record cheap valuations and better earnings revisions are supports...

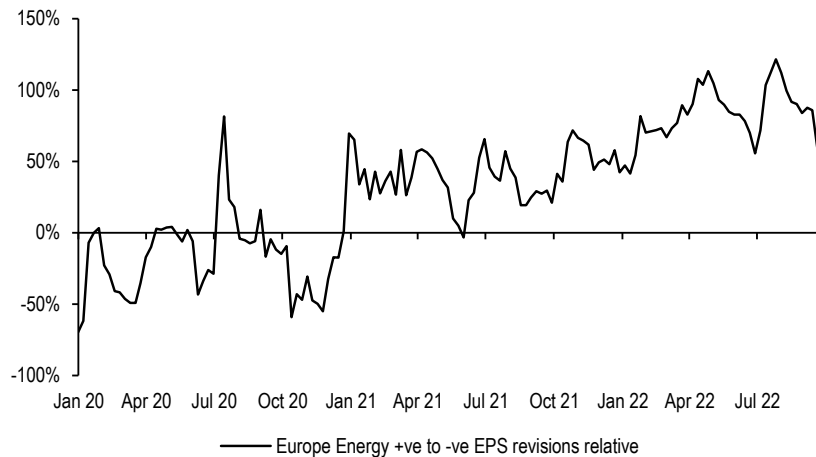
- Valuation case is strong. On EV / EBITDA relative, the sector is close to the cheapest on record. It trades on the cheap side of fair value on Price to Book as well.
- The sector has been seeing strong earnings upgrades.

European Energy EV/EBITDA relative



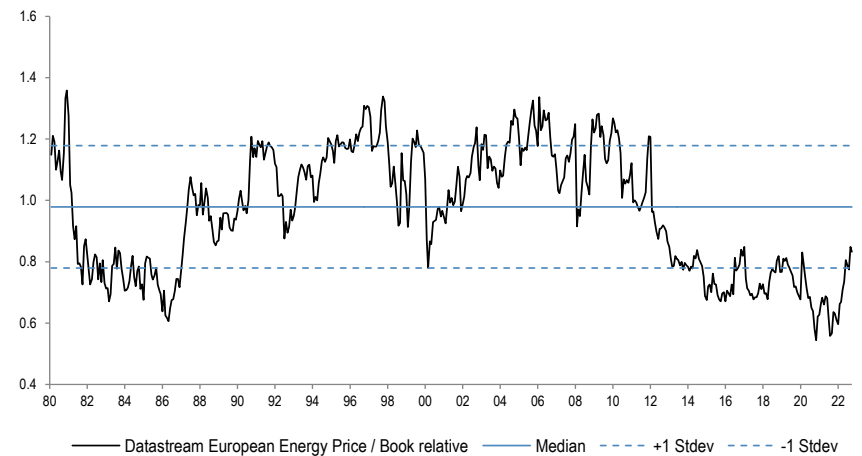
Source: Datastream

European Energy EPS revisions relative



Source: IBES

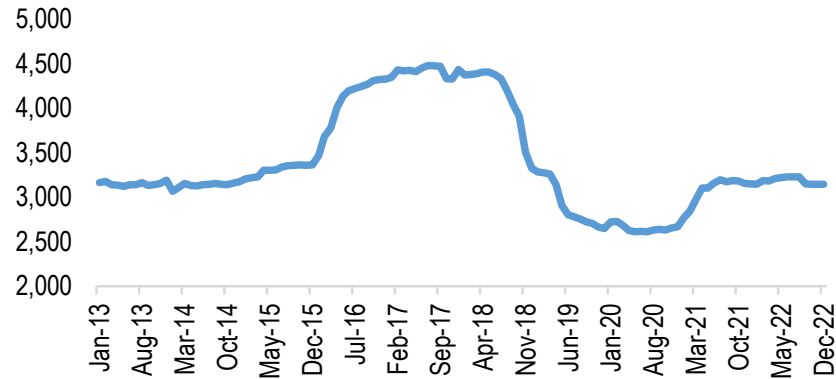
European Energy P/Book relative



Source: Datastream

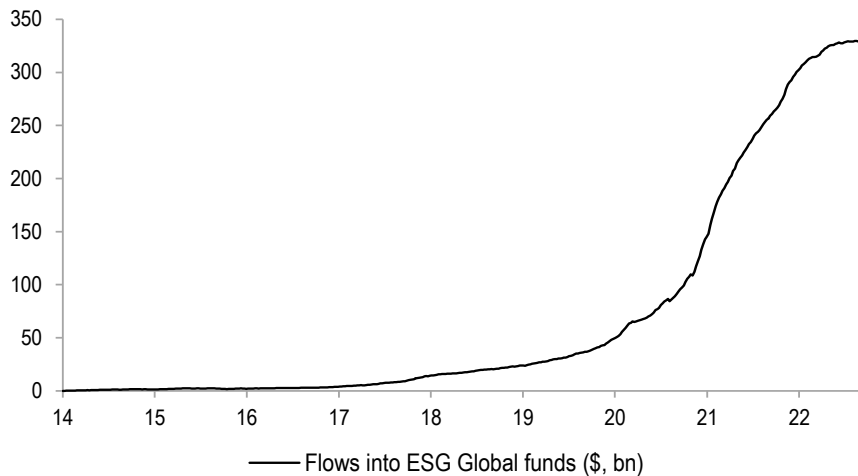
ESG overhang is a longer term headwind, though

Iran production (crude and condensate)



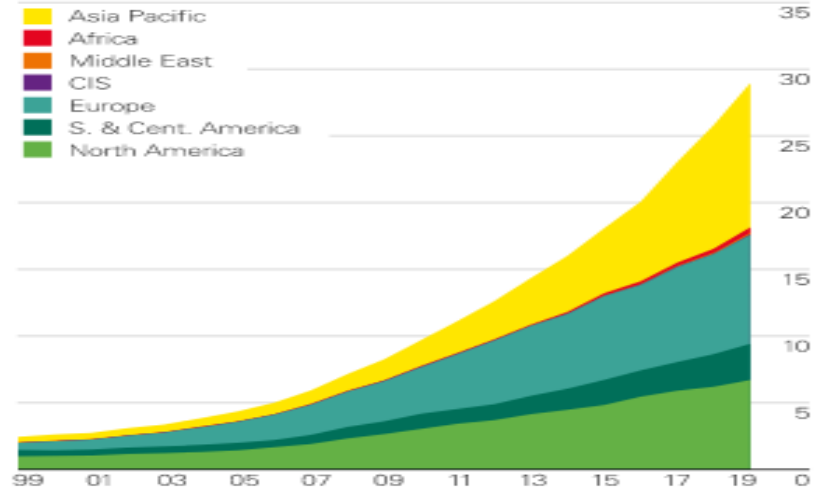
Source: J.P. Morgan commodity research

Flows into ESG Global Funds



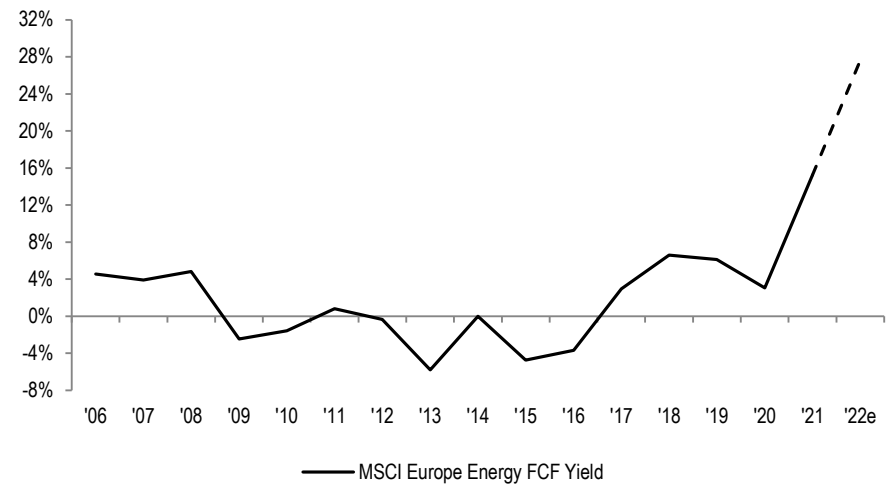
Source: EPFR

Penetration of renewables since 1999



Source: BP

European Energy FCF yield



Source: IBES

MATERIALS: OVERWEIGHT

OW Mining – resilient earnings and a potential turn higher in China...

- European Miners had outperformed strongly at the start of the year, as high inflation and geopolitical developments drove investors towards the sector. After unwinding most of their ytd gains, they are now performing better again.
- We believe that the sector can do well. China growth momentum is likely bottoming out, and policy is likely to get more stimulative.
- Further, the sector offers strong balance sheets and very high and well covered dividend yields.

MSCI Europe Mining relative



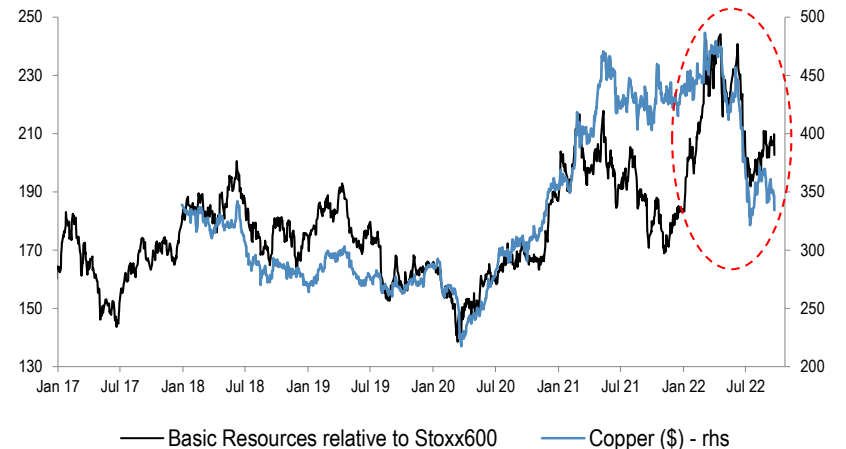
Source: Datastream

Iron ore



Source: Datastream

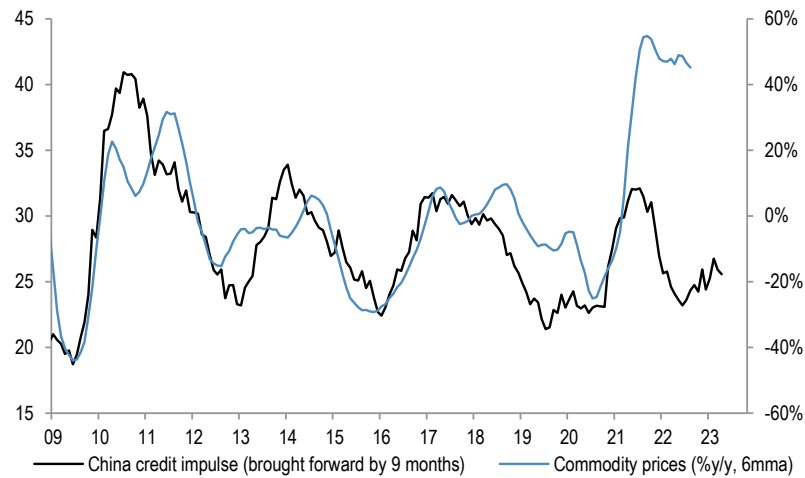
European Mining relative and Copper



Source: Bloomberg Finance L.P.

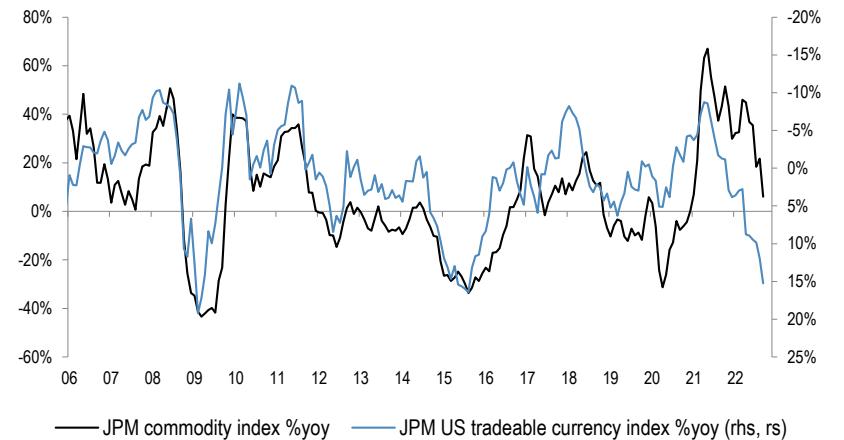
...potential peaking in dollar and the shift to a more accommodative stance by Chinese policymakers are likely to help

China credit impulse and industrial metals spot price



Source: J.P. Morgan, Bloomberg Finance L.P.

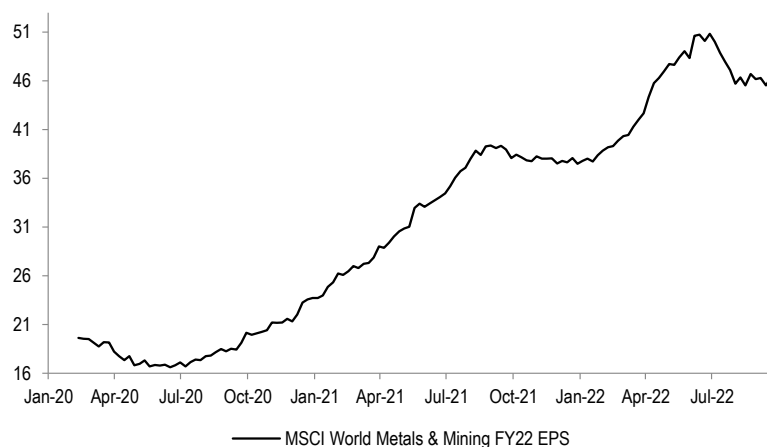
JPM tradeable USD and Commodity prices



Source: J.P. Morgan, Bloomberg Finance L.P.

FY22 Earnings are improving, FCF yield is high, balance sheets are resilient and valuations look attractive

Mining FY22 EPS



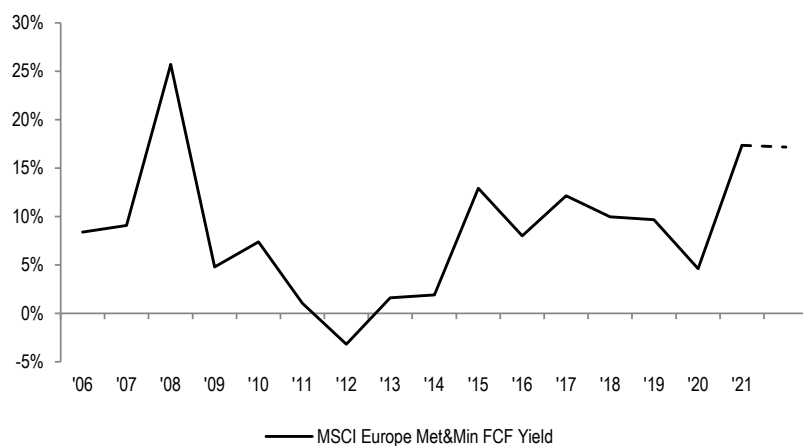
Source: IBES

2022e DY of key big miners

Name	Ticker	22e DY
NORSK HYDRO	NHY NO	14.3%
RIO TINTO	RIO LN	11.6%
GLENCORE	GLEN LN	10.4%
ANGLO AMERICAN	AAL LN	8.1%
BOLIDEN ORD SHS	BOL SS	6.9%
ANTOFAGASTA	ANTO LN	4.2%
ARCELORMITTAL	MT NA	2.5%

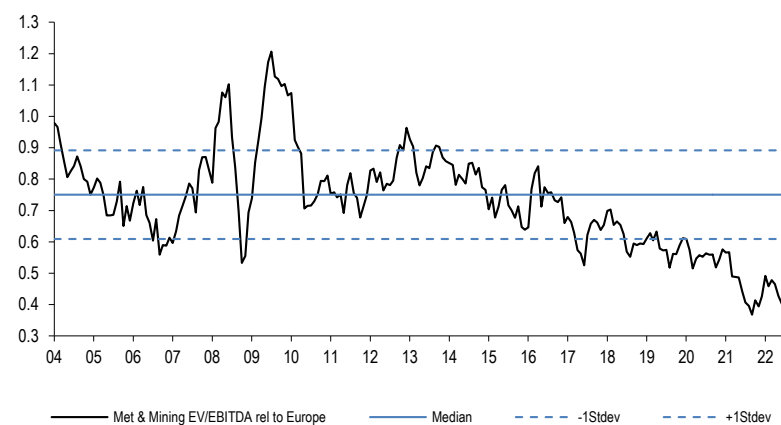
Source: Datastream

European Mining FCF yield



Source: Datastream

Mining EV/EBITDA relative

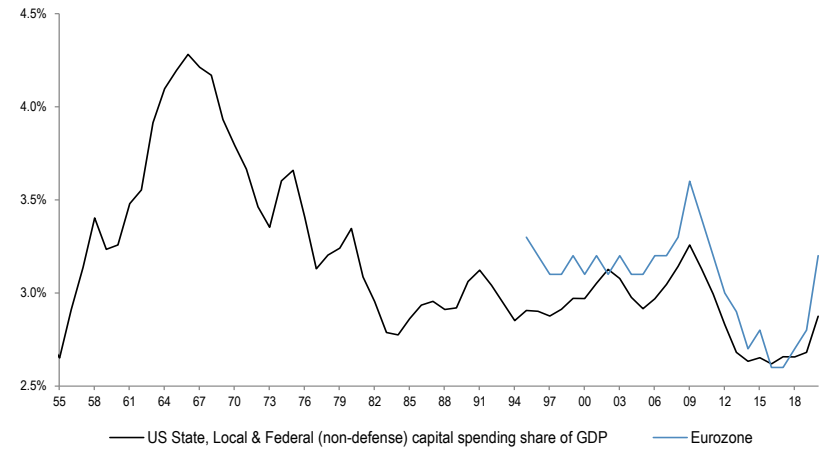


Source: Datastream

N Construction Materials – still cautious, but valuations are attractive

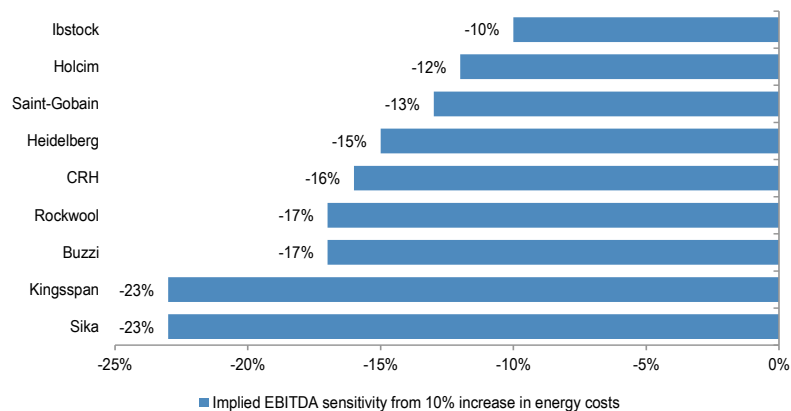
- The sector is a beneficiary of infrastructure spend. Fixed investment as a share of GDP has picked up in both the US and Eurozone last year.
- However, a potential risk for the EM-leveraged cement names is the increasing focus on reducing carbon emissions. The Cement sector accounts for c.8% of global carbon emissions.
- Valuations look supportive, but margins could come under pressure near term from rising input costs.
- The sector earnings is particularly vulnerable to higher energy costs.

US and Eurozone public fixed investment share of GDP



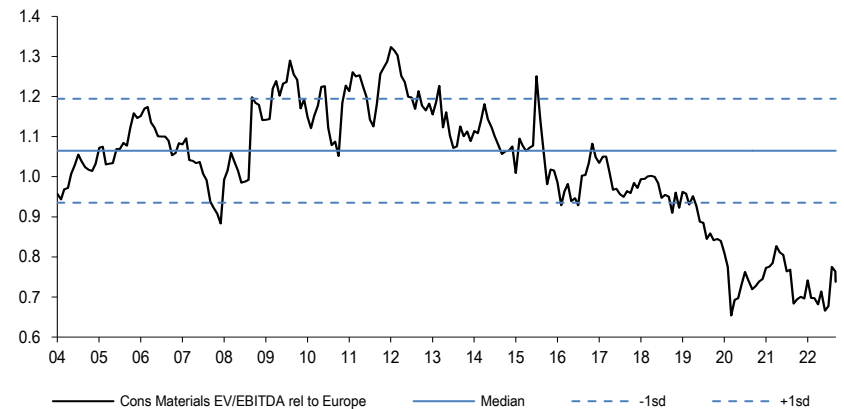
Source: BEA, Eurostat

EBITDA sensitivity from 10% increase in energy costs



Source: J.P. Morgan European Construction Materials Team

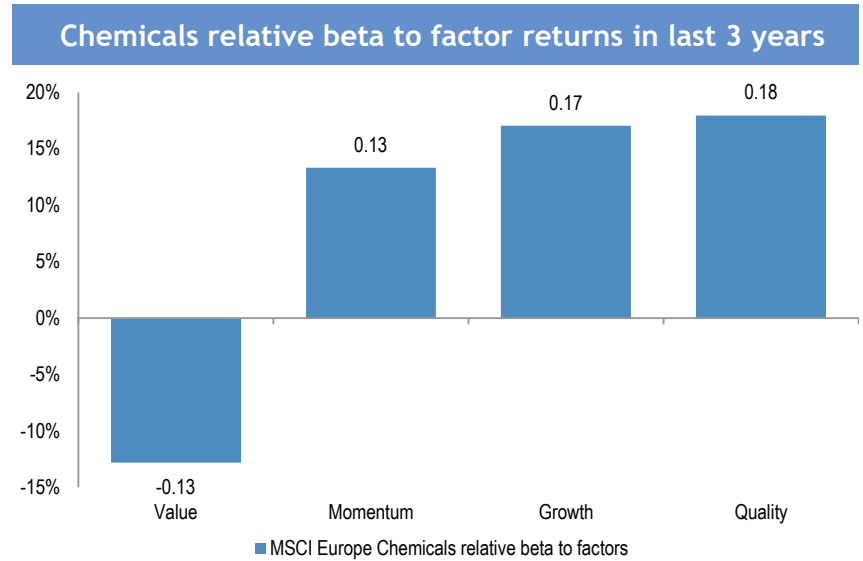
Construction Materials EV / EBITDA relative



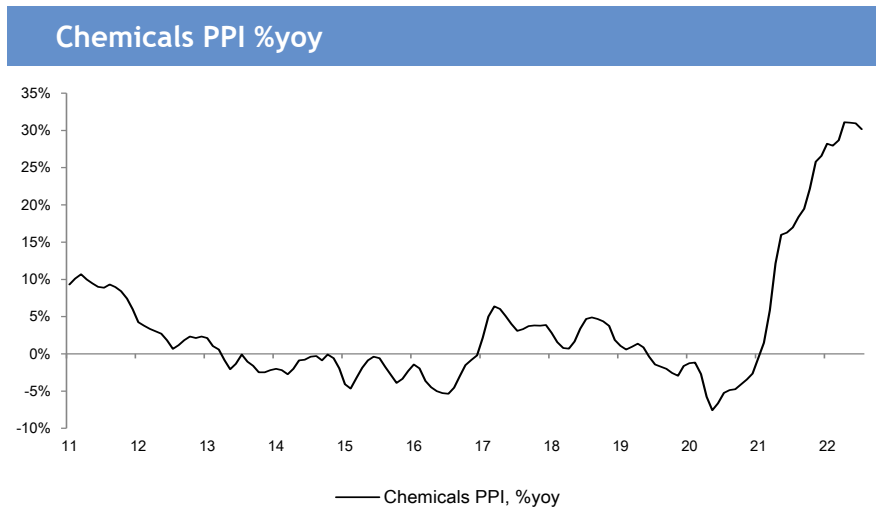
Source: Datastream

N Chemicals – The sector is still trading expensive...

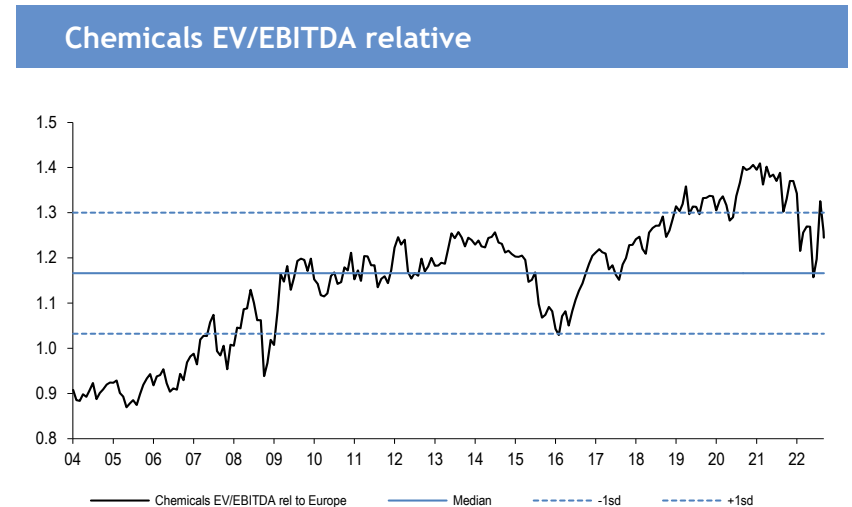
- The sector clearly exhibits a bias towards Defensives, like AIR, and hence may not outperform.
- On the positive side, pricing has improved strongly, and there has been minimal impact to the sector from the Autos slowdown.



Source: J.P. Morgan, Datastream



Source: Bloomberg Finance L.P.



Source: Datastream

...Chemicals are vulnerable to disruptions to gas supply

- The sector is particularly vulnerable to any disruptions to Russian gas supply in Europe.
- Most chemical companies have high energy intensity, which is particularly concerning because of the sharp increases in gas prices.

Energy costs as a % of Revenue and % of COGS for some companies which disclose annual energy costs

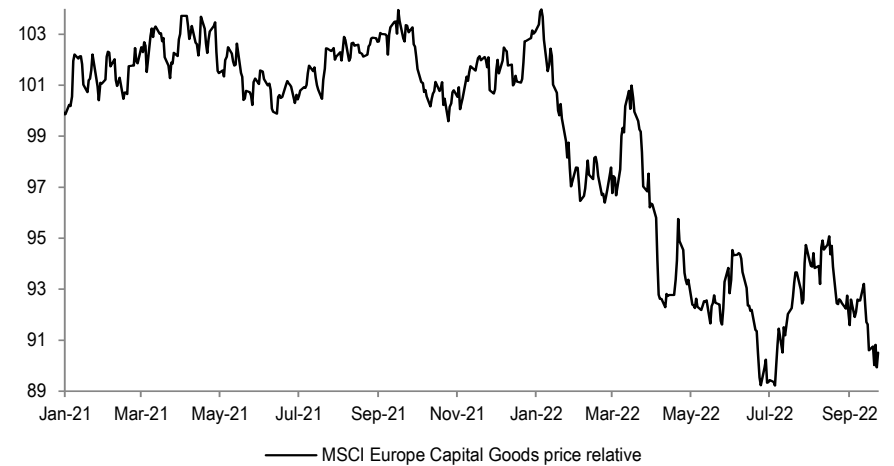
	Energy spend as a % of sales			Energy spend as a % of COGS			YoY increase in energy spend in FY21
	2019	2020	2021	2019	2020	2021	
Air Liquidie		22.0%	27.9%		62.5%	69.2%	44.4%
BASF		2.1%	6.5%				309.3%
Covestro		4.7%	6.3%		6.1%	8.7%	100.0%
DSM		1.9%	2.3%		2.8%	3.6%	43.3%
Elementis			2.4%			3.9%	
Evonik		4.1%	4.7%		5.7%	6.4%	40.0%
JMAT	1.6%	1.6%	2.2%				32.8%
K+S	9.0%	9.7%	9.2%	10.4%	10.2%		24.3%
Lanxess		4.9%	6.6%		6.6%	8.8%	66.7%
Solvay	6.0%	5.5%	7.8%	7.4%	6.8%	9.3%	61.0%
Umicore	3.0%	3.1%	3.6%				44.6%
Victrex	1.9%	2.3%	2.5%	5.0%	5.0%	5.2%	24.6%
Wacker	8.1%	7.7%	7.2%	9.7%	9.5%	9.9%	23.7%

INDUSTRIALS: NEUTRAL

N Capital Goods – still unattractive risk-reward...

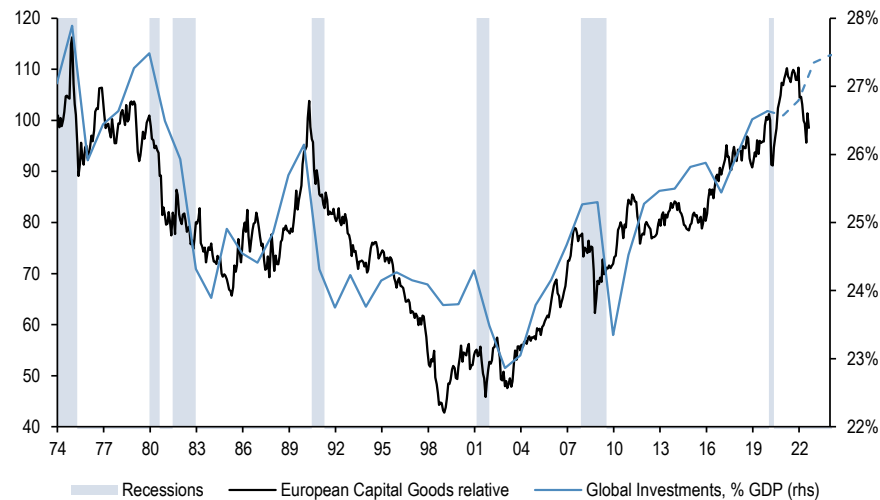
- Capital goods sector has struggled so far this year as investors took profits on the quality names within the sector.
- On the positive side, EU recovery fund implementation has started. The Fund's focus on renewables, building renovation and clean mobility should support the Capital Goods space.

European Capital Goods relative



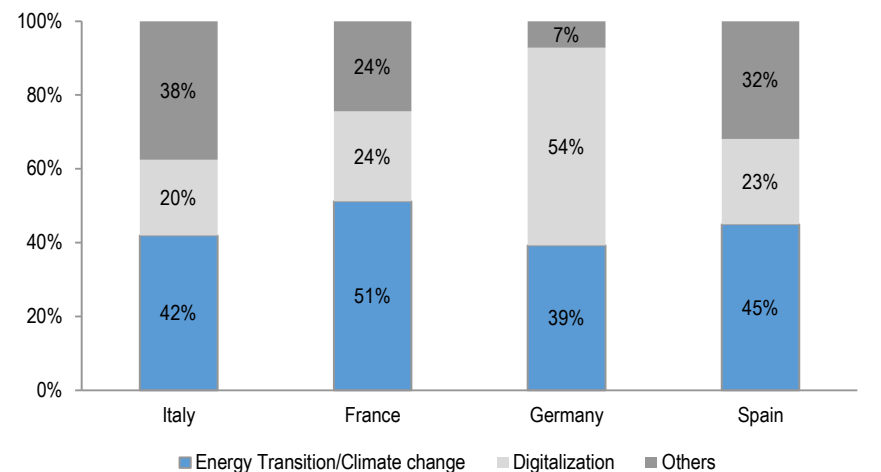
Source: Datastream

European Capital Goods relative and global investments as a share of GDP



Source: IMF - WEO 2020, Datastream

Resource allocation in EU Recovery fund national plans

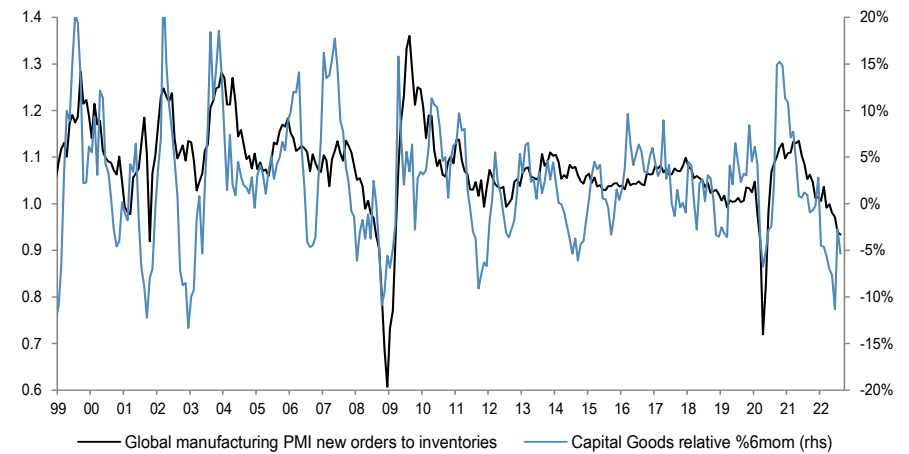


Source: Bruegel. *Note: Based on National plans submitted between April 25-28, 2021

...valuations appear stretched

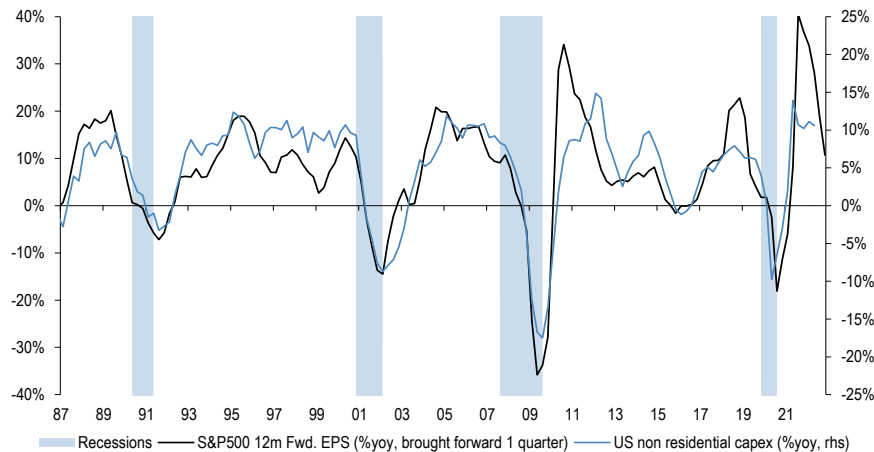
- Capital Goods are a traditional beta play on PMI momentum, and the sector's price relative is closely linked to PMI direction.
- The sector's valuations look unattractive.

Capital Goods relative vs Manufacturing PMI New orders to inventories



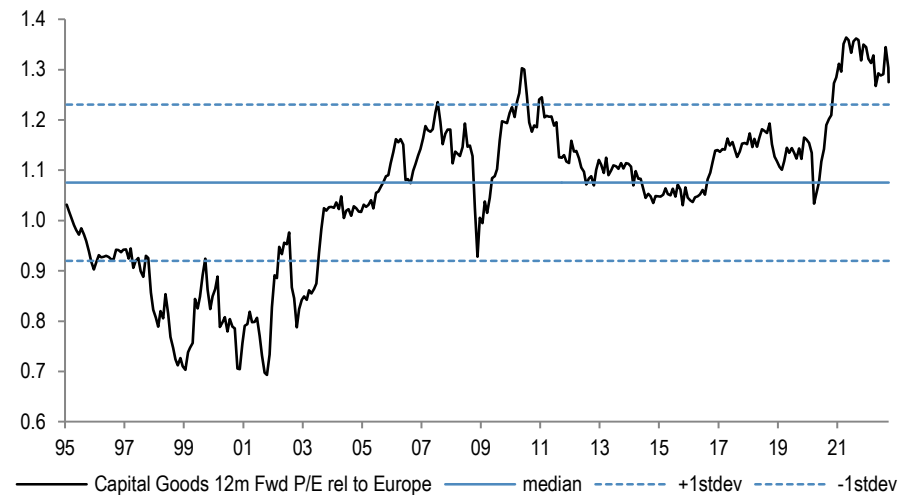
Source: Datastream, J.P. Morgan

US Capex and market Earnings Growth



Source: BEA, IBES

Capital Goods 12m forward P/E relative



Source: IBES

OW Aerospace & Defense

- Civil Aero, which falls under the Capital Goods umbrella, has also been weak last year. However, our sector analysts highlight that these stocks have healthy balance sheets, with Airbus in particular well positioned and will benefit from an accelerated replacement cycle.
- The Russian-Ukrainian crisis has reignited expectations for higher Defense related spend, particularly in Europe. This should help the Defense sub-sector.
- Within Industrials, Airlines have been disproportionately impacted by travel restrictions. While the sector should benefit as travel normalizes, COVID-19 still remains an overhang, as are the rising cost pressures from higher oil prices, and whether the stocks will have pricing power to offset this.

MSCI Europe Aerospace and Defense relative



Source: Datastream

MSCI Europe Airlines relative, since Jan 20



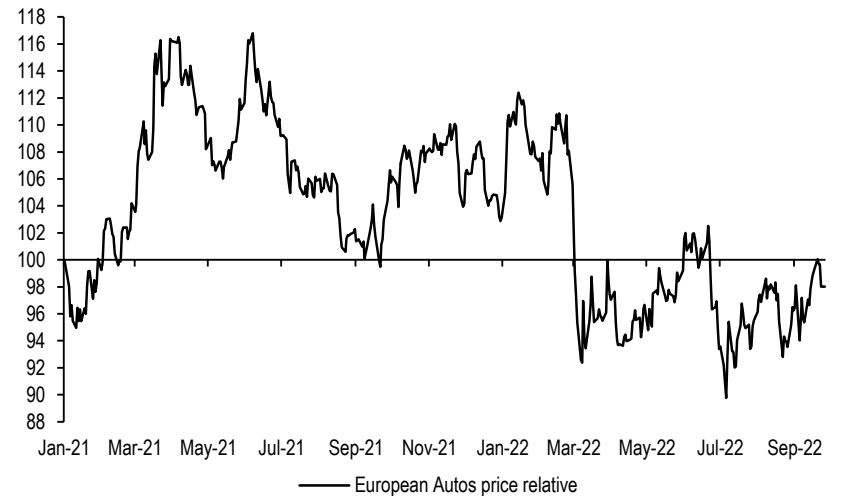
Source: Datastream

CONSUMER DISCRETIONARY: NEUTRAL

Autos are pressured by geopolitics, but valuations look cheap

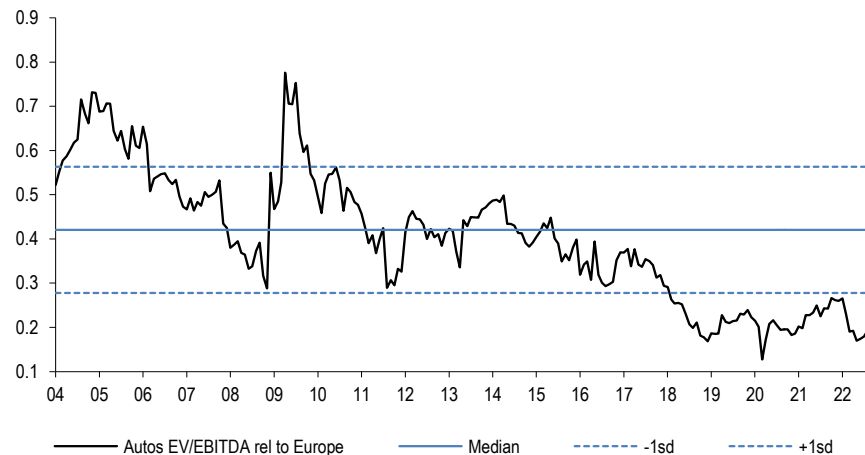
- Autos witnessed some profit taking as geopolitics has dominated the market narrative.
- The sector still looks cheap on a range of valuation measures, such as Price to Book, as well as on EV/EBITDA.

European Autos price relative



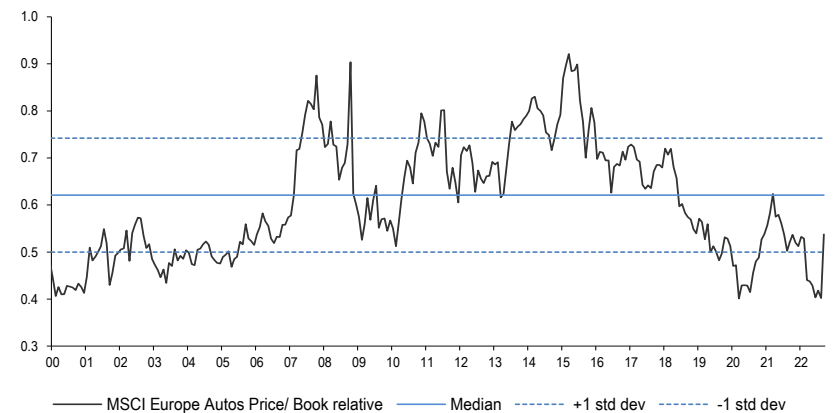
Source: Bloomberg Finance L.P.

Autos EV/EBITDA relative



Source: Datastream

European Autos P/Book relative

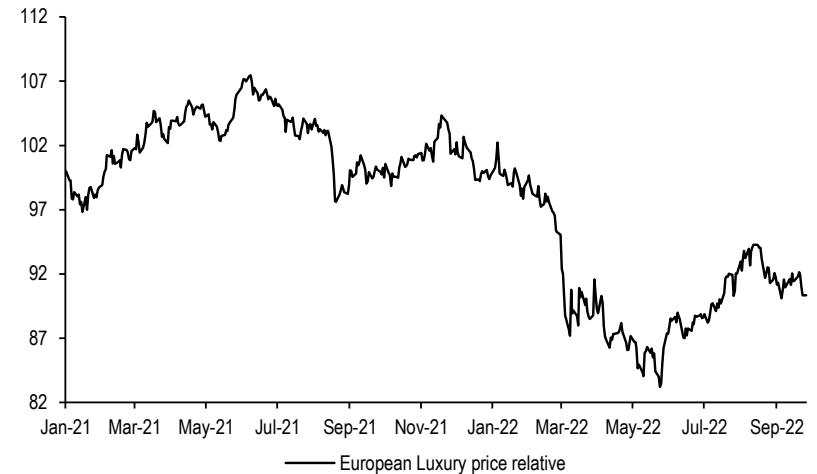


Source: Datastream

N Consumer Durables – The sector appears to be an expensive Growth play and could be hurt by a potential Value recovery

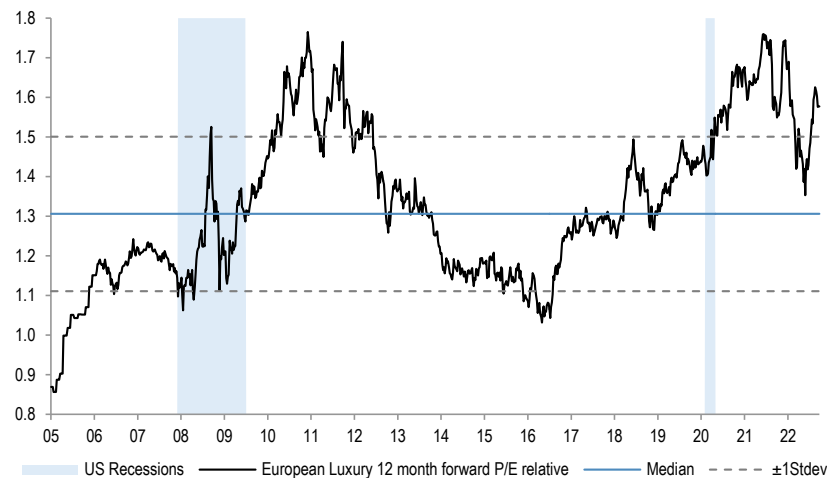
- The performance of Luxury Goods was generally aligned with the Quality trade.
- The sector has derated, but continues to trade on stretched forward P/E multiples. We do not see the sector outperforming this year.
- Chinese consumer demand remains one of the biggest drivers of luxury sector earnings. While China data has been generally on the mend, we are concerned about the longer-term implications of China's common prosperity policy and the impact it has on consumption of luxury products and on gifting.

European Luxury price relative



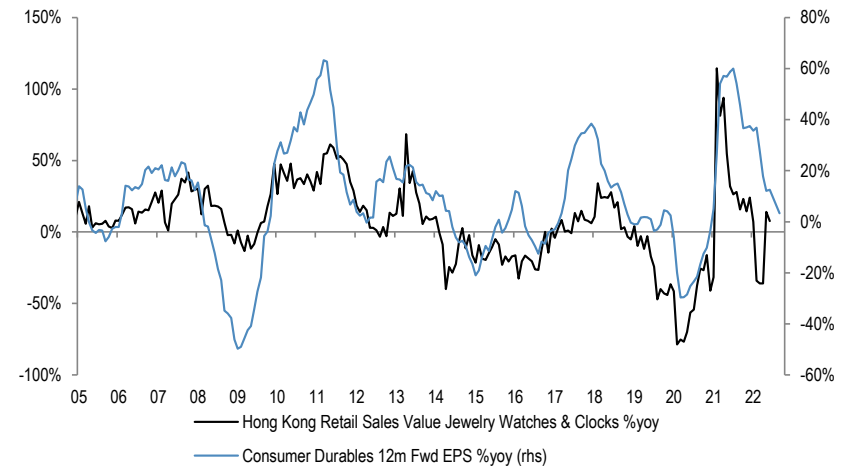
Source: IBES

European Luxury 12m Fwd P/E relative



Source: IBES

HK SAR Jewelry watches sales vs Durables 12m Fwd EPS

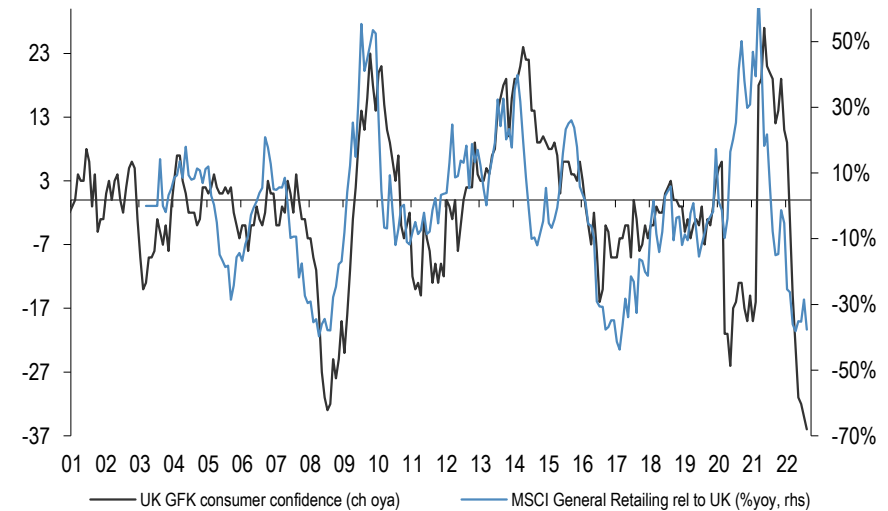


Source: IBES, Bloomberg Finance L.P.

OW Speciality Retail / N Internet Retail – specialty retailers to outperform relative to pure-online plays

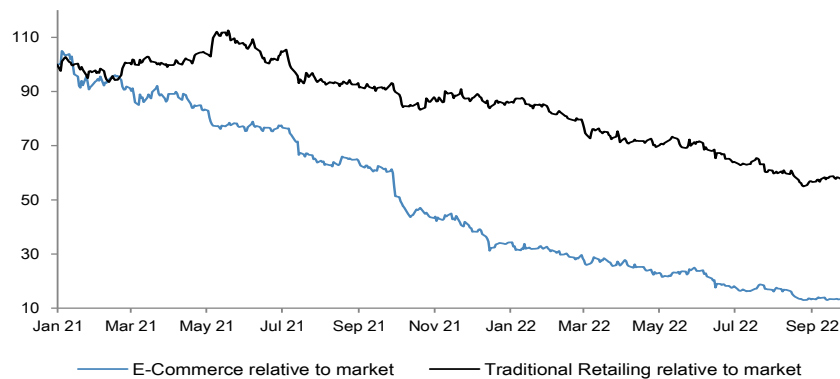
- The General Retail sector has been transformed by the increasing market capitalization of online players.
- The sector has traditionally been a consumer play; however, the relative success of online retailers during the pandemic helped the sector do well even through the dismal consumer backdrop.
- Online players came under pressure last year as investors took profits following the exceptional performance in 2020. Traditional retail was relatively more stable, but still continues to underperform MSCI Europe.

UK Retailing relative performance vs consumer confidence



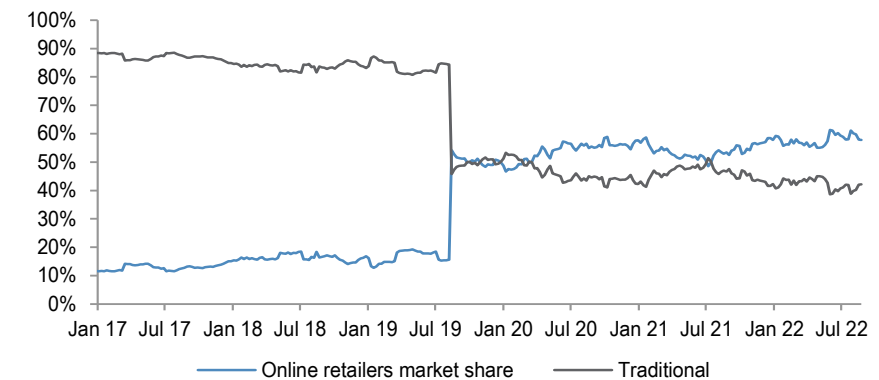
Source: Bloomberg Finance L.P., Datastream

Performance of E-commerce vs Traditional Retail



Source: Bloomberg Finance L.P., E-Commerce plays considered include AO World, ASOS, Boohoo, Zalando. Traditional Retail considered include Ceconomy, Dunelm, GrandVision, Halfords, Hennes & Mauritz 'B', Inditex, Kingfisher, Maisons Du Monde, Marks & Spencer, Next, WH Smith, Superdry, Ted Baker

Sector weight progression of traditional vs online retailers

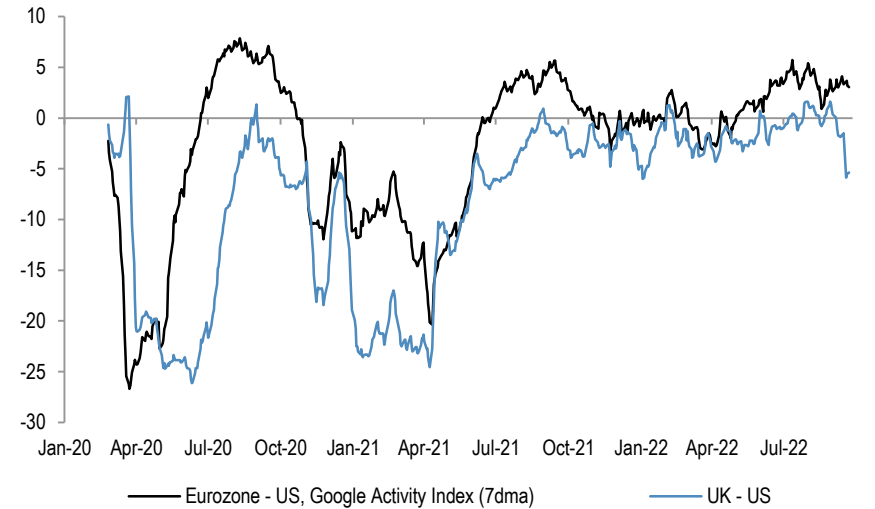


Source: Datastream. * Prosus, which is 33% of the current index weight, was listed on 13th Sep '19

OW Hotels, Restaurants, Leisure – one of the key plays on potential consumer normalisation

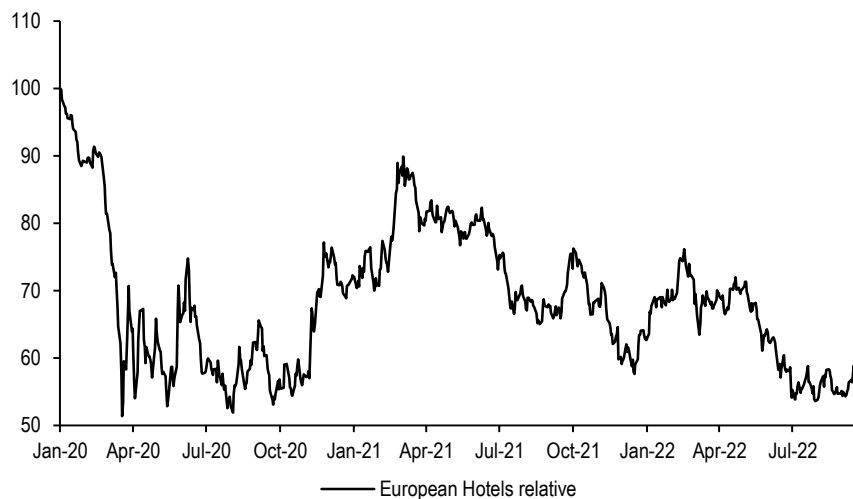
- We believe that the unwind of COVID-19 related headwinds should continue in the DM.

Google activity Index - Europe vs US



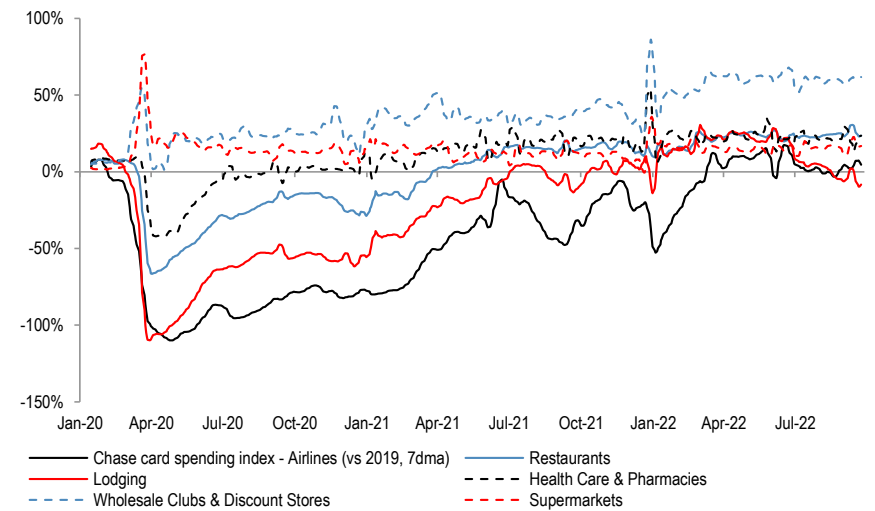
Source: Google Covid-19 mobility report

European Hotels relative



Source: Datastream, J.P. Morgan

Chase card data - by spending categories



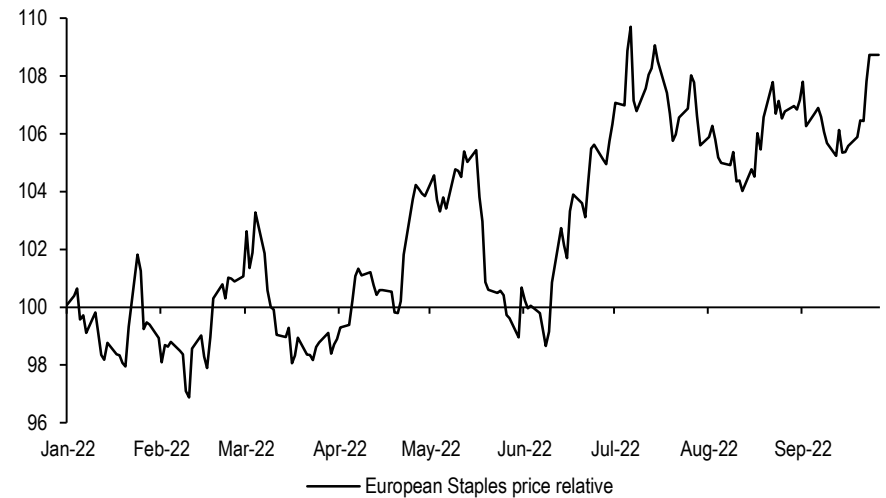
Source: J.P. Morgan Economics Research

CONSUMER STAPLES: UNDERWEIGHT

Likely to come under pressure given input cost squeeze, expensive

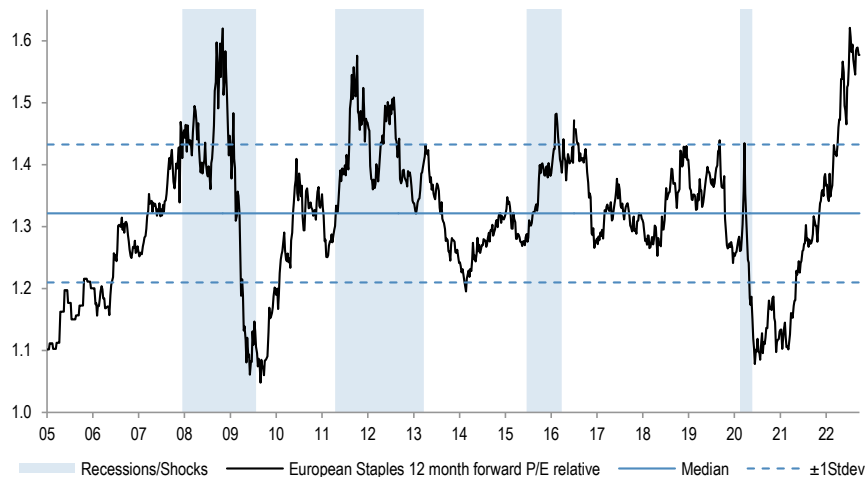
- We see the sector struggling relative to peers as some of the constraints, such as elevated raw material costs are likely to stay a problem.
- Current level of bond yields indicate downside risk for the sector's relative performance.
- Valuations do not look too attractive for Staples, as well.

European Staples relative



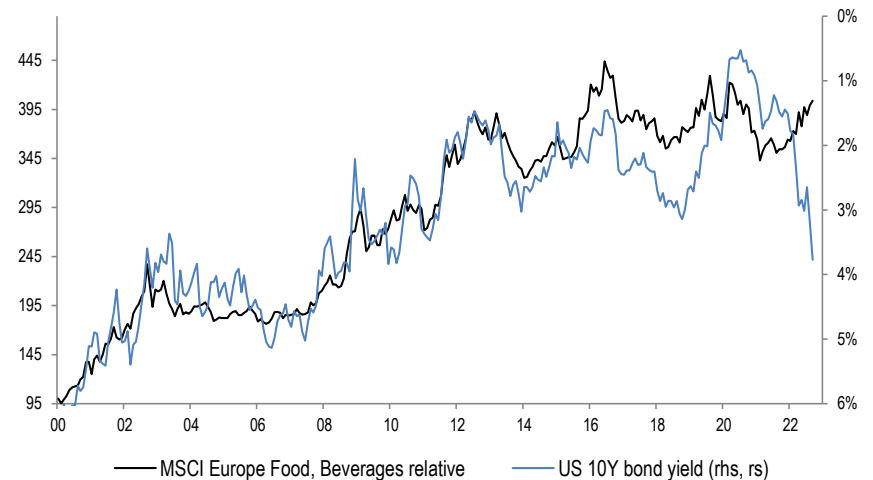
Source: Datastream

MSCI Europe Staples 12m Fwd PE relative



Source: IBES

MSCI Europe Food & Beverages vs US 10Y bond yield



Source: Datastream

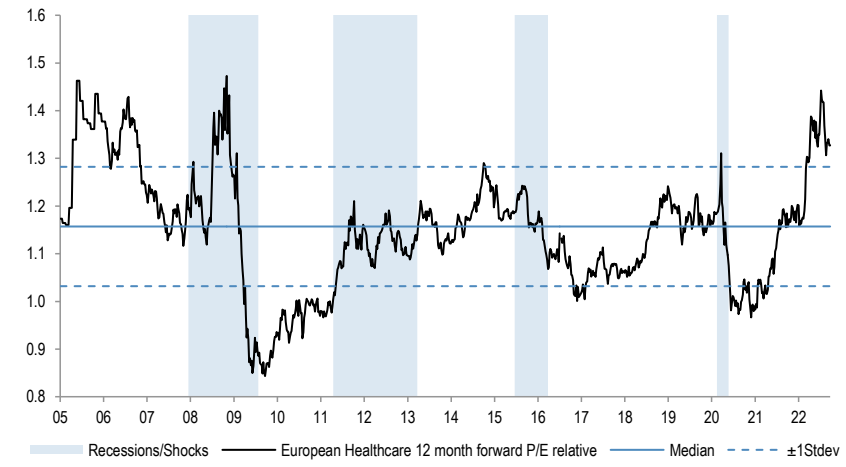
J.P.Morgan

HEALTHCARE: UNDERWEIGHT

Pharma was helped as it is viewed as a safe haven... rich valuations and peaking USD are headwinds from here...

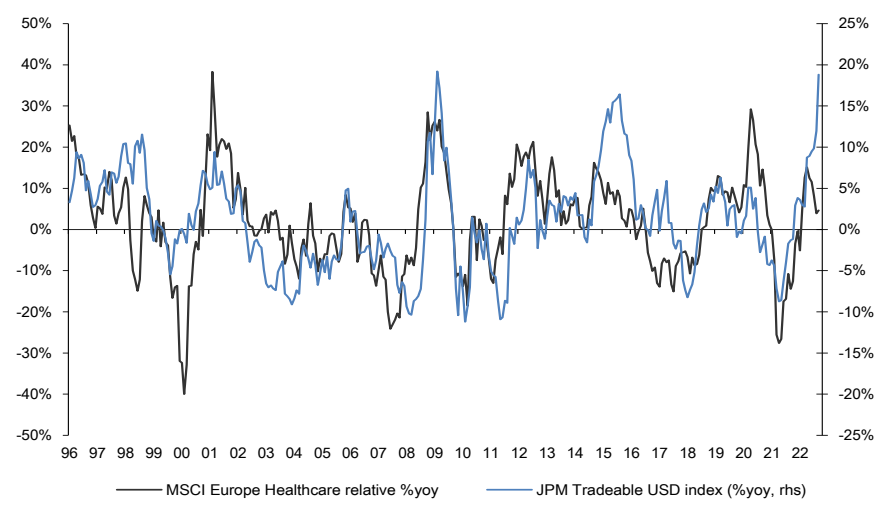
- The Healthcare sector has significant dollar revenues and does well against a strong dollar backdrop. Potential peaking in the dollar would be a problem for the sector's relative performance.
- Healthcare is trading outright expensive on P/E metric.

European Healthcare 12m Fwd. P/E relative



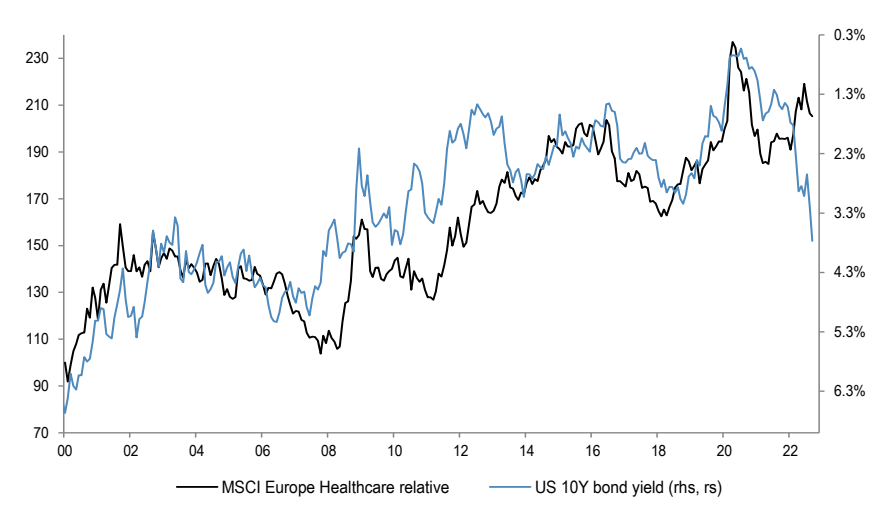
Source: IBES

MSCI Europe Healthcare relative and tradeable USD



Source: Bloomberg Finance L.P.

Healthcare price relative vs bond yields



Source: Datastream

...this is a tactical cautious call as structural positives for the sector remain

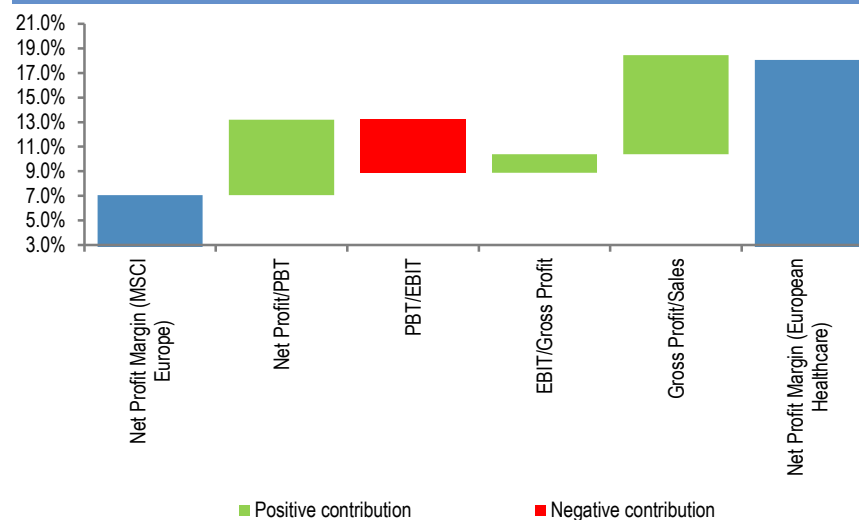
- Healthcare profit margins are exceptionally strong vs the market – given 1) low raw material costs, 2) strong operating leverage, and 3) beneficiary of tax breaks for innovation – and are better placed to withstand the rising input costs pressures, albeit transitory, in our view.
- The sector is trading cheap, in our view, the pipeline for new drugs looks attractive, and we are still away from a patent expiry cliff in 2023-24. This should keep gross margins supported, at least until this year.

Key patent cliffs for blockbuster assets

Company	Drug	Patent expiry
Roche	Xolair	2023
Sanofi	Aubagio	2023
AstraZeneca	Soliris	2025
Bayer	Xarelto	2026
UCB	Cimzia	2024

Source: J.P. Morgan European Healthcare Research

European Healthcare margins vs market



Source: Worldscope

FINANCIALS: OVERWEIGHT

OW Banks – unlikely to work while geopolitics reigns, but fundamentals look supportive...

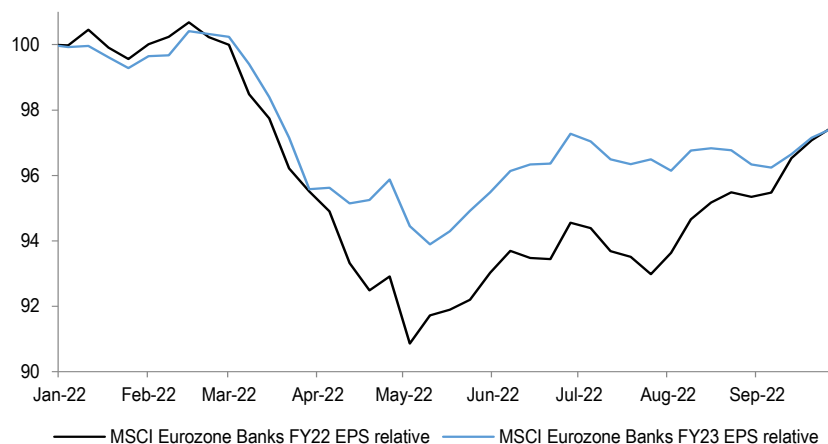
- We upgraded European Banks at the beginning of November '20 and they have been our top European sector pick through the whole of 2021.
- Banks earnings revisions have moved back in the positive territory
- Loan growth could see some weakness with central banks moving away from the easy monetary policy environment. However, our sector analysts argue that historically this had a very marginal impact on the sector's earnings.

MSCI Eurozone Banks relative



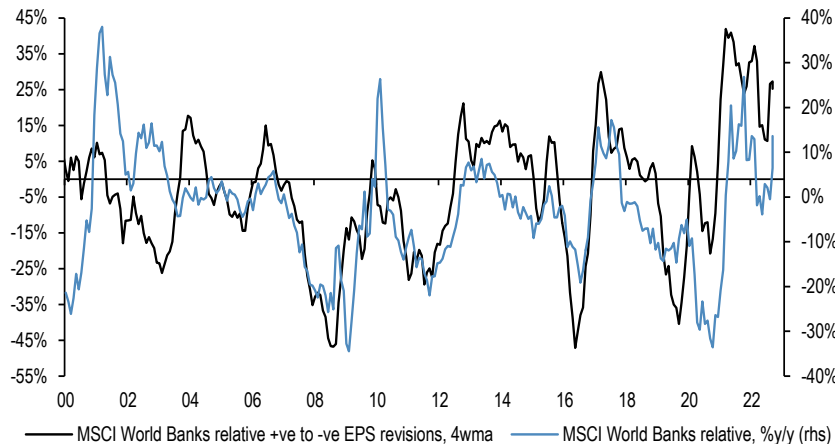
Source: Datastream

Eurozone Banks EPS revisions



Source: Datastream

MSCI World Banks EPS revisions and performance relative



Source: Datastream

...Banks P/E relative appears very attractive...

Eurozone Banks 12m Fwd P/E since Jan'21



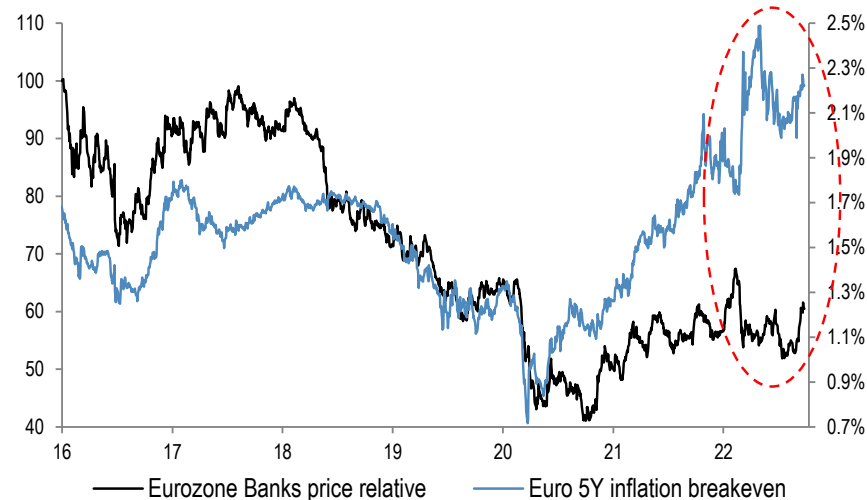
Source: IBES

Eurozone Banks 12m Fwd P/E relative



Source: IBES

Banks relative performance and inflation forwards



Source: Datastream

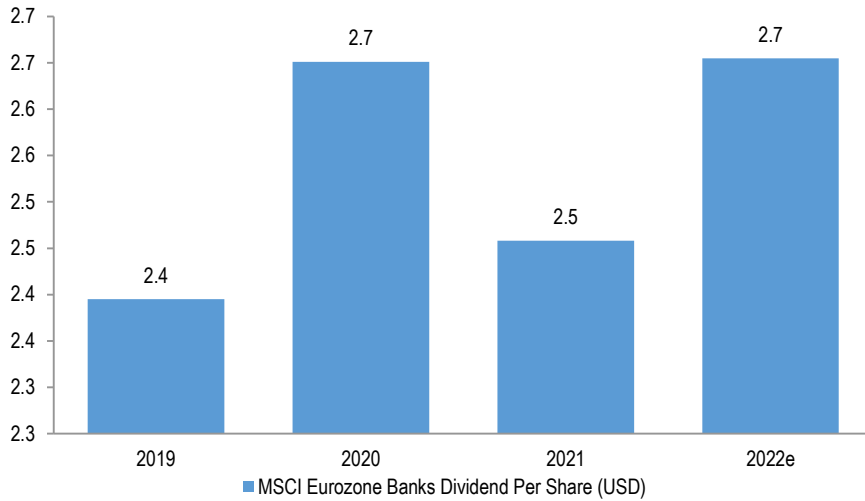
Eurozone Banks performance after P/E lows

	Eurozone Banks performance after P/E goes below -1.8 Stdev					
	Absolute			Relative		
	+3m	+6m	+12m	+3m	+6m	+12m
24-Nov-08	-31%	15%	55%	-19%	10%	26%
12-Sep-11	8%	20%	20%	-1%	-3%	-4%
02-Feb-16	7%	-14%	22%	3%	-14%	10%
Median	7%	15%	22%	-1%	-3%	10%
Average	-5%	7%	33%	-6%	-2%	10%

Source: Datastream

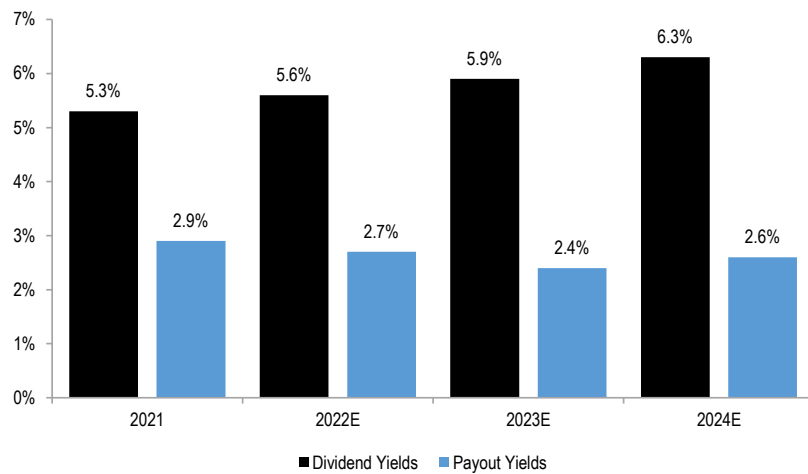
...dividends are coming back...

European Banks dividends projections



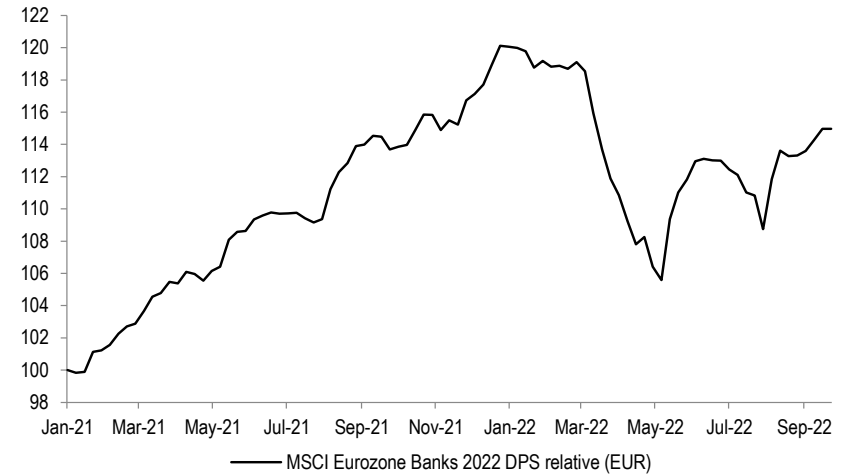
Source: IBES

European Banks dividend estimates



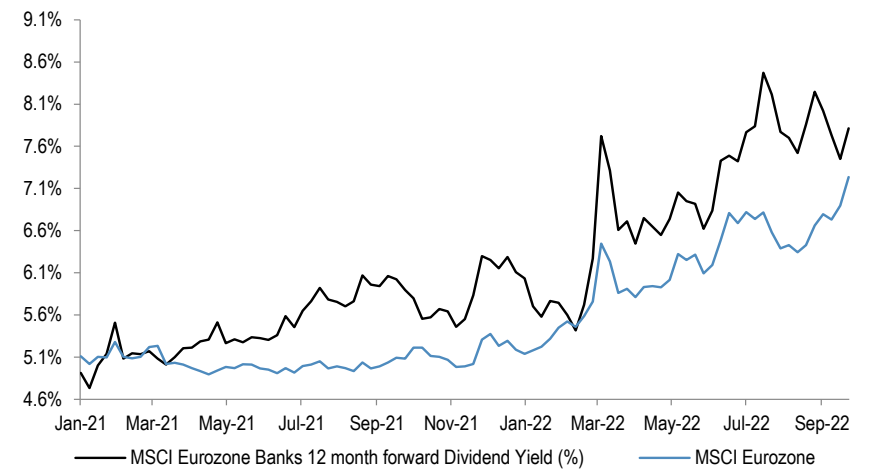
Source: J.P. Morgan European Banks Research

MSCI Eurozone Banks 2022 DPS forecast relative



Source: IBES

MSCI Eurozone Banks 12 month forward Dividend yield

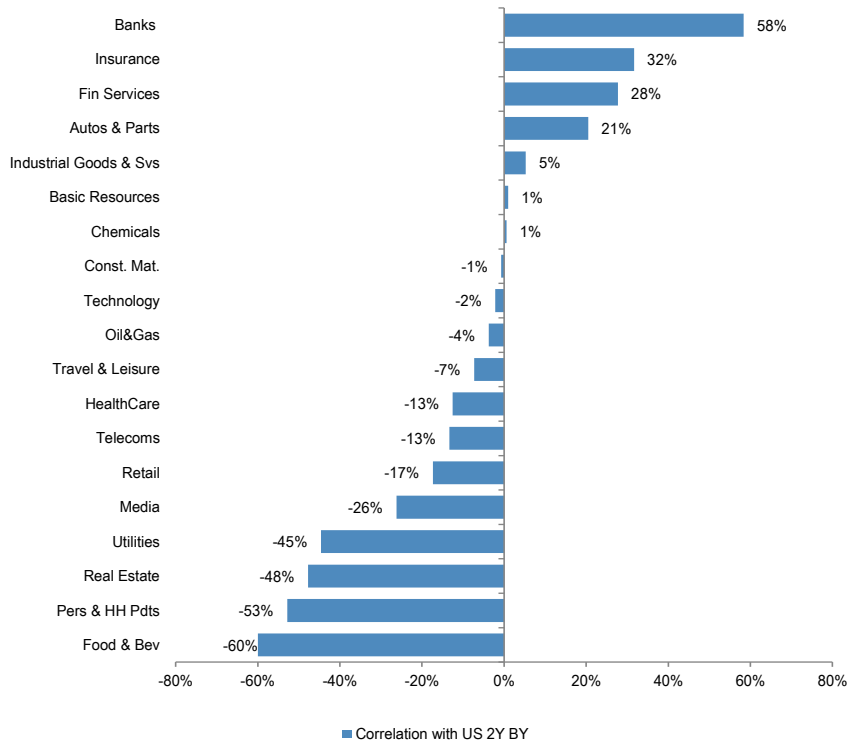


Source: IBES

...bond yield direction is key for the potential P/E re-rating of the sector...

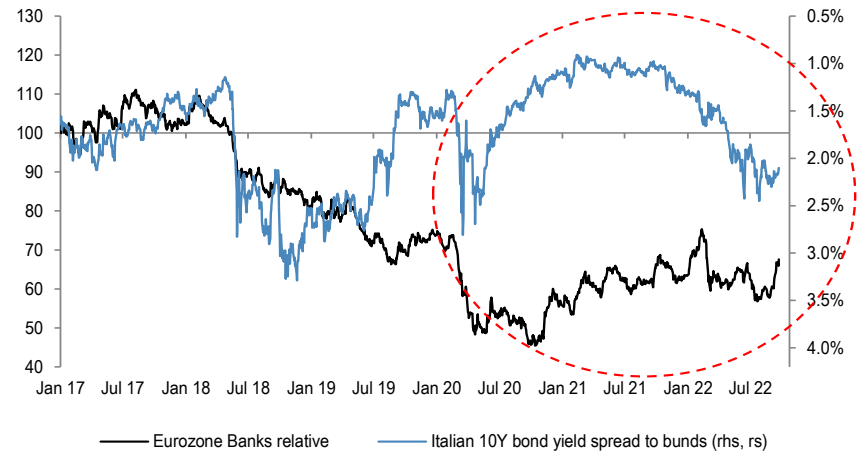
- A significant gap has opened up between Banks relative performance and bond yields, which point to upside for the sector.
- Peripheral spreads have widened, but are still a support for Euro Banks.

European sectors correlation to bond yields



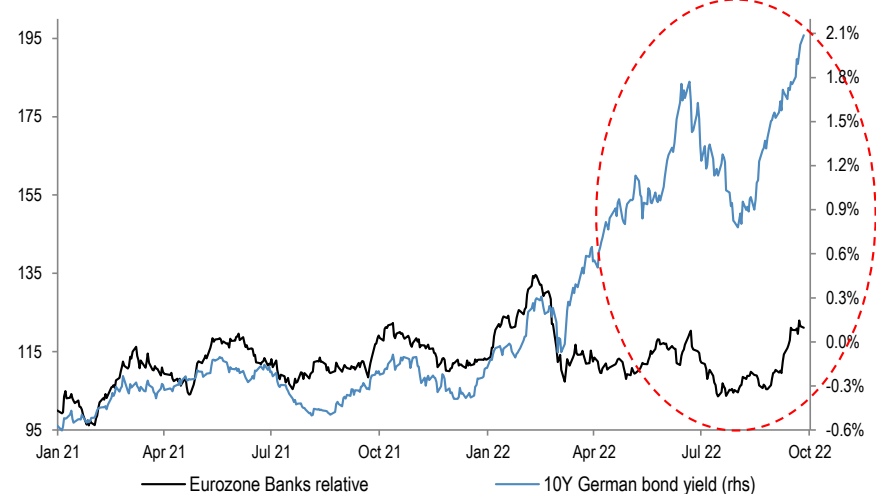
Source: Bloomberg Finance L.P.

Eurozone Banks relative vs peripheral spreads



Source: Bloomberg Finance L.P.

MSCI Eurozone Banks relative and 10Y bond yield

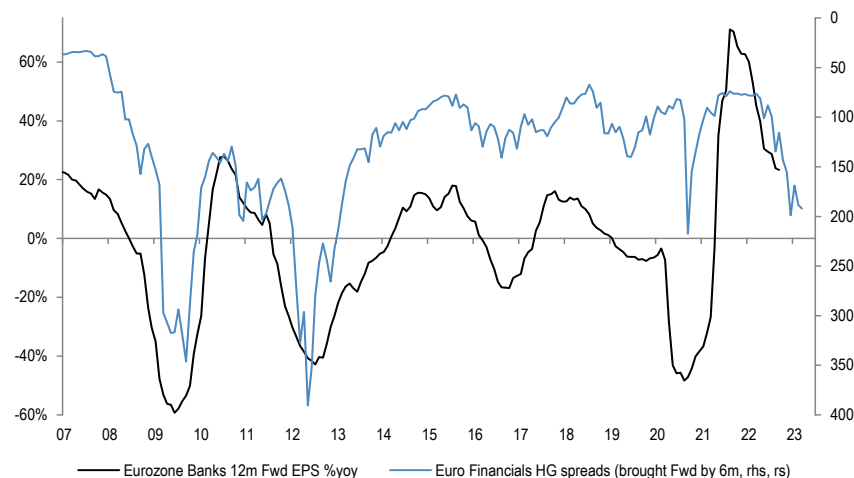


Source: Bloomberg Finance L.P.

...benign credit backdrop, subdued delinquencies and provisioning unwind are helping sector earnings...

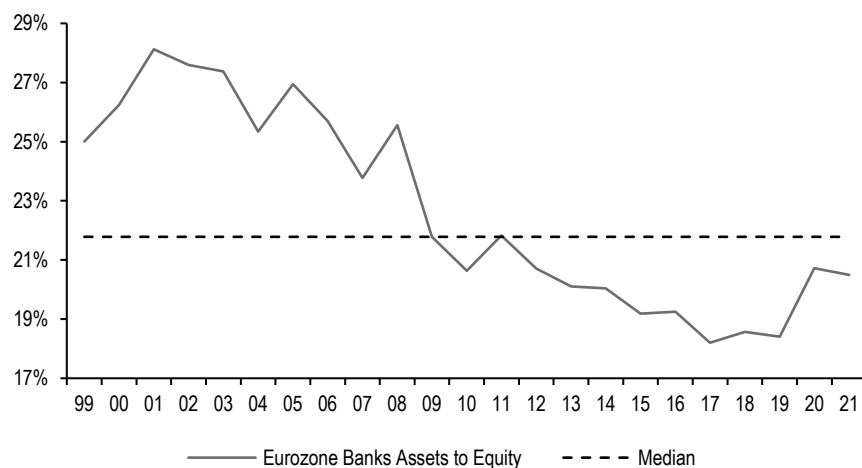
- Credit spreads have widened, but still remain tight in a longer term context, and delinquency rates are significantly better vs GFC. This has helped unlock provisioning reserves, further aiding the earnings outlook for Banks.
- Unlike in past recoveries, we do not think that Banks will have to dilute the equity shareholder this time around, as their balance sheets are strong.

Eurozone Banks EPS and Financial HG credit spreads



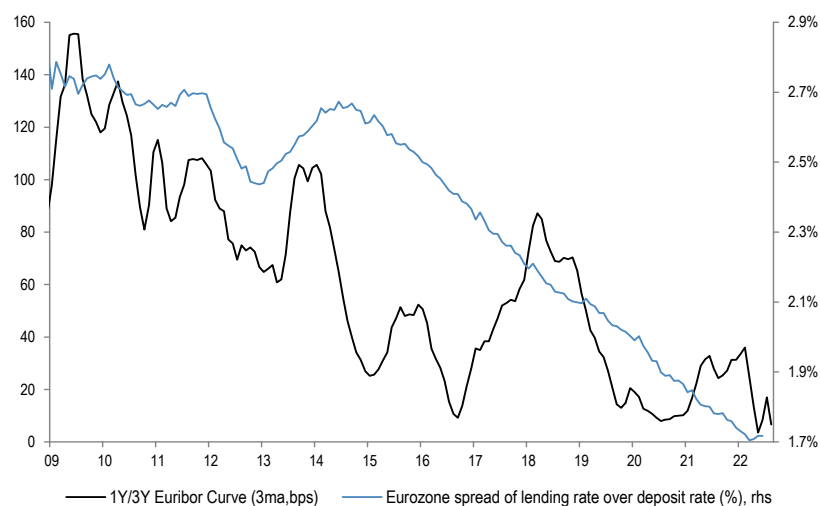
Source: IBES, J.P.Morgan

Eurozone Banks Asset to Equity



Source: Datastream

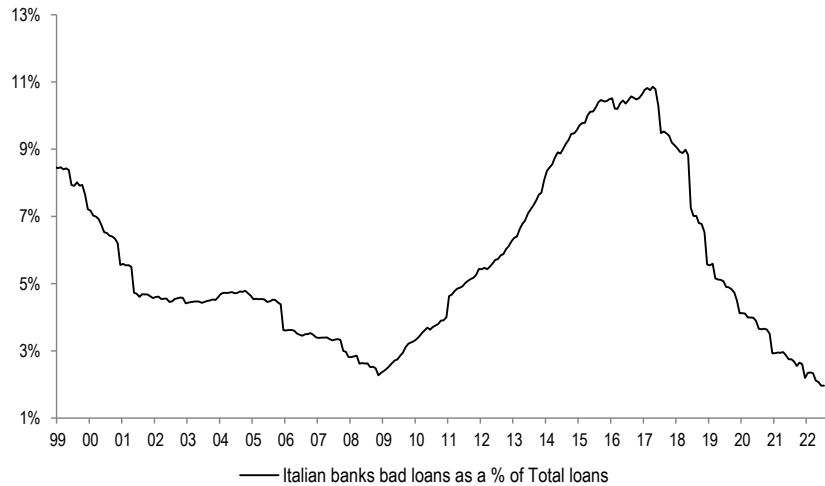
1Y/ 3Y Euribor curve and Eurozone Bank NIMs



Source: J.P.Morgan

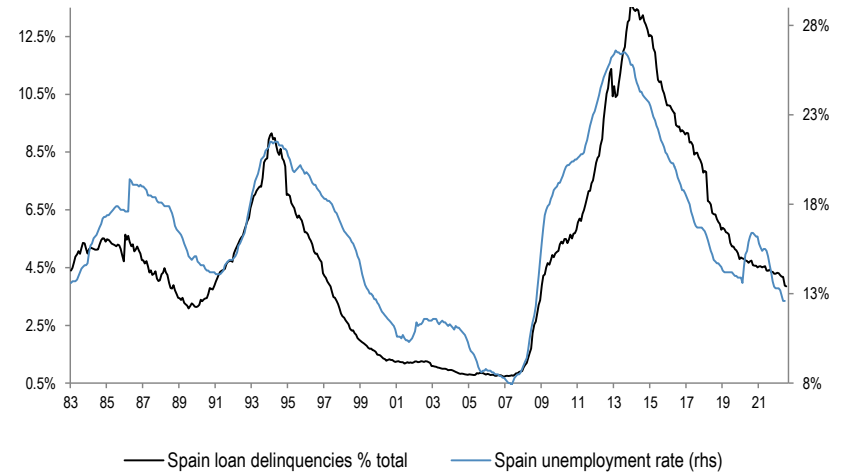
...Banks balance sheet picture is better this time around

Italian bad loans as a % of total loans



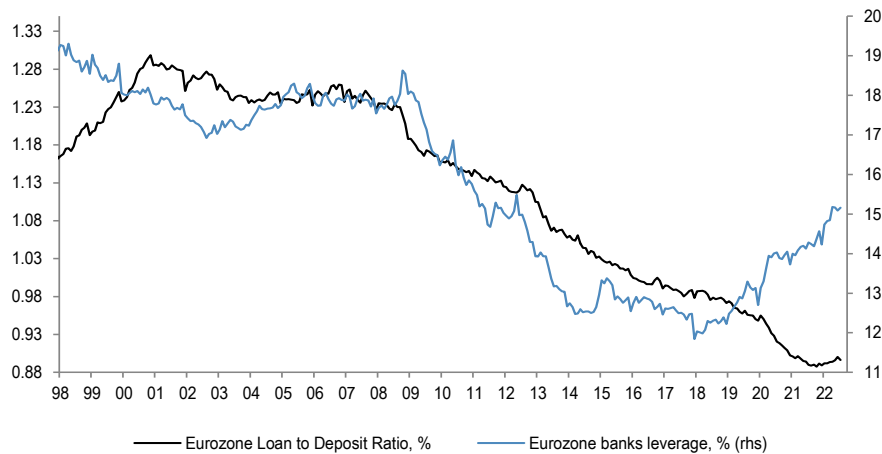
Source: Banca d'Italia

Spanish loan delinquencies vs unemployment rate



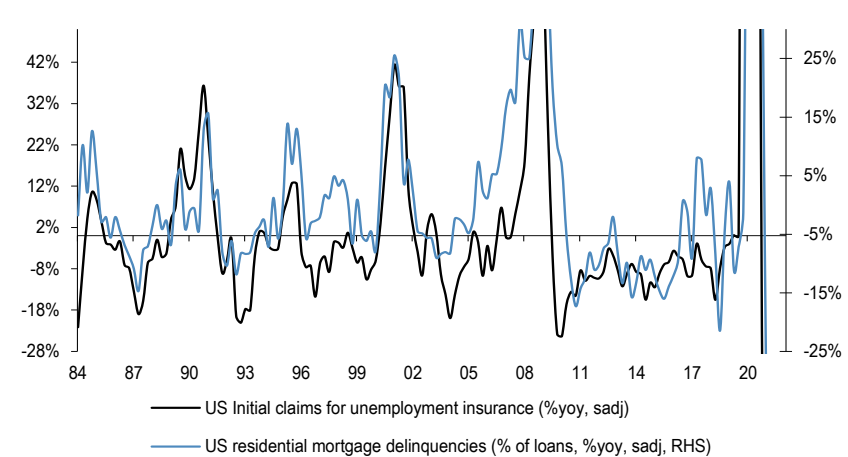
Source: Bloomberg Finance L.P.

Euro area bank leverage and loan/ deposit ratio



Source: J.P. Morgan, ECB

US C&I loan delinquencies vs capacity utilization



Source: Datastream

Banks' correlation to macro factors

Banks' correlation to macro factors, ranked by aggregate score

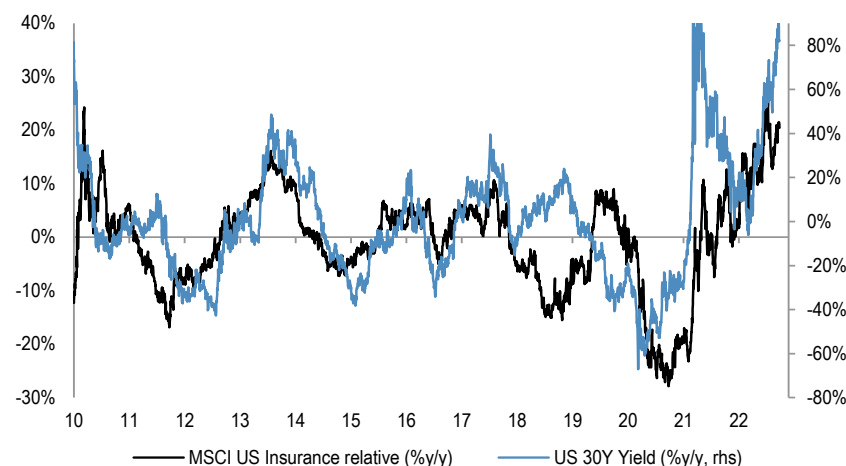
Company	BBG Ticker	PMIs	Inflation expectations	10Y German bunds	Italian - German 10Y spread
ABN AMRO BANK	ABN NA	34%	73%	56%	30%
BAWAG GROUP	BG AV	41%	81%	40%	-8%
PKO BANK	PKO PW	31%	52%	37%	3%
BNP PARIBAS	BNP FP	41%	47%	39%	-47%
CAIXABANK	CABK SM	25%	39%	47%	-7%
ING GROEP	INGA NA	50%	42%	31%	-35%
DEUTSCHE BANK (XET)	DBK GR	35%	37%	26%	-23%
BANCO SANTANDER	SAN SM	34%	46%	22%	-29%
SOCIETE GENERALE	GLE FP	33%	48%	39%	-45%
NORDEA BANK (HEL)	NDA SS	32%	43%	25%	-18%
BBV.ARGENTARIA	BBVA SM	31%	57%	27%	-31%
COMMERZBANK (XET)	CBK GR	31%	33%	40%	-23%
BANCO BPM	BAMI IM	34%	45%	26%	-44%
BANK OF IRELAND GROUP	BIRG ID	40%	42%	26%	-44%
ERSTE GROUP BANK	EBS AV	32%	28%	26%	-33%
BANK POLSKA KASA OPIEKI	PEO PW	19%	57%	15%	-5%
CREDIT AGRICOLE	ACA FP	34%	21%	33%	-62%
BANCO DE SABADELL	SAB SM	15%	58%	27%	-10%
AVANZA BANK HOLDING	AZA SS	38%	6%	8%	-20%
BARCLAYS	BARC LN	31%	37%	15%	-29%
DNB BANK	DNB NO	31%	13%	14%	-24%
FINECOBANK SPA	FBK IM	3%	-13%	2%	-19%
NATWEST GROUP	NWG LN	30%	38%	30%	-16%
STANDARD CHARTERED	STAN LN	10%	25%	11%	18%
SWEDBANK A	SWEDA SS	27%	-3%	3%	-4%
UNICREDIT	UCG IM	25%	27%	39%	-53%
HSBC HOLDINGS	HSBA LN	-10%	31%	8%	16%
SKANDINAVISKA ENSKILDA BANKEN A	SEBA SS	29%	13%	21%	-34%
CLOSE BROTHERS GROUP	CBG LN	15%	0%	-10%	-14%
BANKINTER 'R'	BKT SM	14%	27%	22%	-28%
LLOYDS BANKING GROUP	LLOY LN	19%	19%	29%	-49%
DANSKE BANK	DANSKE DC	25%	4%	2%	-29%
KBC GROUP	KBC BB	30%	2%	15%	-51%
INTESA SANPAOLO	ISP IM	23%	13%	14%	-54%

Source: Bloomberg Finance L.P., Datastream, S&P Global

OW Insurance –strong capital position is a support

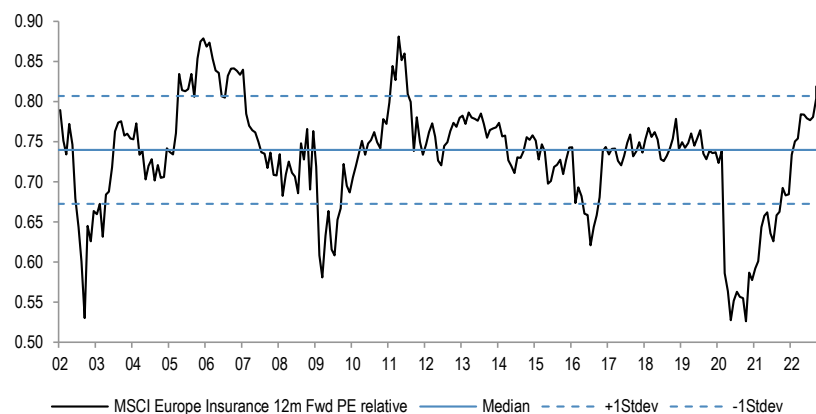
- Insurance sector performance is closely linked to credit spreads. Spreads have widened recently, but aren't likely to deteriorate significantly from here. We believe that the sector should do well going forward.
- Insurance is also one of the highest correlated sectors to bond yields.
- The sector is trading on the expensive side of fair value.

MSCI US Insurance relative and US 30Y bond yield



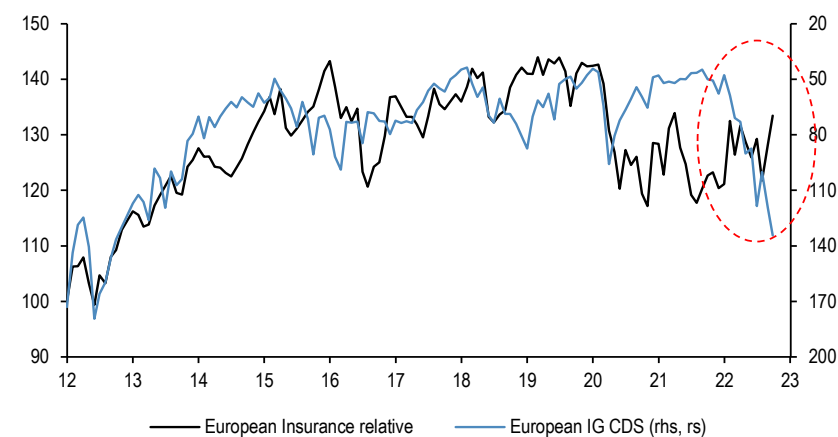
Source: Datastream

European Insurance 12m Fwd P/E relative



Source: IBES

European Insurance relative and credit spreads



Source: Datastream

REAL ESTATE: UNDERWEIGHT

The sector might get some respite from stalling yields, but fundamentals are poor...

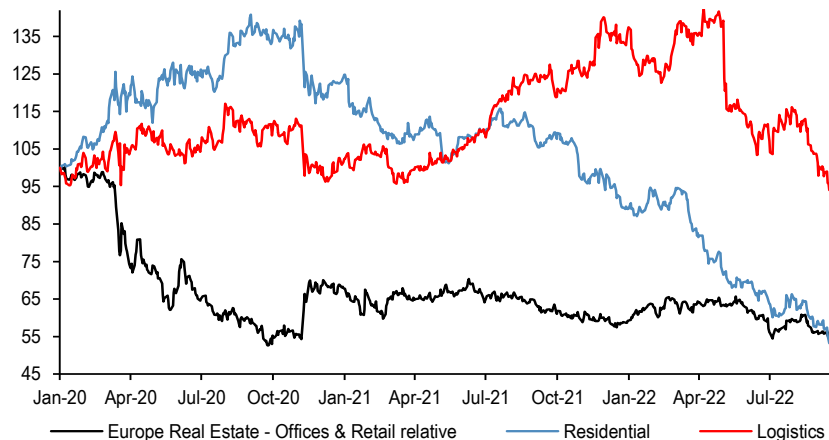
- The Real Estate sector is likely to struggle given challenging fundamentals.
- Within this, Offices & Retail are leveraged to the Reopening trade, and could perform better.
- Rental growth and capital market activity are still depressed from pre-COVID-19 levels, but are moving in the right direction. However, longer-term concerns around online penetration in retail remain.

Real estate performance relative



Source: Datastream

Real estate sub-sector performance relative



Source: J.P. Morgan, Datastream

Proportion of subsectors posting negative capital growth

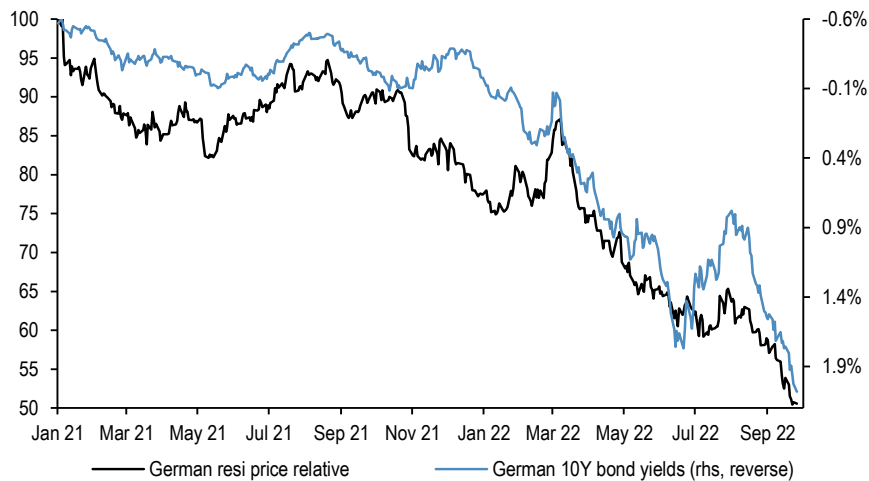


Source: J.P. Morgan Real Estate research

...residential stocks in particular are sensitive to moves in bond yields

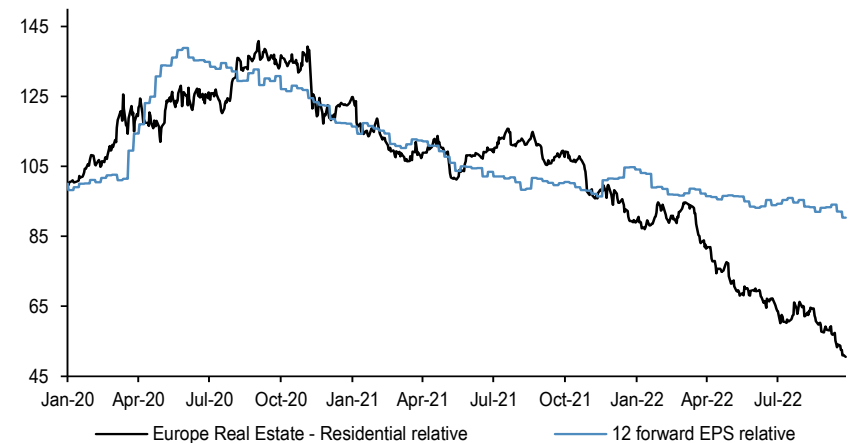
- The sector usually trades like a bond proxy and was hurt by rising yields. Residential stocks in particular are vulnerable here.
- On the other hand, Logistics is the cyclical part of the sector, and has benefited from the better performance of corporate cyclicals, and from improving supply-demand dynamics supported by the e-commerce boom during the pandemic. Capital growth for industrial properties has also moved in the right direction and could support the investment case for this sub-segment.

German Real Estate relative and German bond yields



Source: Bloomberg Finance L.P.

Europe Residential Real Estate price and EPS relative



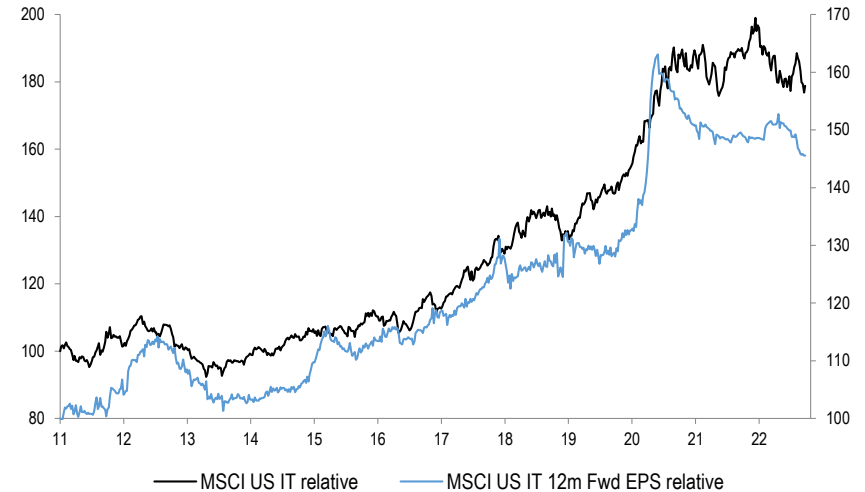
Source: J.P. Morgan, Datastream

TECHNOLOGY: NEUTRAL

Tech sector to tactically trade better into yearend...

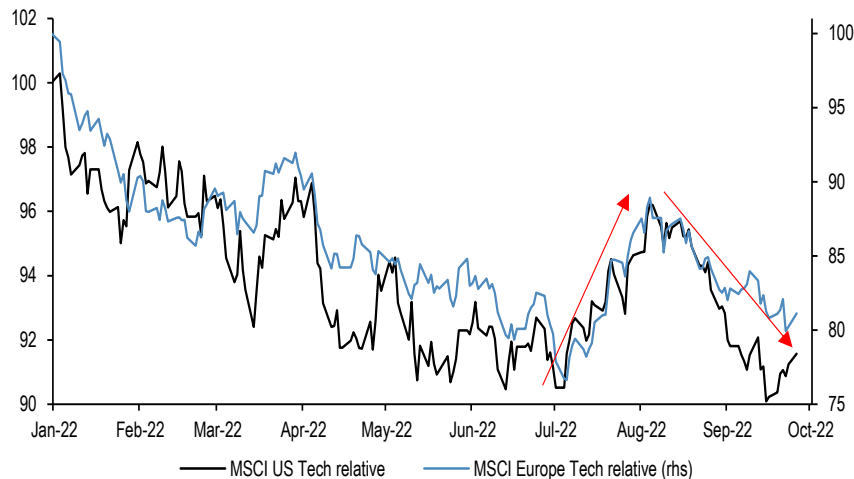
- We have last week called for a tactical bounce in Tech, after its poor showing this year. While we are less excited on a medium term perspective, we believe the sector warrants a catch-up, especially if bond yields stall.

MSCI US Tech price and EPS relative



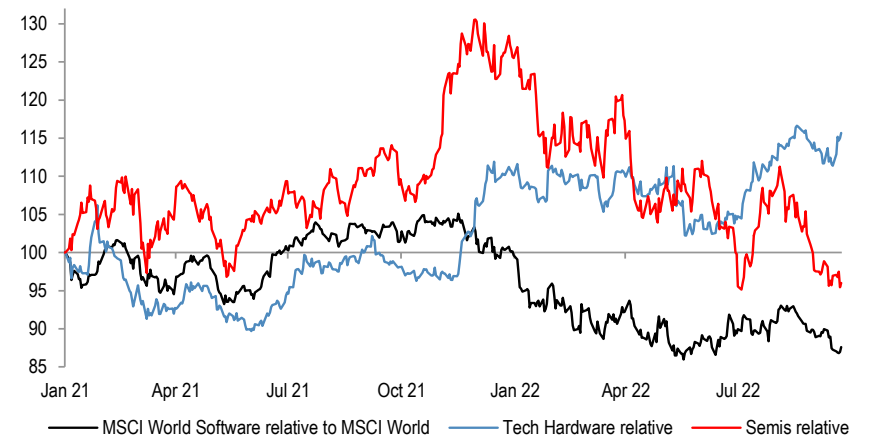
Source: IBES

US and European Tech ytd



Source: Bloomberg Finance L.P.

MSCI World Tech subsectors performance since Jan'2021

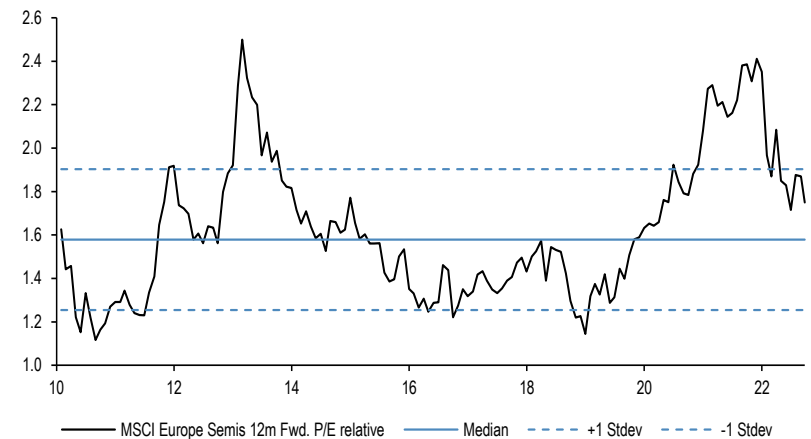


Source: Datastream

...Semiconductors inventories aren't stretched; however, they appear to be trading expensive and their relative earnings could be peaking...

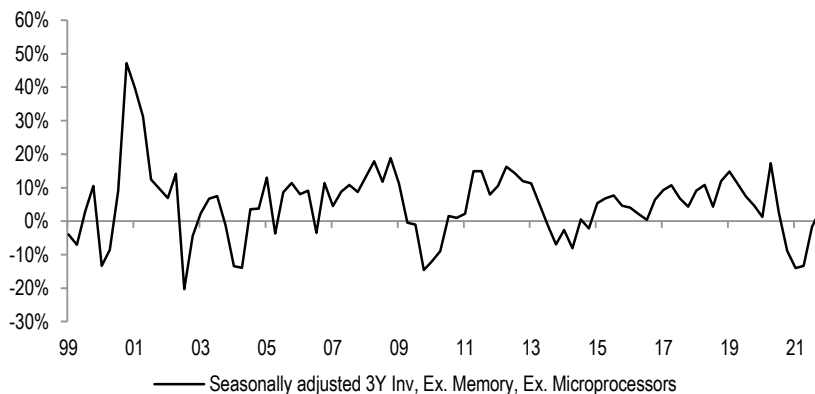
- Semiconductor inventory cycle isn't stretched yet and the demand-supply situation is likely to stay supportive, at least for another 2-3 quarters.
- However, there is fresh supply coming on stream, and valuations have shot up.
- From a medium-term perspective, European Semis earnings relative could struggle to keep gaining, given extreme base effects, peaking prices, extra supply, and likely weaker demand, at least relative to stellar '20-'21.

European Semis 12m Fwd. P/E relative



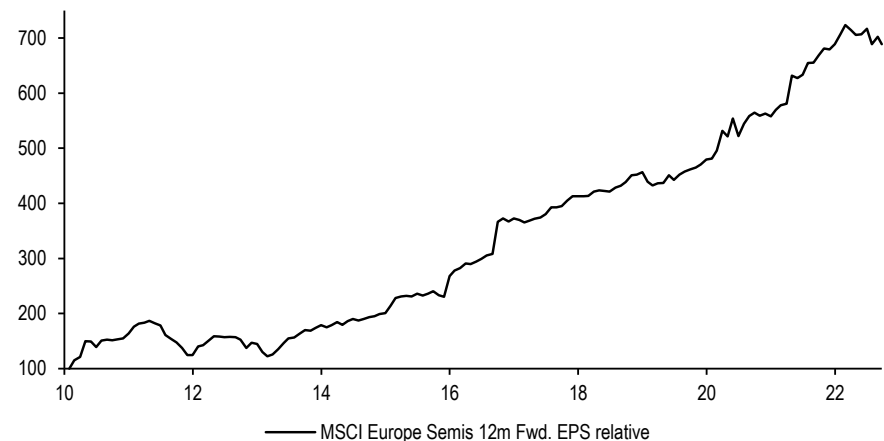
Source: Datastream

Global semiconductor inventory



Source: J.P. Morgan

European Semis 12m Fwd. EPS relative

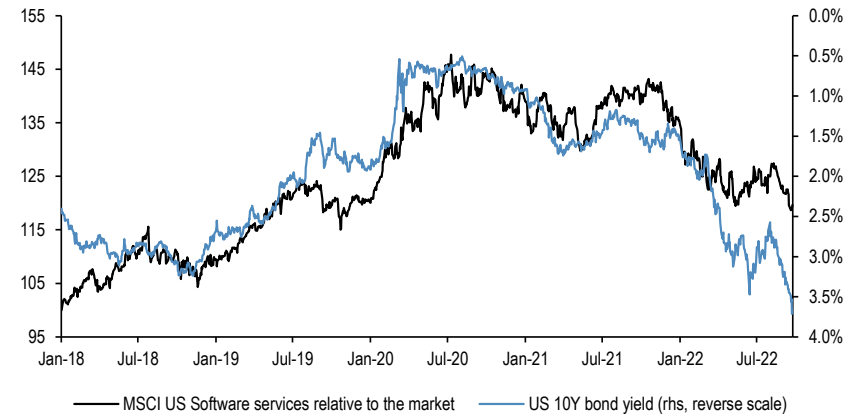


Source: IBES

...Tech correlation to bond yields is inverse

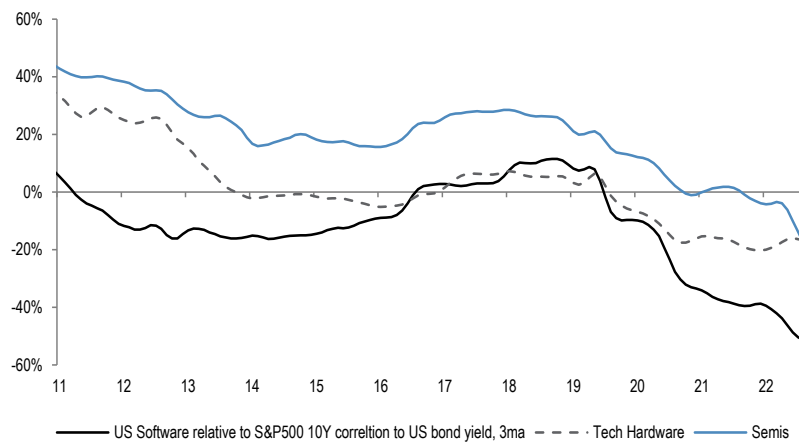
- Tech sector displays a clear inverse correlation to the direction of bond yields.

MSCI US Software relative and US 10Y bond yield



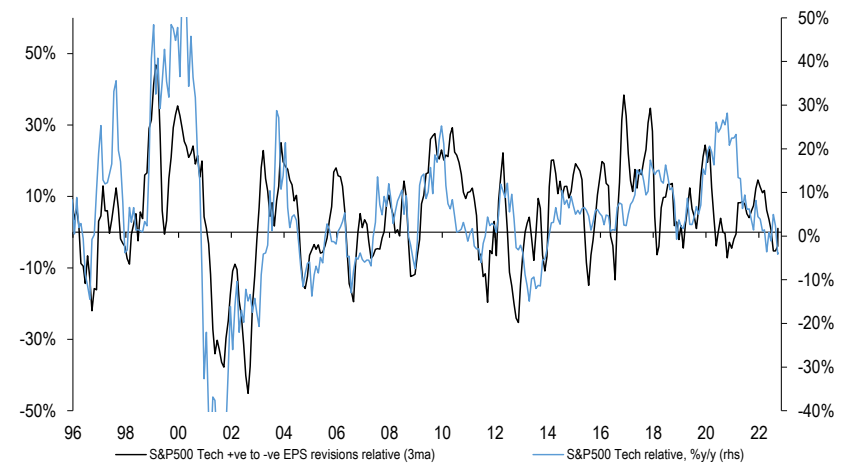
Source: Datastream

Tech subsectors correlation to bond yields



Source: Datastream

US Tech +ve to -ve EPS revisions and performance



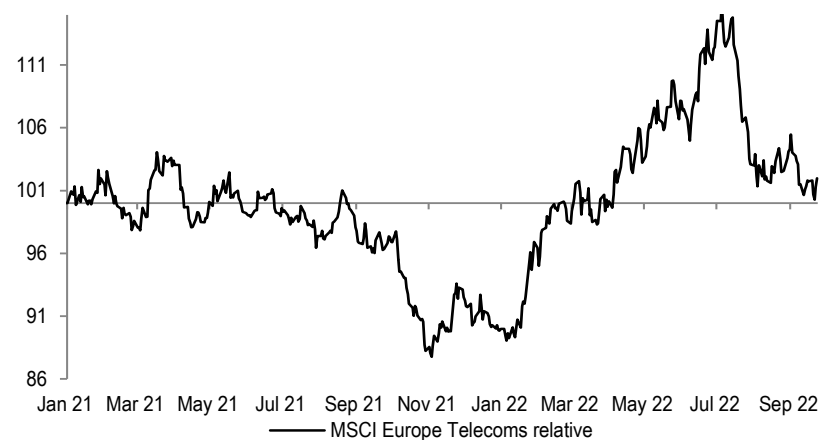
Source: IBES

COMMUNICATION SERVICES: OVERWEIGHT

OW Telecoms – the best Defensive play, in our view; N Media

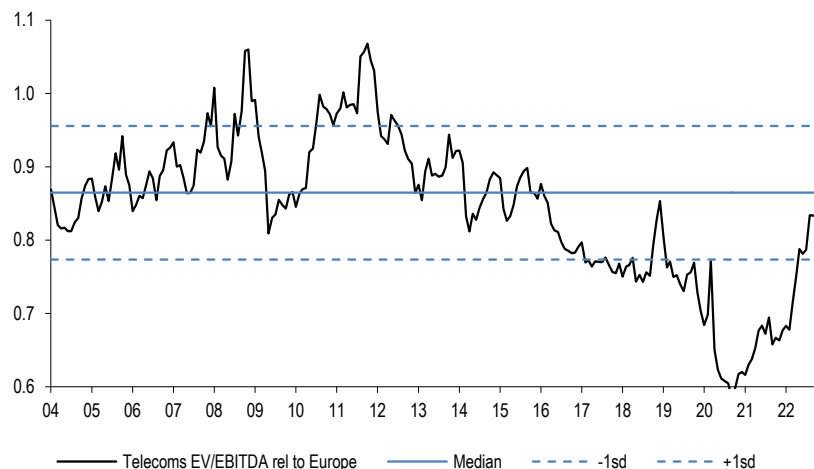
- Telecom sector’s low valuations have driven a surge in PE interest, minority buy-outs and infrastructure deals. Within this, an ongoing trend over the past quarters has been the divestment of tower assets by Telecom operators.
- We note that tower companies trade at a significant premium versus the core Telecoms names, and provide an opportunity for the sector to unlock cash, which could be deployed in other areas such as fibre related capex and shareholder distributions.

European Telecoms price relative



Source: Bloomberg Finance L.P.

European Telecoms EV/EBITDA relative



Source: Datastream

Fixed infrastructure monetization deals

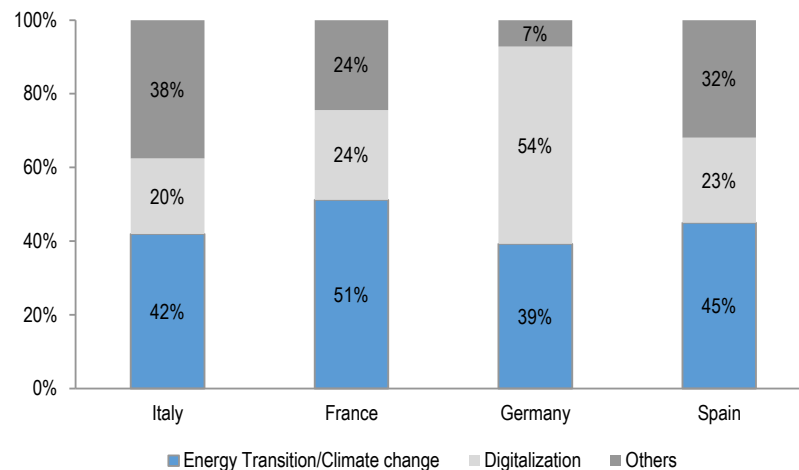
	Company	Comments
Deals announced	Masmovil	Sale of 940k business units
	TalkTalk	Sale of Fibre Nation
	Telecom Italia	Sale of stake in FiberCop
	Masmovil	Sale of 1m business units
	Orange	50% sale of French rural FTTH unit
	Telefonica	Stake sale in Chilean fibre unit
	Telefonica	Sale of 50% stake in Brazilian fibre unit
	Orange	50% sale of Polish FTTH unit
	Telecom Italia	Sale of stake in Brazilian fibre unit
	Telefonica	Stake sale in Columbian fibre unit
Deals speculated	BT	Openreach minority sale / sale of stake of 5m units
	Euskaltel (MAS)	Potential partial network spin off / minority sale
	Tele Columbus	Potential NetCo. Spin off
	Telefonica	Subsea cable unit
	Telefonica	Monetization of fibre assets in LATAM
	Telecom Italia	Potential Open Fiber merger
	Liberty Global	Participate in a JV to build 7m fibre homes
	Telefonica	Potential stake sale of Peruvian fibre
	Telefonica	Sale of stake in Spanish fibre unit
	Liberty/Telefonica	Spin off of UK fixed network

Source: J.P. Morgan Telecoms Research

The sector is a recovery fund beneficiary; regulatory headwinds and balance sheet concerns could moderate...

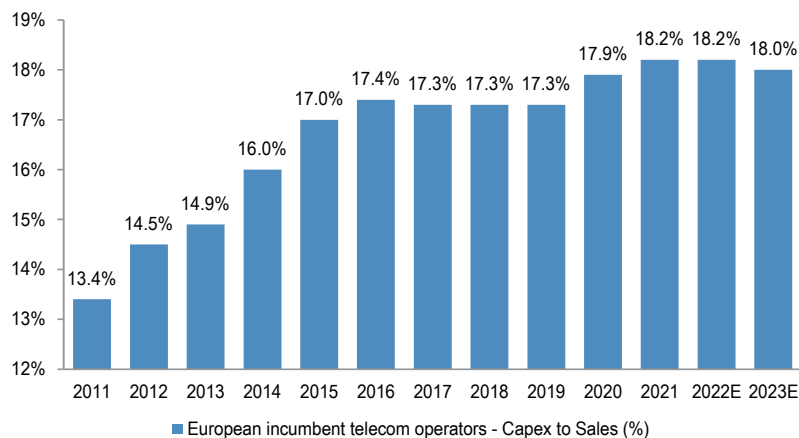
- The sector should be a beneficiary of the EU Recovery fund, with over 20% of fund's resources earmarked for transformation of digital services and infrastructure.
- Capex levels are elevated, but our sector analysts note that companies are on track to deliver rising FCF each year, driven by: 1) modest EBITDA growth of 1-2% annually, 2) modest interest and working capital cost reductions, and 3) a potential capex cliff by 2023.
- Many are also concerned about the sector's highly levered balance sheets, but we note that credit markets are well behaved, & JPM expectations are for spreads to narrow from here. Additionally, ongoing asset monetization efforts and a potential capex cliff should help Telecom operators further deleverage their balance sheets in the coming years.

Resource allocation in EU Recovery fund national plans



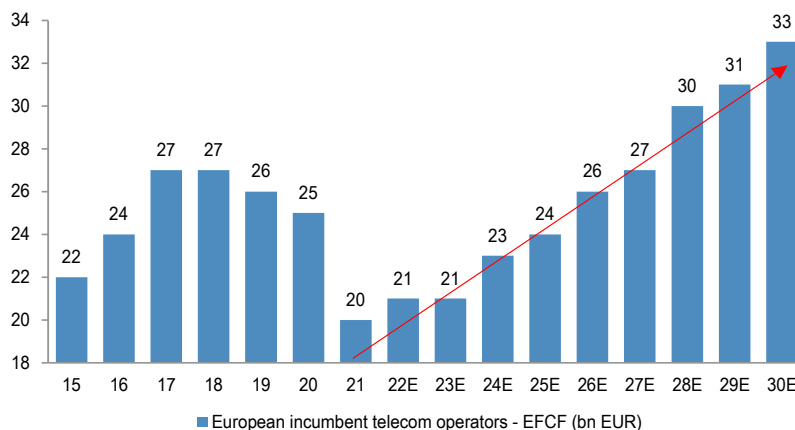
Source: Bruegel. *Note: Based on National plans submitted between April 25-28, 2021

European incumbent Telecom operators - Capex/Sales



Source: J.P. Morgan Telecoms Research

European incumbent Telecom operators - FCF



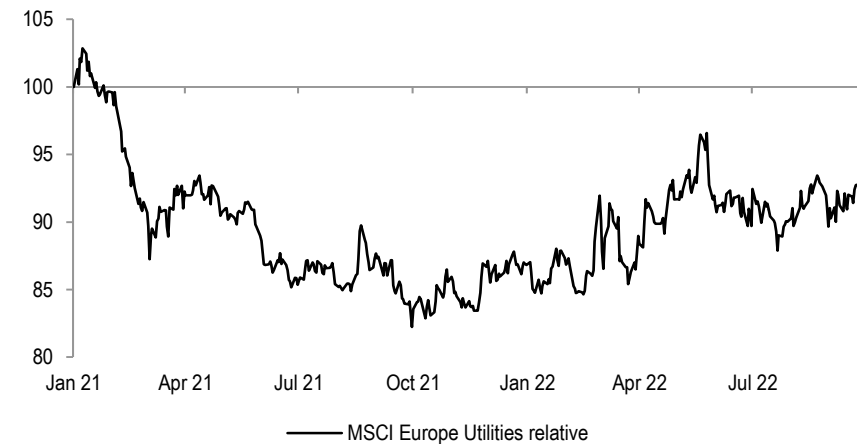
Source: J.P. Morgan Telecoms Research

UTILITIES: NEUTRAL

Regulatory uncertainty is a headwind; the sector does not look cheap...

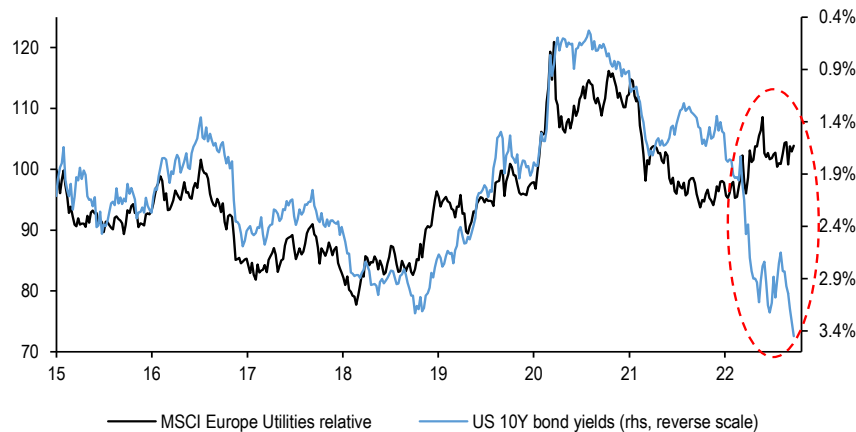
- The sector typically displays an inverse correlation to yields, and has been a constraint for Utility stocks, particularly the Regulated bond-proxies.
- Regulatory overhang around pricing / profitability is also an issue.
- The sector is now trading outright expensive on P/E metric.

European Utilities relative since Jan'21



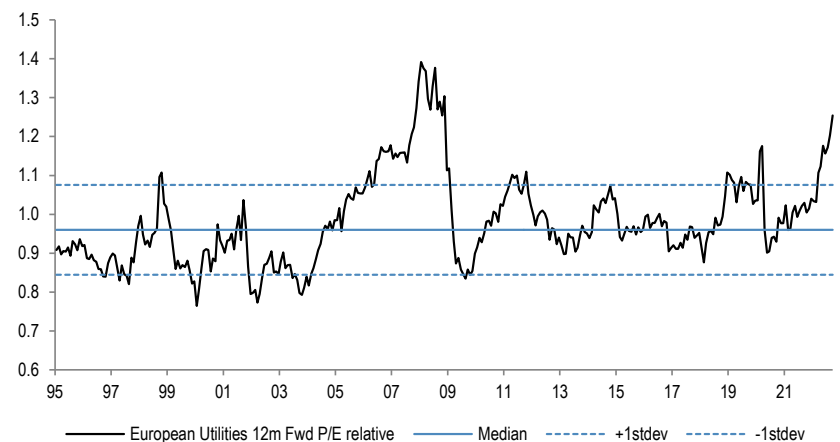
Source: Bloomberg Finance L.P.

Utilities price relative vs bond yields



Source: Bloomberg Finance L.P.

European Utilities P/E relative

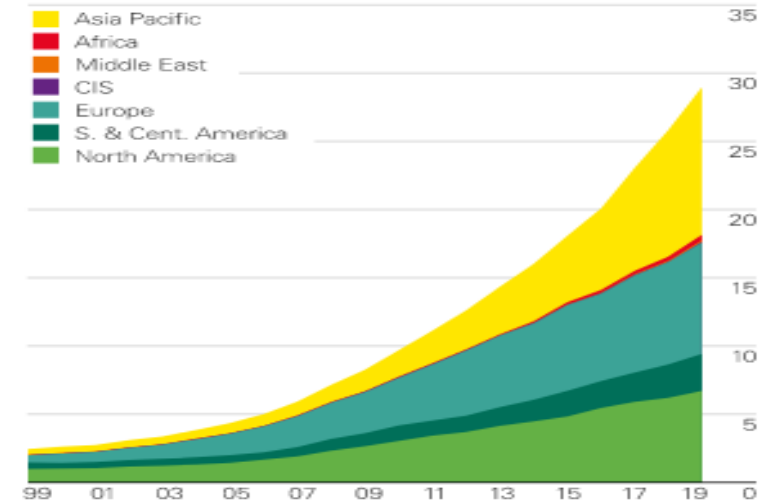


Source: IBES

...switch to renewables is likely to drive the sector in the medium term...

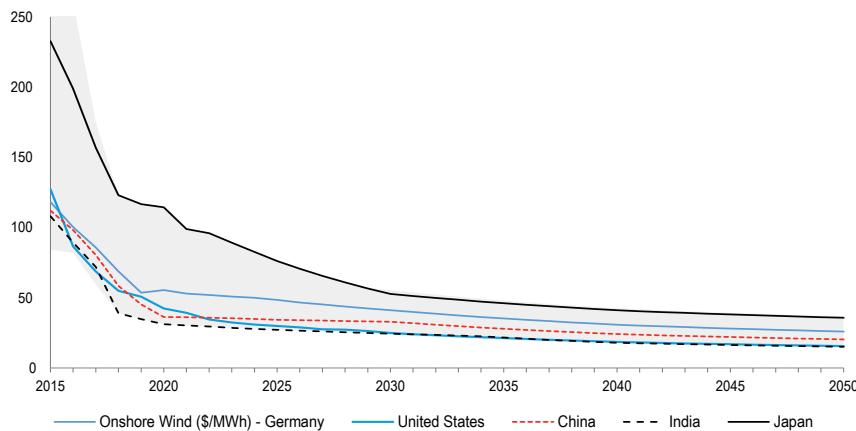
- The key argument that continues to drive the structural opportunity for the sector is the move towards renewables.
- The declining cost of replacing fossil capacity is likely to help the sector's earnings perform better over the next 3-4 years.
- Carbon prices are staying relatively high, which makes switching out of fossil fuels and into renewables attractive.

Penetration of Renewables since '99



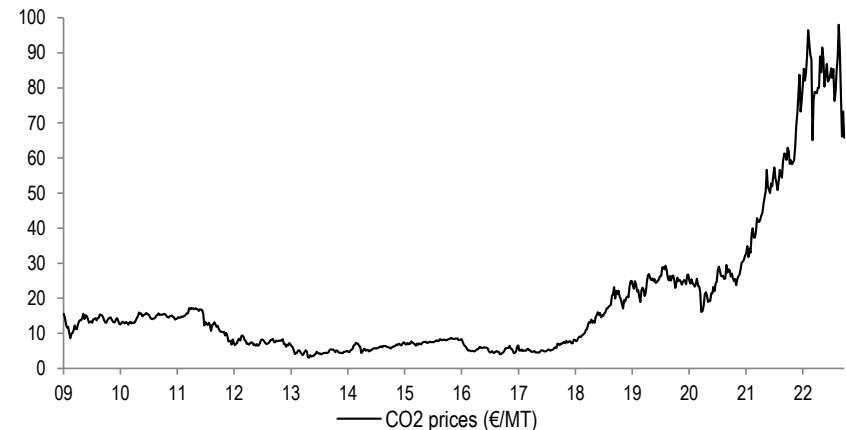
Source: BP

Cost of Onshore wind (\$/MWh)



Source: Bloomberg Finance L.P., NEF

Eurozone CO2 prices



Source: Bloomberg Finance L.P.

J.P.Morgan

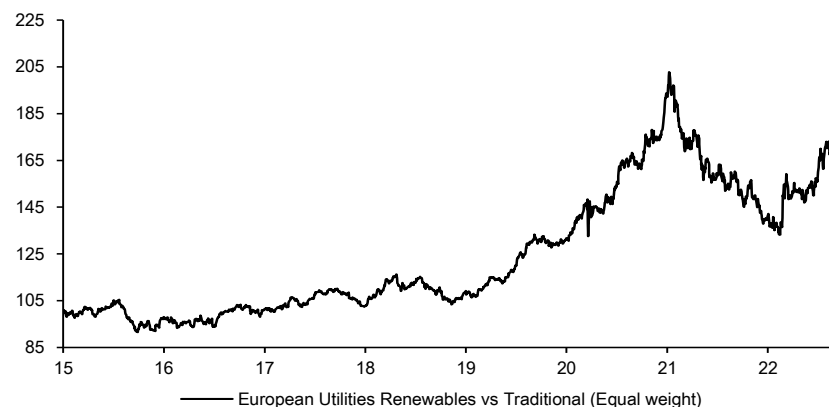
...renewables part to have an increased structural support again, premium has been taken out

European Utilities - Traditional vs Renewables

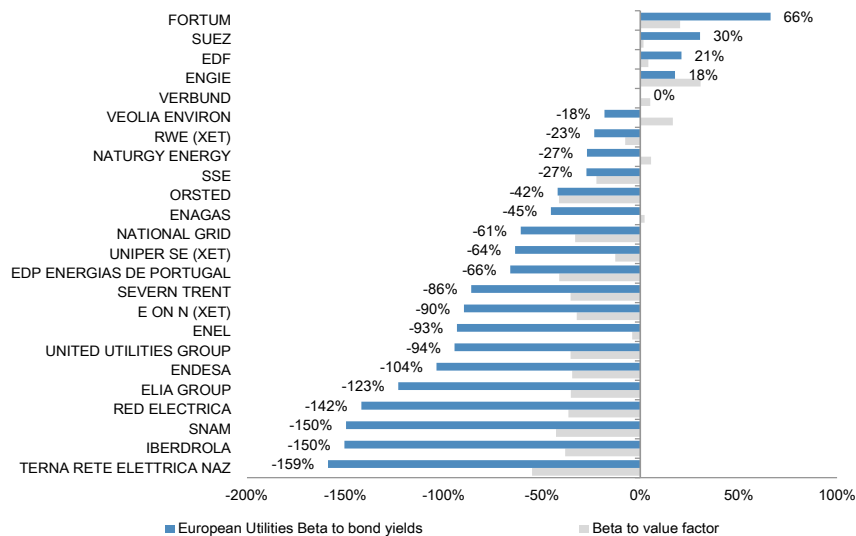
Ticker	Name	Weight	Traditional/Regulated Skewed	Renewables skewed
IBE SM	IBERDROLA	16%		x
ENEL IM	ENEL	13%	x	
NG/LN	NATIONAL GRID	12%		x
EOAN GR	E ON N (XET)	6%		x
ORSTED DC	ORSTED	6%		x
ENGI FP	ENGIE	5%	x	
RWE GR	RWE (XET)	5%		
SSE LN	SSE	5%		x
VIE FP	VEOLIA ENVIRON	4%	x	
EDP PL	EDP ENERGIAS DE PORT	3%		x
FORTUM FH	FORTUM	3%		
SRG IM	SNAM	3%	x	
TRN IM	TERNA RETE ELETTRICA	2%	x	
UU/LN	UNITED UTILITIES GROUP	2%	x	
SVT LN	SEVERN TRENT	2%	x	
REE SM	RED ELECTRICA	2%	x	
EDPR PL	EDP RENOVAVEIS	2%	x	
SEV FP	SUEZ	2%		x
ELE SM	ENDESA	2%		
EDF FP	EDF	1%	x	
ENG SM	ENAGAS	1%	x	
NTGY SM	NATURGY ENERGY	1%	x	
UN01 GR	UNIPER SE (XET)	1%	x	
ELI BB	ELIA GROUP	1%	x	
Traditional/Regulated Utilities		41%		
Renewables/ESG/Biden beneficiaries (Higher Growth skew)		50%		

Source: JPM European Utilities Research

European Utilities performance -Renewables vs Traditional



European Utilities - Beta to bond yields and Value factor



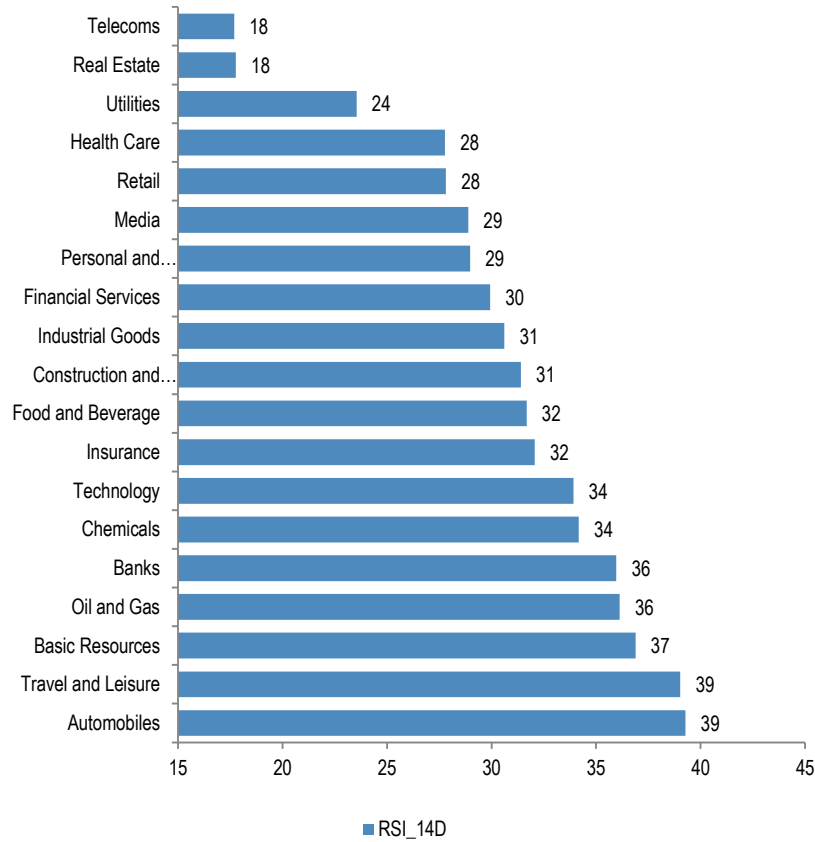
Source: Bloomberg Finance L.P., J.P. Morgan

Source: Datastream, J.P. Morgan

Technical

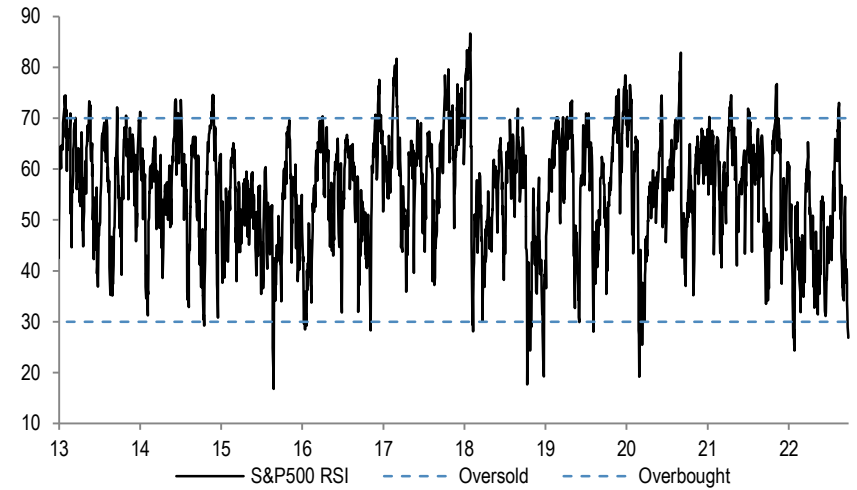
Index RSIs are in oversold territory

SXXP sectors RSI



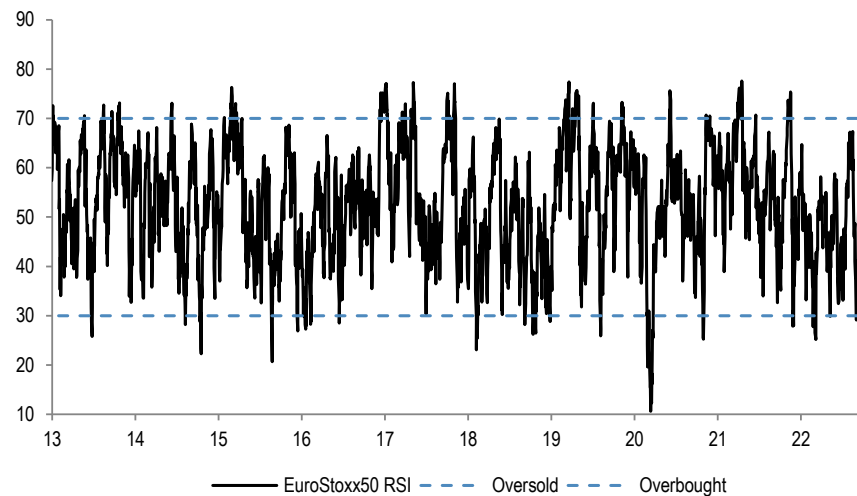
Source: Bloomberg Finance L.P

S&P500 RSI



Source: Bloomberg Finance L.P

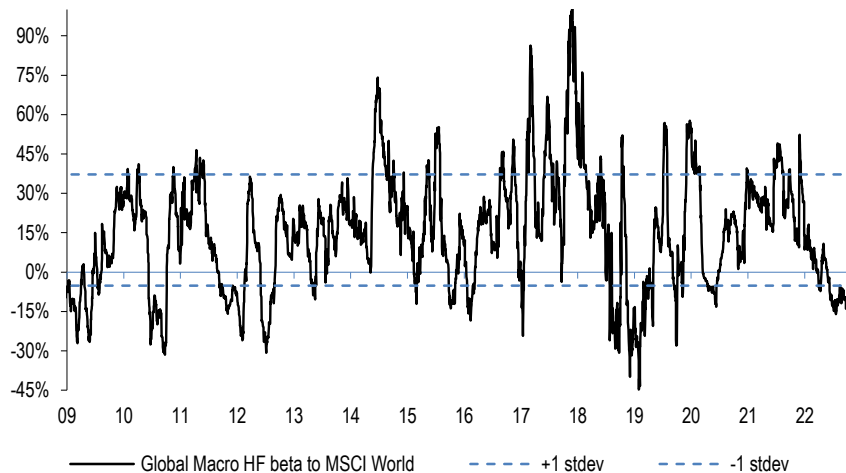
SX5E RSI



Source: Bloomberg Finance L.P

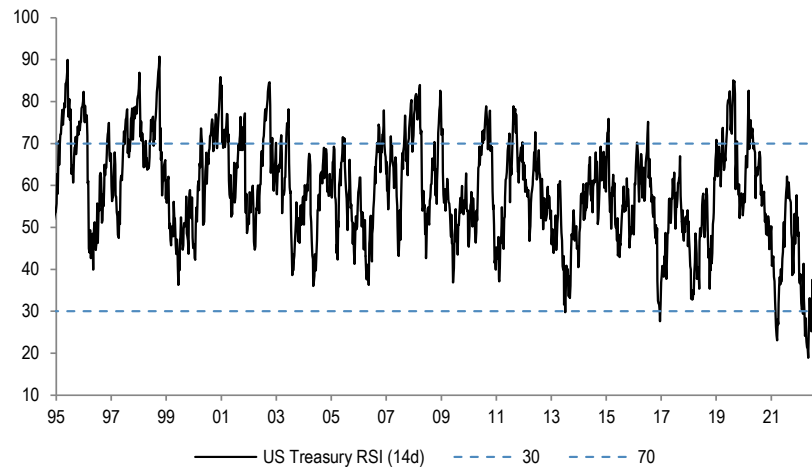
Market positioning indicators are depressed

Hedge Fund beta



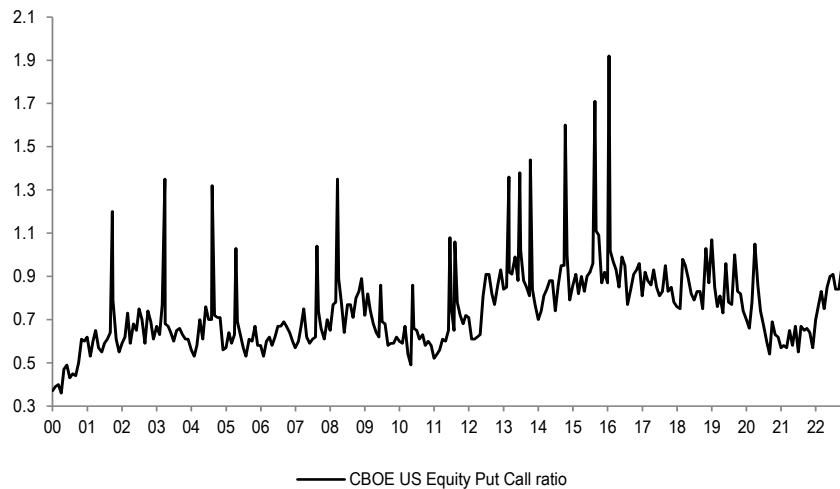
Source: Bloomberg Finance L.P

US 10Y bond RSI



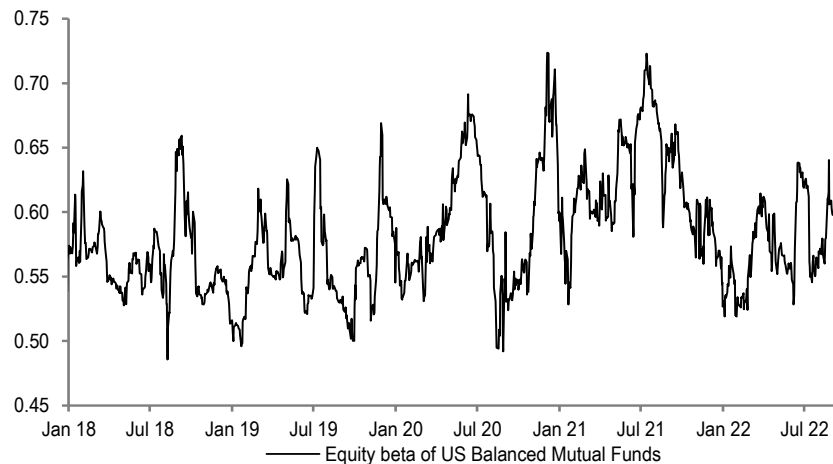
Source: Bloomberg Finance L.P

Put-Call ratio



Source: Bloomberg Finance L.P

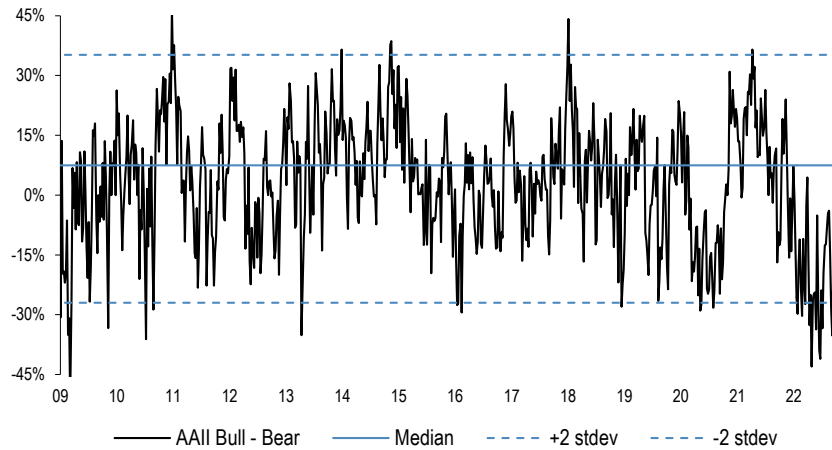
Equity beta for US balanced mutual funds



Source: : J.P. Morgan

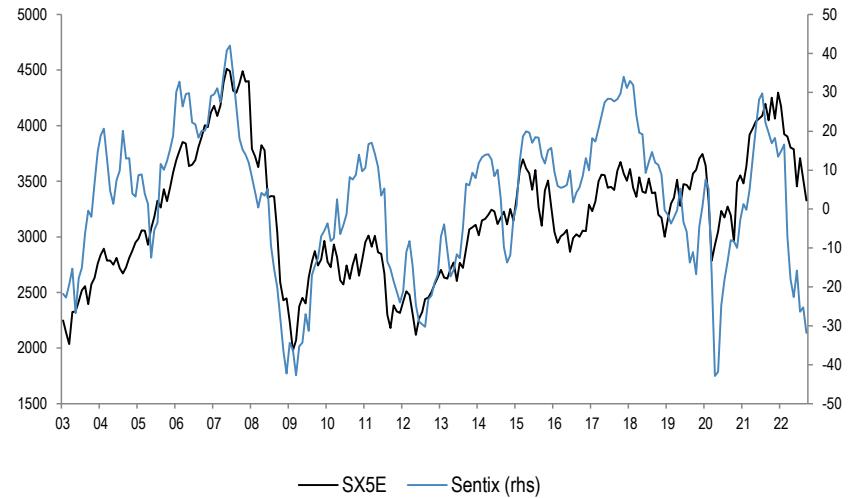
Flows into International were weak

AAll Bull-Bear



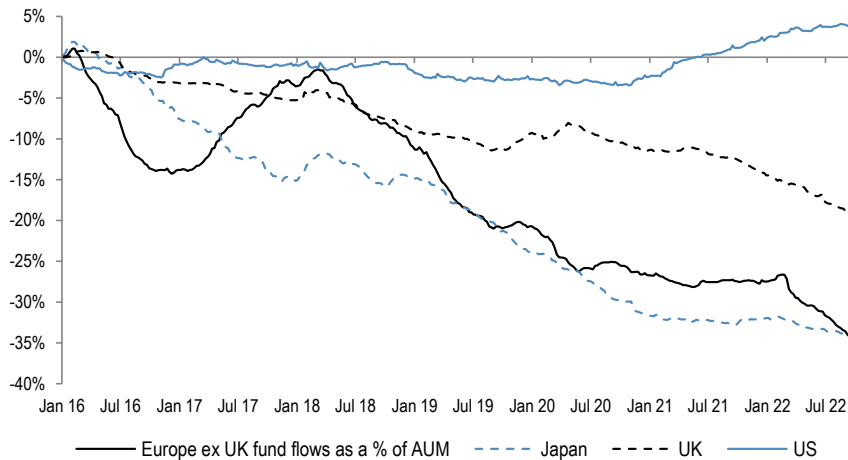
Source: Bloomberg Finance L.P

Sentix sentiment index vs SX5E



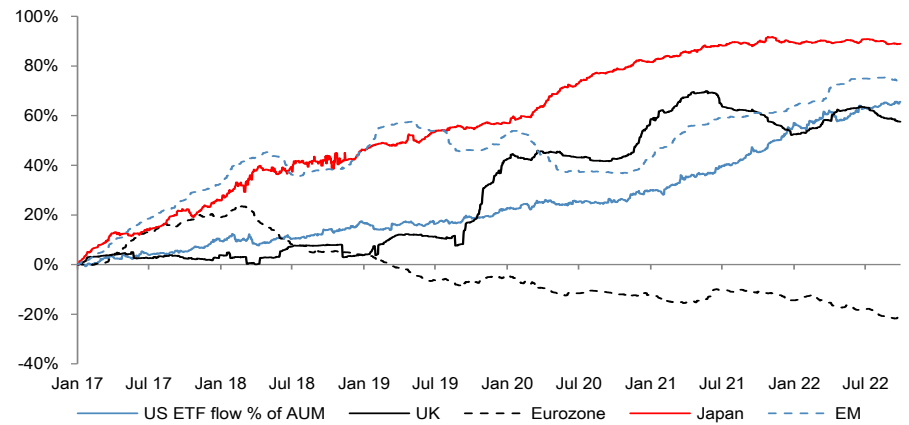
Source: Bloomberg Finance L.P

Cumulative fund flows into regional funds as % of AUM



Source: EPFR, as of 21st Sep, 2022. Japan includes Non-ETF purchases only

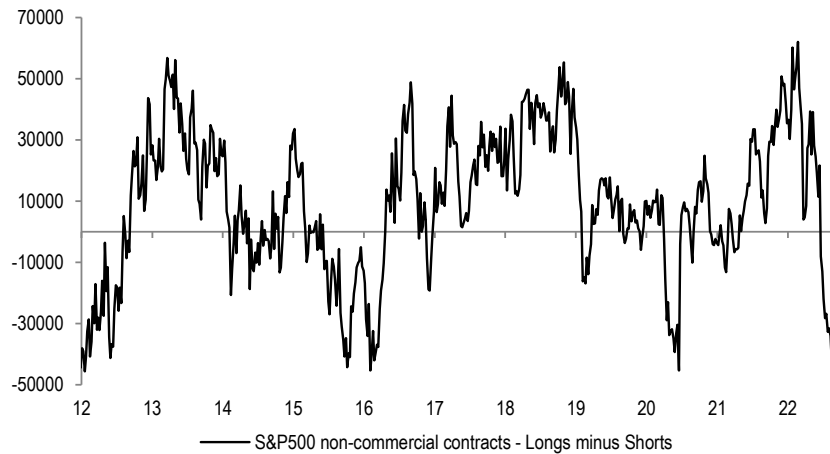
Cumulative fund flows into regional equity ETFs as % of AUM



Source: : Bloomberg Finance L.P. *Based on the 25 biggest ETFs with a mandate to invest in that particular region. Japan includes BoJ purchases

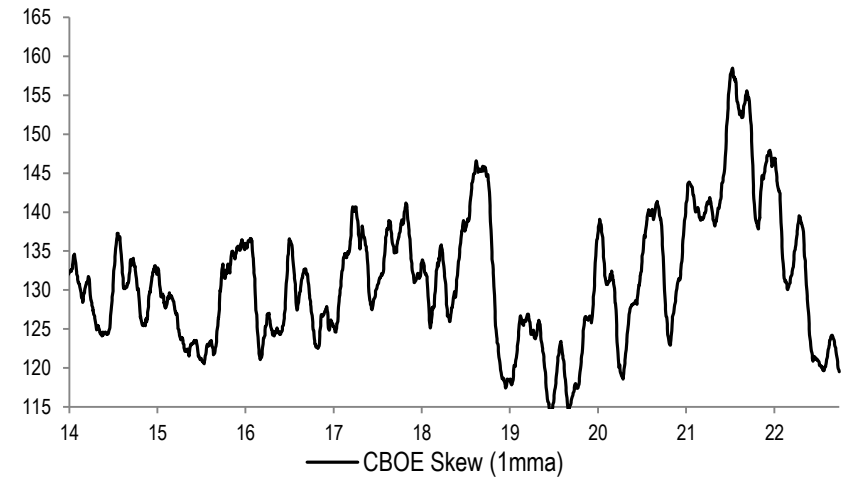
Equity performance is favourable in October – December period... speculative positions on SPX futures are net short

Speculative positions on S&P500 futures contracts



Source: Bloomberg Finance L.P.

Equity skew



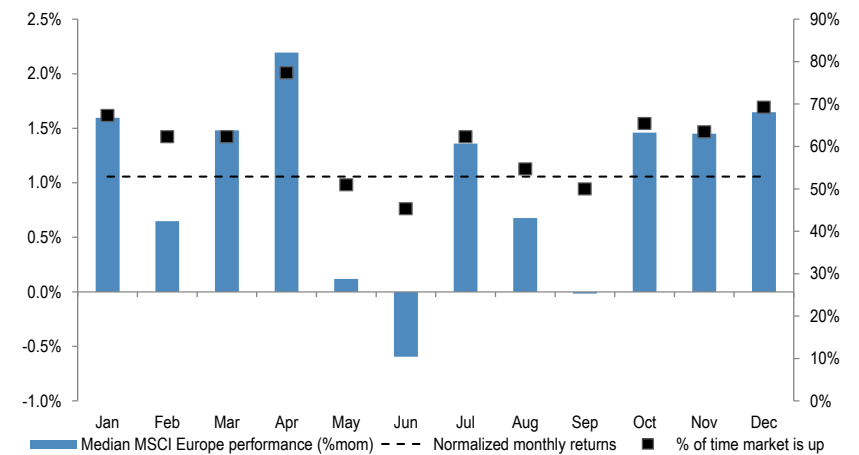
Source: Bloomberg Finance L.P.

Gold-to-Copper price ratio



Source: Bloomberg Finance L.P.

Seasonality* of MSCI Europe performance



Source: Datastream, *Median since 1970

Equity Flows Snapshot

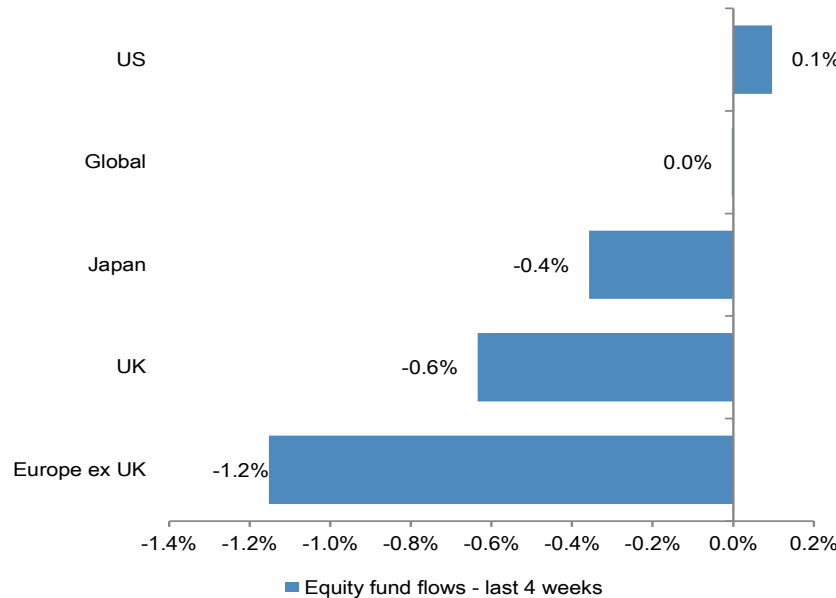
DM Equity Fund Flows Summary

Regional equity fund flows

	\$mn					% AUM				
	1w	1m	3m	ytd	12m	1w	1m	3m	ytd	12m
Global	797	-117	191	65,090	189,223	0.0%	0.0%	0.0%	1.5%	4.5%
Europe ex UK	-1,105	-3,198	-9,365	-29,517	-21,194	-0.4%	-1.2%	-3.1%	-7.5%	-5.6%
UK	-789	-1,683	-7,392	-17,500	-22,422	-0.3%	-0.6%	-2.5%	-5.0%	-6.6%
US	9,460	7,382	45,833	134,569	297,327	0.1%	0.1%	0.6%	1.4%	3.5%
Japan	-1,543	-2,254	-595	-6,425	773	-0.2%	-0.4%	-0.1%	-0.8%	0.1%

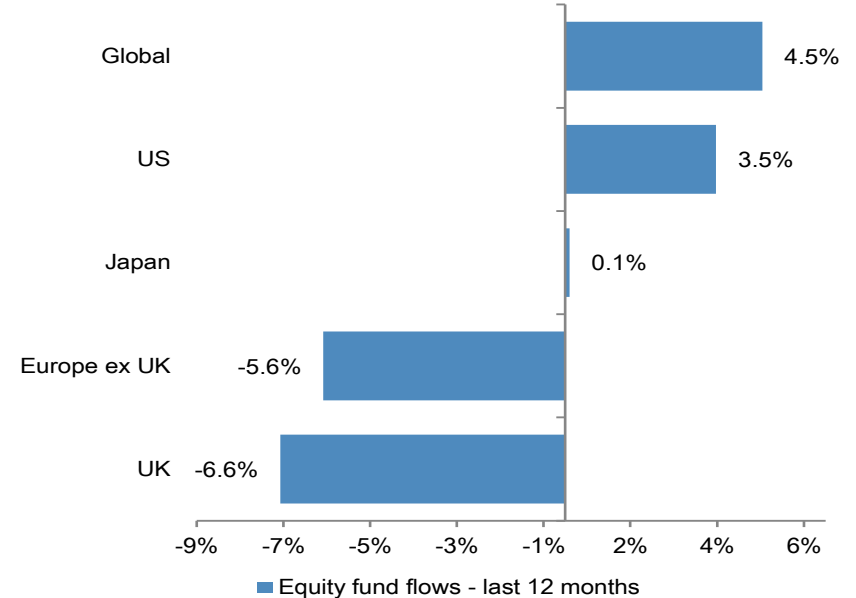
Source: EPFR

DM Equity Fund flows - last month



Source: EPFR

DM Equity Fund flows - last 12 months



Source: EPFR

Global sector valuations

	12m Fwd P/E			P/book			Cycle-adj P/E			12m Fwd P/Sales		
	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median
World	14.0	15.7	13%	2.6	2.2	-15%	25.3	24.5	-3%	1.6	1.3	-22%
Energy	6.6	14.5	120%	2.2	1.8	-20%	14.1	17.1	21%	0.8	0.9	18%
Chemicals	11.8	15.8	34%	1.9	1.9	3%	18.5	24.2	31%	1.3	1.2	-13%
Const Mat	11.6	14.1	22%	1.6	1.8	7%	18.0	20.0	11%	1.0	0.9	-11%
Metals&Mining	7.5	13.2	77%	1.4	1.6	17%	15.5	20.2	30%	0.9	0.9	4%
Capital Goods	13.7	16.0	17%	1.7	2.1	27%	15.5	20.2	31%	1.2	0.9	-26%
Transport	13.1	16.0	22%	2.0	2.1	7%	20.5	26.7	30%	1.3	1.1	-20%
Business Services	21.6	18.6	-14%	-	-	-	-	-	-	2.2	1.2	-45%
Automobile	12.8	11.6	-9%	1.6	1.4	-12%	15.9	19.1	20%	0.9	0.5	-46%
Cons Dur	13.6	17.5	29%	5.3	2.8	-48%	35.3	33.8	-4%	1.5	1.1	-27%
Media	16.1	20.0	24%	2.0	2.5	25%	19.1	29.2	53%	2.4	1.7	-26%
Retailing	26.5	20.1	-24%	5.0	3.3	-35%	31.4	32.9	5%	1.6	1.1	-31%
Hot,Rest&Leis	25.0	18.9	-24%	5.3	2.4	-55%	20.5	33.5	64%	2.8	1.9	-32%
Food&Drug Retailing	18.6	17.4	-7%	3.5	3.2	-11%	24.0	30.8	28%	0.5	0.4	-11%
Food Bev & Tob	17.0	17.3	2%	2.9	2.9	-2%	23.2	28.2	22%	2.1	1.7	-21%
HPC	21.0	20.3	-3%	3.2	2.1	-33%	23.0	29.1	26%	2.7	2.1	-21%
Healthcare	15.6	17.2	10%	3.9	3.3	-16%	31.4	32.2	2%	1.8	1.8	0%
Banks	7.9	11.7	48%	0.9	1.2	39%	10.6	20.0	89%	2.1	2.4	15%
Div Fin	12.2	20.8	71%	-	-	-	-	-	-	2.0	1.8	-7%
Insurance	10.1	11.6	15%	1.3	1.7	29%	14.7	22.4	53%	0.9	0.8	0%
Real Estate	21.6	20.8	-4%	1.1	1.3	16%	12.8	20.9	64%	4.2	4.0	-3%
Software&Svs	22.3	23.0	3%	5.0	4.0	-20%	38.8	44.8	15%	4.9	3.2	-36%
Tech Hardware	19.1	17.3	-9%	2.9	3.1	8%	22.8	31.6	39%	3.2	1.4	-57%
Semicon	14.5	16.3	12%	3.6	2.7	-25%	32.2	29.7	-8%	4.0	2.8	-31%
Telecoms	14.0	15.3	9%	1.7	2.3	39%	13.5	20.8	54%	1.8	1.3	-28%
Utilities	16.2	15.0	-7%	1.8	1.6	-8%	18.8	18.7	0%	1.4	1.0	-29%
Cyclicals	17.1	17.2	0%	3.4	2.3	-33%	22.8	28.6	25%	2.5	1.3	-50%
Defensives	15.9	17.1	8%	3.4	2.9	-15%	24.4	27.5	13%	1.7	1.4	-13%
Cyc. Vs. Def.	1.1	1.0	-7%	1.0	0.8	-20%	0.9	1.0	11%	1.5	1.0	-37%

Source: Datastream, MSCI, IBES. At 28th Sep 2022. 12m Fwd P/E since 1995, Cycle-adjusted P/E since 1983, P/Book since 1980, P/Sales since 2000

European sector valuations

	12m Fwd P/E			P/book			Cycle-adj P/E			12m Fwd P/Sales		
	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median
Europe	10.3	14.2	38%	1.7	1.8	8%	18.4	19.6	7%	1.4	1.2	-14%
Energy	4.4	13.1	197%	1.1	1.4	32%	10.0	14.7	47%	0.4	0.8	111%
Chemicals	13.7	14.9	9%	1.8	1.9	2%	15.1	18.8	25%	1.0	0.9	-12%
Const Mat	8.6	12.9	50%	1.5	1.6	8%	17.0	16.8	-1%	0.6	0.9	58%
Metals&Mining	5.4	11.1	107%	1.2	1.3	15%	12.3	15.2	24%	0.8	0.7	-19%
Capital Goods	13.4	15.0	12%	1.6	1.9	17%	14.2	21.3	50%	1.1	0.7	-35%
Business Services	7.4	14.3	93%	-	-	-	-	-	-	1.2	1.2	-2%
Transport	17.5	17.2	-2%	1.6	1.4	-14%	15.5	21.4	38%	2.3	0.7	-67%
Automobile	4.6	9.8	115%	0.7	1.1	52%	7.5	12.6	67%	0.3	0.4	38%
Cons Dur	16.4	16.6	1%	5.4	2.7	-50%	36.8	35.0	-5%	2.2	1.4	-35%
Media	13.2	16.4	25%	2.0	2.4	24%	13.3	25.0	87%	1.6	1.7	5%
Retailing	18.6	17.6	-6%	2.7	3.2	20%	13.2	23.3	76%	1.3	1.1	-17%
Hot,Rest&Leis	18.6	17.1	-8%	4.8	1.7	-65%	11.3	19.8	75%	1.3	0.7	-45%
Food&Drug Retailing	11.4	14.5	26%	2.9	2.8	-6%	17.1	27.1	58%	0.3	0.3	-8%
Food Bev & Tob	16.8	16.8	0%	2.5	2.3	-6%	20.8	24.3	17%	1.8	1.2	-33%
HPC	18.1	20.7	14%	3.7	2.4	-37%	24.7	23.9	-3%	2.9	2.1	-27%
Healthcare	14.1	16.9	20%	3.1	3.0	-1%	23.0	26.2	14%	3.0	2.9	-2%
Banks	5.9	11.0	87%	0.6	0.9	64%	7.7	13.0	68%	1.1	2.3	111%
Diversified Financials	9.2	11.9	30%	-	-	-	-	-	-	1.4	2.4	70%
Insurance	8.1	10.5	30%	1.1	1.5	38%	10.3	22.5	118%	0.6	0.6	5%
Real Estate	10.0	18.8	87%	0.7	1.0	55%	7.2	24.4	241%	8.3	8.8	6%
Software&Svs	18.4	21.6	17%	2.6	3.7	41%	20.5	34.3	68%	3.4	2.5	-26%
Tech Hardware	11.6	18.1	56%	1.5	2.2	49%	22.3	22.3	0%	1.6	1.5	-7%
Semicon	18.2	21.0	15%	2.9	2.3	-20%	40.4	38.0	-6%	7.5	3.0	-60%
Telecoms	12.1	14.4	19%	1.5	2.2	51%	11.1	20.0	80%	1.3	1.4	12%
Utilities	12.3	13.9	13%	1.5	1.5	3%	14.3	19.3	35%	1.1	1.1	0%
Cyclicals	15.3	15.2	-1%	2.1	1.9	-9%	17.3	20.4	18%	1.1	0.9	-25%
Defensives	16.5	16.1	-2%	2.5	2.5	2%	18.9	23.3	23%	1.8	1.5	-15%
Cyc. vs Def.	0.9	0.9	0%	0.9	0.8	-11%	0.9	0.9	-4%	0.6	0.6	-12%

Source: Datastream, MSCI, IBES. At 28th Sep 2022. 12m Fwd P/E since 1995, Cycle-adjusted P/E since 1983, P/Book since 1980, P/Sales since 2000

UK sector valuations

	12m Fwd P/E			P/book			Cycle-adj P/E			12m Fwd P/Sales		
	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median	Last	Median	% to median
UK	8.8	13.2	50%	1.7	1.8	12%	16.1	17.5	9%	1.0	1.1	5%
Energy	4.7	13.3	186%	0.9	1.4	65%	18.3	16.0	-12%	0.5	0.6	27%
Chemicals	17.6	15.9	-10%	2.4	2.4	-1%	16.2	19.4	19%	2.2	0.8	-65%
Const Mat	-	-	-	1.0	2.1	112%	16.7	16.9	1%	-	1.3	-
Metals&Mining	5.9	11.5	95%	1.6	1.8	12%	17.4	17.0	-2%	0.6	0.9	53%
Capital Goods	14.0	13.9	-1%	1.4	2.6	78%	16.6	17.4	5%	0.9	0.8	-12%
Transport	-	-	-	3.1	2.4	-24%	14.6	19.8	36%	-	-	-
Business Services	20.4	16.4	-20%	-	-	-	-	-	-	3.7	1.3	-65%
Automobile	-	-	-	-	-	-	3.1	16.1	415%	-	-	-
Cons Dur	7.3	10.7	48%	4.5	4.9	8%	22.5	28.6	27%	1.1	1.9	68%
Media	12.3	15.6	27%	2.1	2.2	7%	18.3	23.4	28%	1.4	1.5	5%
Retailing	9.0	13.9	55%	2.4	2.5	3%	12.1	20.1	66%	0.6	0.7	11%
Hot,Rest&Leis	19.6	16.0	-18%	4.7	1.8	-62%	11.0	20.5	87%	1.4	0.8	-44%
Food&Drug Retailing	12.6	14.1	12%	4.2	3.0	-29%	18.7	23.8	27%	0.2	0.4	61%
Food Bev & Tob	11.8	14.4	22%	2.2	2.7	24%	24.2	22.7	-6%	2.8	1.9	-31%
HPC	17.3	18.4	7%	1.8	1.5	-13%	11.5	20.1	75%	2.2	2.8	26%
Healthcare	13.4	15.9	18%	3.3	5.4	64%	26.4	22.6	-14%	2.9	2.8	-5%
Banks	5.8	10.6	83%	0.5	0.9	70%	12.0	12.2	2%	1.6	2.2	37%
Div Fin	11.8	13.4	14%	-	-	-	-	-	-	1.9	3.0	63%
Insurance	7.7	10.7	38%	1.6	2.0	27%	12.0	16.0	34%	0.8	0.8	-1%
Real Estate	15.4	21.2	38%	0.7	0.9	21%	12.1	25.4	109%	9.5	9.8	3%
Software&Svs	26.1	18.0	-31%	2.8	3.3	19%	26.3	32.2	22%	4.1	3.1	-25%
Tech Hardware	-	-	-	4.7	3.1	-34%	28.3	26.0	-8%	-	1.1	-
Semicon	-	-	-	-	-	-	49.7	-	-	-	13.1	-
Telecoms	10.3	13.4	30%	1.1	2.3	114%	9.0	19.7	118%	0.9	1.5	75%
Utilities	15.0	13.3	-11%	1.5	2.5	69%	14.6	16.1	10%	1.9	0.9	-52%
Cyclicals	8.1	14.2	75%	2.4	2.3	-5%	22.3	20.9	-6%	1.2	1.2	1%
Defensives	8.6	14.2	66%	2.7	3.6	34%	20.9	20.9	0%	2.0	1.8	-10%
Cyc. Vs. Def.	0.9	0.9	-1%	0.9	0.6	-29%	1.1	1.0	-6%	0.6	0.7	18%

Source: Datastream, MSCI, IBES. At 28th Sep 2022. 12m Fwd P/E since 1995, Cycle-adjusted P/E since 1983, P/Book since 1980, P/Sales since 2000

Regional GDP, CPI, Interest Rate and Exchange Outlook

	Real GDP			Real GDP						Consumer prices			
	% oya			% over previous period, saar						% oya			
	2021	2022E	2023E	4Q21	1Q22	2Q22E	3Q22E	4Q22E	1Q23E	1Q22	3Q22	1Q23	3Q23
United States	5.7	1.7	0.9	6.9	-1.6	-0.6	1.0	1.5	1.0	8.0	8.2	5.0	2.7
Eurozone	5.2	3.2	0.4	2.0	2.7	3.1	0.5	-1.8	-1.0	6.1	9.2	7.7	3.8
United Kingdom	7.4	3.4	0.3	5.2	3.1	-0.3	-0.5	-1.0	0.7	6.2	10.1	9.5	4.8
Japan	1.7	1.6	1.5	3.9	0.2	3.5	1.0	3.0	1.0	0.9	2.6	2.4	1.7
Emerging markets	7.2	3.3	3.2	7.9	5.9	-3.4	5.2	3.2	3.7	2.2	3.9	4.0	2.7
Global	5.9	2.7	1.8	6.3	2.6	-0.6	2.6	1.6	1.8	5.8	7.7	5.9	3.4

Official interest rate	Forecast		Forecast for			
	next change	Current	Sep 22	Dec 22	Mar 23	Jun 23
Federal funds rate	Nov 22 (+50bp)	3.25	3.25	4.25	4.50	4.50
Depo rate	Oct 22 (+75bp)	0.75	2.00	2.00	2.00	2.00
Bank Rate	Nov 22 (+75bp)	2.25	2.25	3.50	4.25	4.25
Pol rate IOER	On hold	-0.10	-0.10	-0.10	-0.10	-0.10

10 Yr Govt BY	Forecast for end of				
	27-Sep-22	Dec 22	Mar 23	Jun 23	Sep 23
US	3.98	3.75	3.65	3.60	3.55
Euro Area	2.24	1.50	1.35	1.25	1.15
United Kingdom	4.50	3.00	3.00	2.80	2.65
Japan	0.25	0.25	0.25	0.25	0.25

Exchange rates vs US\$	Forecast for end of				
	27-Sep-22	Dec 22	Mar 23	Jun 23	Sep 23
EUR	0.96	0.95	0.96	1.02	1.03
GBP	1.08	1.05	1.08	1.10	1.11
CHF	0.99	0.99	0.94	0.88	0.85
JPY	145	147	145	142	140
DXY	114.1	115.0	112.1	108.5	107.2

Source: J.P. Morgan estimates, Bloomberg Finance L.P

European countries' valuations and EPS growth metrics

	Fwd P/E				P/Book				Div Yield (%)		Perf		EPS Growth				GDP Growth		
	Current	LT	% Disc	% Disc Rel to EMU	Current	LT	% Disc	% Disc Rel to EMU	Current	LT	2020	Since Jan'21	2022e	2023e	2024e	12m Fwd EPS	2021	2022e	2023e
		Median				Median				Median									
Austria	10.4	14.0	-26%	2%	1.6	1.7	-7%	12%	3.2	3.1	-6%	2%	29%	-2%	6%	36.2%	6.8	2.4	0.1
Belgium	9.1	13.2	-32%	-6%	1.2	1.7	-31%	-17%	4.2	2.7	0%	-21%	6%	6%	11%	22.3%	2.6	1.7	0.0
Finland	9.4	12.9	-27%	0%	0.8	1.7	-53%	-43%	2.4	2.6	-36%	-1%	13%	43%	12%	-7.7%	8.4	4.4	1.4
France	13.2	15.0	-12%	23%	1.8	2.0	-8%	13%	2.0	2.1	4%	-19%	13%	5%	11%	9.0%	13.7	7.1	2.0
Germany	7.1	13.2	-46%	-25%	1.0	1.2	-18%	-1%	5.5	3.6	-8%	-7%	24%	-3%	6%	39.8%	6.6	3.3	-0.2
Greece	16.0	14.1	13%	58%	2.2	2.2	2%	30%	2.4	2.7	13%	-7%	8%	23%	16%	15.6%	4.9	4.1	0.9
Ireland	15.5	15.0	3%	47%	2.5	2.0	25%	60%	3.5	3.8	2%	4%	53%	10%	5%	11.4%	5.4	6.0	2.0
Italy	9.2	12.9	-29%	-2%	1.0	1.5	-32%	-16%	4.2	4.0	-14%	-6%	24%	4%	7%	4.6%	5.4	6.1	1.3
Netherlands	9.9	13.7	-28%		1.4	1.7	-17%		3.6	3.1	-3%	-8%	17%	4%	9%	53.2%	5.2	2.9	0.3
Portugal	7.7	11.8	-35%		2.0	1.6	24%		4.2	3.4	-7%	19%	73%	-14%	-14%	91.6%	3.9	3.2	1.1
Spain	12.6	15.3	-18%		1.9	2.2	-16%		3.5	2.9	8%	-5%	7%	7%	8%	31.3%	5.0	2.6	0.8
EMU	15.5	16.1	-4%		2.8	2.7	3%		3.2	2.8	0%	-6%	5%	13%	10%	9.0%	4.3	2.3	1.0
Norway	15.5	16.4	-6%		4.4	3.1	41%		2.2	1.7	30%	5%	38%	-24%	-3%	92.4%	5.0	3.0	0.9
Sweden	8.8	13.2	-34%		1.7	1.9	-11%		4.1	3.6	-16%	11%	23%	-1%	0%	38.9%	7.4	3.4	0.3
Switzerland	10.2	14.2	-28%		1.7	1.9	-10%		3.6	3.2	-4%	-3%	18%	2%	5%	53.0%	5.2	3.2	0.4
Denmark	15.9	16.3	-3%		3.7	2.9	26%		1.7	1.9	19%	-5%	8%	8%	9%	33.4%	5.7	0.9	1.2
United Kingdom	10.4	14.0	-26%	2%	1.6	1.7	-7%	12%	3.2	3.1	-6%	2%	29%	-2%	6%	36.2%	6.8	2.4	0.1
Europe	9.1	13.2	-32%	-6%	1.2	1.7	-31%	-17%	4.2	2.7	0%	-21%	6%	6%	11%	22.3%	2.6	1.7	0.0
US	9.4	12.9	-27%	0%	0.8	1.7	-53%	-43%	2.4	2.6	-36%	-1%	13%	43%	12%	-7.7%	8.4	4.4	1.4

Source: Datastream, IBES, J.P. Morgan Economics Research, consensus forecast in italics, 27th Sep 2022

Global Equities Performance & Valuations

3M Performance	Market	Energy	Materials	Industrials	Discretionary	Staples	Healthcare	Financials	IT	Telecom	Utilities
US	-6.5%	-4.3%	-11.0%	-4.9%	0.9%	-6.0%	-6.8%	-5.9%	-6.8%	-15.7%	-1.0%
Europe	-6.2%	1.7%	-8.5%	-5.5%	-3.7%	-2.7%	-11.1%	-4.4%	-7.0%	-13.2%	-7.6%
UK	-4.0%	7.5%	-5.2%	0.3%	-7.0%	0.3%	-14.3%	-5.0%	8.5%	-14.2%	-10.6%
Euro	-6.8%	-6.1%	-9.7%	-7.1%	-2.3%	-2.9%	-16.6%	-3.6%	-6.8%	-12.3%	-6.3%
Switzerland	-7.6%	-	-10.3%	-7.5%	-5.4%	-5.6%	-7.9%	-8.5%	-	-9.1%	-
Japan	-1.4%	-6.8%	-3.6%	0.1%	-3.9%	5.7%	2.7%	-2.1%	-3.7%	-1.9%	-6.5%
World	-6.1%	-3.8%	-9.6%	-4.2%	-0.3%	-4.2%	-7.1%	-5.1%	-6.8%	-14.4%	-3.3%
12M Performance											
US	-19.7%	33.2%	-17.4%	-17.6%	-24.7%	-2.9%	-8.5%	-22.5%	-23.3%	-42.1%	6.9%
Europe	-15.0%	25.3%	-16.3%	-24.4%	-23.2%	-4.3%	-9.3%	-13.1%	-33.8%	-14.6%	-10.6%
UK	1.7%	36.9%	6.2%	1.7%	-11.2%	4.6%	5.7%	-3.3%	-19.6%	-10.7%	-1.5%
Euro	-21.6%	7.1%	-26.1%	-25.3%	-23.3%	-12.9%	-21.7%	-16.3%	-33.4%	-13.4%	-11.6%
Switzerland	-15.1%	-	-28.1%	-32.7%	-4.2%	-5.3%	-12.8%	-16.8%	-	-10.1%	-
Japan	-10.8%	19.3%	-18.3%	-11.3%	-11.6%	-5.2%	-13.1%	0.8%	-21.3%	-3.7%	9.0%
World	-17.9%	27.6%	-14.4%	-18.2%	-23.0%	-3.6%	-9.2%	-17.4%	-24.8%	-37.9%	0.7%
P/Book (-1M)											
US	4.2	2.6	2.9	4.9	9.9	6.3	4.9	1.5	8.9	3.1	2.4
Europe	1.9	1.3	1.8	3.2	2.0	3.4	4.0	0.8	4.7	1.4	1.8
UK	1.7	1.2	2.5	4.8	2.4	2.9	6.2	0.9	8.2	0.7	2.1
Euro	1.6	1.2	1.4	2.6	1.8	2.8	2.0	0.7	5.2	1.5	1.6
Switzerland	2.7	-	2.5	4.6	2.3	5.1	4.8	0.9	-	3.6	-
Japan	1.6	0.8	1.2	1.8	1.7	2.7	3.5	0.7	2.8	2.6	0.8
World	2.9	2.0	2.1	3.2	4.2	4.5	4.5	1.2	7.6	2.7	2.0
12m Fw P/E											
US	16.5	8.2	12.3	17.0	25.3	19.6	15.8	11.2	20.3	14.5	19.4
Europe	11.0	4.7	9.2	13.5	11.3	17.5	14.7	7.9	18.1	13.1	13.7
UK	9.0	4.8	6.3	16.2	12.7	13.8	13.3	7.4	26.6	10.7	16.0
Euro	10.7	4.5	10.2	13.3	10.7	17.4	11.8	7.4	18.7	13.7	12.7
Switzerland	16.0	-	17.7	17.0	16.4	24.3	14.9	9.9	13.5	16.2	-
Japan	12.4	5.6	9.0	10.8	11.7	20.8	23.5	8.8	16.1	13.6	11.3
World	14.6	7.1	10.3	15.0	19.1	18.8	15.9	10.2	20.1	14.5	17.4
12m fw EPS Gr											
US	7.7	10.0	-5.0	17.3	26.5	4.6	3.0	6.2	6.7	7.0	7.3
Europe	5.6	3.0	-13.9	5.8	7.3	9.0	8.8	9.6	14.0	11.4	13.5
UK	3.7	6.0	-16.4	11.0	7.8	8.8	11.9	6.3	9.2	6.5	10.2
Euro	6.7	-0.6	-14.6	18.9	6.0	9.5	7.1	7.3	15.1	14.0	15.5
Switzerland	11.3	-	5.7	0.6	20.3	8.1	5.8	30.3	0.6	-3.0	-
Japan	6.8	-18.6	-8.7	0.4	11.2	10.6	19.0	1.0	8.4	47.8	75.9
World	7.1	7.1	-10.5	11.2	18.3	6.5	4.6	7.4	7.2	10.2	10.7
Dividend Yield											
US	2.2	3.0	2.2	2.0	2.2	2.8	2.1	2.8	1.3	4.6	2.9
Europe	3.5	4.1	4.9	2.9	3.2	2.8	2.9	4.9	1.4	4.4	4.5
UK	3.9	3.6	7.4	2.2	3.1	4.0	3.4	3.6	1.6	4.9	4.8
Euro	3.5	4.6	4.0	2.8	3.3	2.1	3.1	5.7	1.3	3.9	4.6
Switzerland	2.9	-	2.8	3.5	2.3	2.2	2.9	4.5	-	4.5	-
Japan	2.4	4.0	3.5	2.4	2.0	2.1	1.7	4.1	1.7	2.7	2.6
World	2.6	3.6	4.0	2.3	2.4	2.7	2.2	3.6	1.3	4.1	3.4

Source: IBES, MSCI, Datastream, At 27th Sep 2022, * Discount to MSCI World

Additional Basket Methodology

In order to keep the basket relevant to the investment theme, J.P. Morgan reserves the right to review the following at any time:

Basket methodology. This is to ensure the rules of the basket remain relevant following any structural changes to the theme. This may include ensuring that the sector exposure of the basket remains broadly consistent with the investment theme.

Basket change implementation. J.P. Morgan will consider extending the implementation of changes to the basket composition from one trading session to any period up to five trading sessions in the event that a material increase in the liquidity or capacity of the basket is required to minimize market impact.

Corporate actions may affect the basket. The composition of a custom basket is typically adjusted in the following manner:

Cash Merger: The divisor is adjusted and we remove the target company from the basket on the day of merger and redistribute gains into remaining companies according to recalculated market cap weights of surviving constituents in the basket.

Stock Merger: If the acquirer is a member of the basket, then the weight allocated to the acquired will transfer to the surviving entity on the close of the last day it trades. If the acquirer is not a part of the basket, then proceeds (losses) from the acquired company will be redistributed to the surviving basket constituents based on the recalculated weighting on the close of its last trading day.

Spinoffs: The spinoff company and parent will be included in the basket and both the spinoff and parent company weights will be readjusted according to new market capitalizations after the spinoff date.

Tender Offers & Share Buybacks: The stock will remain in the basket and its weight will be adjusted according to the impact the tender/buyback has on the stock's market value.

Delisting/Insolvency/Bankruptcy: The stock will be removed from the basket as of the close of the last trading day, and the proceeds (losses) will be redistributed among remaining companies according to re-calculated weights of remaining stocks in the basket. If a stock trades on "pink sheets" it will not be included in the basket.

Additional Basket Methodology

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