

Equity Strategy

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The phase of bad data being interpreted as good is gaining traction... the call of peak Fed hawkishness, peak yields and peak inflation to play out...

- While the near term activity outlook remains challenging, we believe that the risk-reward for equities is looking more attractive as we move through 2H. On the growth side, M1, our lead indicator, points to further PMI softness – page 10. This is joined by a deterioration in labour markets, where the weekly claims dataflow, a coincident indicator, is likely to hit recession signal this month – page 17. Here, we think that the activity reset is what investors need to see in order to starting looking through. Notably, poor Q2 US GDP print was taken positively by the market: “bad data is starting to be seen as good”. This will also open the doors to a more balanced Fed. Another 50bp hike in September would bring the Fed rate upper bound to 3%, above neutral territory, and the data weakness in the interim could make them less aggressive from there. The point of peak Fed hawkishness, for now, and a rollover in bond yields – we note the gap between the breakevens and yields has largely closed – page 30, could in turn lead to softer USD. If the above scenario gains traction, the challenging equity trading seen in 1H is likely to keep giving way to more supportive backdrop as we move through the summer. Overall:
- 1) Activity momentum is likely to stay weak, but the prolonged period of balance sheet adjustment is unlikely, in our view. JPM economists have downgraded their GDP forecasts again last week, now projecting a mild winter contraction in Eurozone. Looking at the year average, their new forecast for 2022 is still a high 3.0% yoy rate. 2023 is seen at 0.7%. We are reflecting these new growth forecasts through reduced EPS projections and end year price targets, but **we expect equities to be meaningfully higher than current at the year-end**. House prices are likely to level off from highs, but not fall. Strong banks balance sheets will help. **The Chinese activity hurdle rate in 2H is very easy**.
- 2) **Fed is unlikely to keep surprising the market on the hawkish side in 2H**, relative to what is already priced in the futures, in particular as dataflow softens towards contraction. The view of peaking yields has directed us towards the tactical call to buy back Growth style and Tech sector a month ago. USD is at 20 year highs, and notably it tended to peak after the Fed starts tightening, and before ECB commences hikes. USD is now above the levels implied by a regional rate differential – page 34.
- 3) Earnings have been revised up so far ytd, and are at cyclical highs, but are finally likely to deteriorate in 2H, following weaker PMIs. Topline is still likely to grow meaningfully though, and interest rates are expected to stay way lower than inflation, along with wages, unlike what transpired in 1970-ies. This suggests that any earnings weakness is unlikely to be material.
- 4) **International equities have derated to a discount to historical averages, at 10-12x forward P/Es**, and offer significant cushion vs bond yields, which are also remaining meaningfully below long term averages. Even with earnings repricing, the international equity multiples are not demanding. US is relatively less attractive in this respect, but attractive in absolute terms.
- 5) **Sentiment metrics are at lows**, which is typically a good contrarian indicator. Positioning reduction has taken place, but there wasn't a clear capitulation. Perhaps one doesn't need to see it, as there are no redemptions, or forced selling, so far.

...despite property risks, China to behave counter-cyclical to DM in 2H, reiterate the upgrade made in early May...

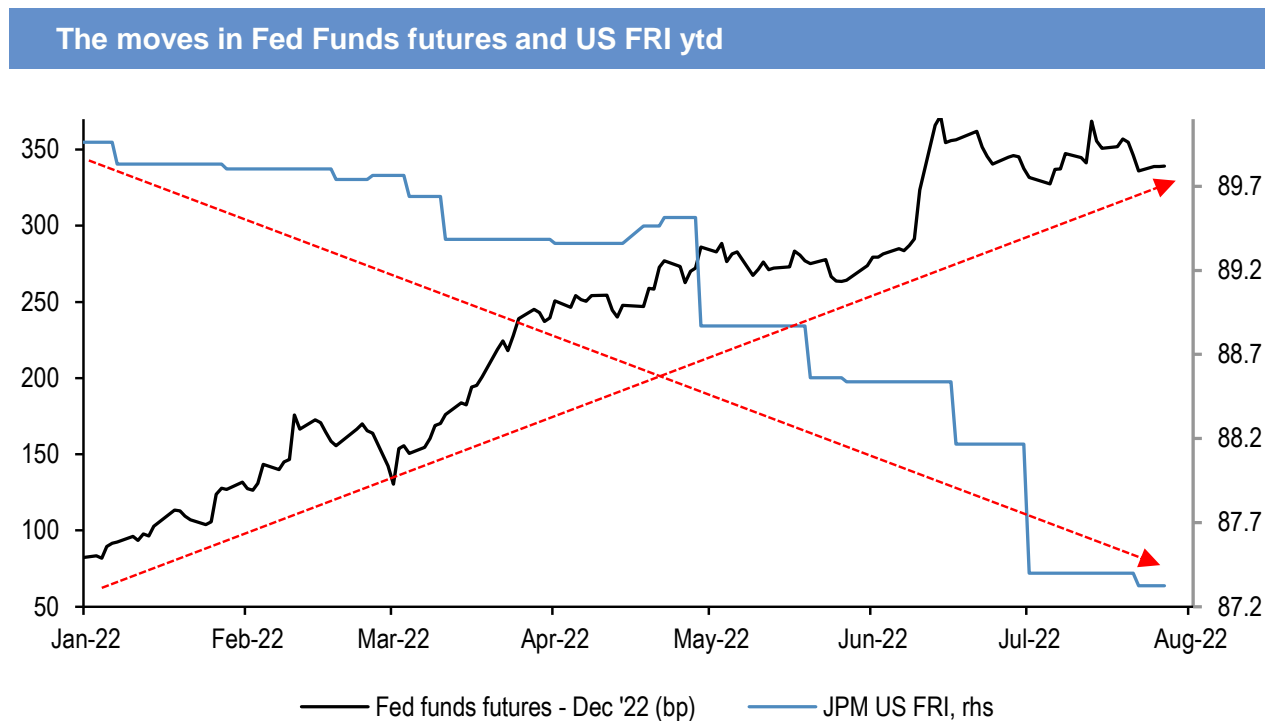
- Big picture, we looked for regional convergence this year. The onset of geopolitical volatility weakened the risk-reward for Eurozone in particular, but we think the fundamental case for regional convergence remains.
- **OW EM vs DM, now including China.** We have been cautious on China last year and until 9th May this year, but have at that point turned positive, advising to add to CSI. The China market has done poorly ever since February 2021, the regulatory uncertainty appears to be reducing, big tail risk of zero COVID lockdowns is in the open, with some easing in restrictions likely, there is a probable further stimulus ahead, and the activity hurdle rate in 2H is likely exceptionally favourable.
- **OW UK.** In November we upgraded the UK to OW, for the first time in six years, taking advantage of its six years of underperformance. The UK is trading at a record discount vs other regions, even when Value sectors are taken out. The UK offers the highest dividend yield globally, which is, in our view, well covered this time around. Within UK, **we have in November reversed our longstanding pair trade of OW FTSE250 vs FTSE100, and are now OW FTSE100 vs FTSE250.**
- **OW Eurozone.** We acknowledge that our positive stance on Eurozone is unlikely to work as long as Russia-Ukraine headlines dominate the narrative, but we believe that Eurozone screens attractive. On P/E relative metric, Eurozone is trading not far from a record discount to the US, last seen during the worst point of the Eurozone sovereign crisis. The Eurozone backdrop appears encouraging with respect to the underlying pace of growth despite the geopolitics hit. The Recovery Fund began to be implemented and the labour market is strong, with fresh lows in the unemployment rate. We believe 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.** Japan could perform better in 2H, as reopening gains traction, and if 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. 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, and could keep stalling vs other regions over the medium term if the Tech outperformance keeps waning, but will be a safe haven during the extremes of the geopolitical uncertainty.
- **UW parts of RoW,** focused on Switzerland, HK and New Zealand.

...reiterate bullish tactical call on Growth style and on Tech sector, made in early July; Defensives look worse than both Value or Growth

- 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 58, and have derated. We do not see the convergence trade as over longer term, but have in early July argued that tactically Growth style, and Tech sector in particular, should start to bounce, as the Fed turns more balanced, and as yields stall. In 2nd half we think Growth will beat Value, and believe that both look better than Defensives, which are priced for perfection.
- We upgraded **Energy** last August, given its 20% underperformance during the summer '21 – page 144, and the sector had a very strong run since. Short term, there could be continued 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 price will stay supported; we stay OW.
- While we acknowledge that Banks are not likely to perform as long as geopolitics is dominating, and while bond yields are stalling, we believe that Banks remain a fundamental OW. Banks are seeing improving NIMs, and are likely to close the substantial gap they opened up with yields of late – page 165. 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, and 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.
- **Consumer** exposure has also been hit by geopolitics and purchasing power squeeze, but we find it fundamentally attractive, given resilient consumer balance sheets and pent up demand. 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 173-175. Tactically, we have in early July advised to buy Semis such as ASML and payments such as ADYEN, 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 unexciting valuations, mixed earnings delivery and rising bond yields, 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 to keep improving as we move through 2H...

- Equities endured a challenging first half of the year, as the activity outlook was downgraded, while at the same time central banks tightening projections were revised meaningfully higher. The worsening was seen from both sides, and in the 2nd half there is likely to be an easing in these headwinds.

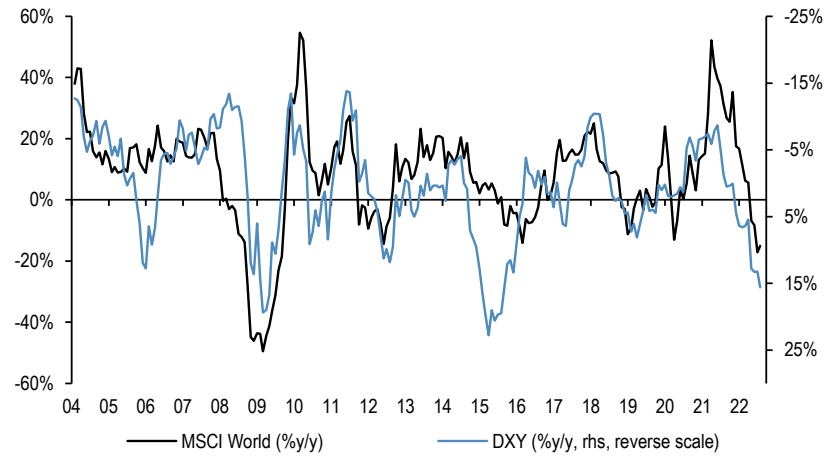


Source: Bloomberg Finance L.P.

...peak Fed hawkishness call to gain traction... this is driving peaking in bond yields and potentially a turn in USD...

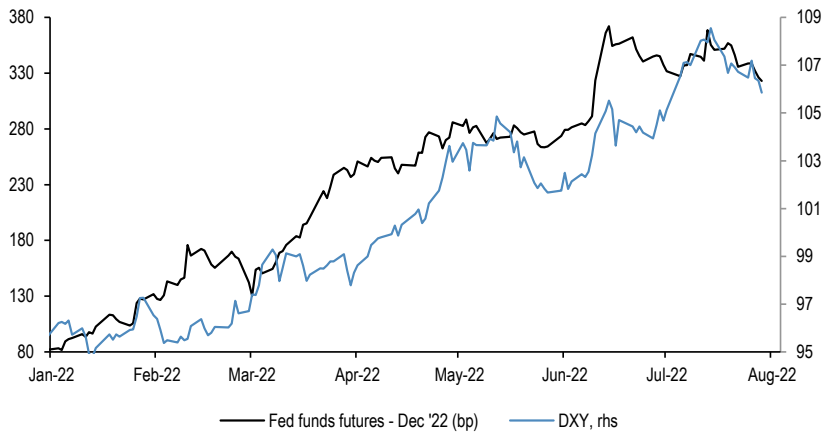
- The move up in Fed futures supported USD. If the Fed becomes more balanced, USD could be peaking. This would help risk trade significantly, as equities hold an inverse correlation with the USD.
- The gap between bond yields and breakevens has now fully closed, suggesting that valuation support is forthcoming.

MSCI World performance and DXY



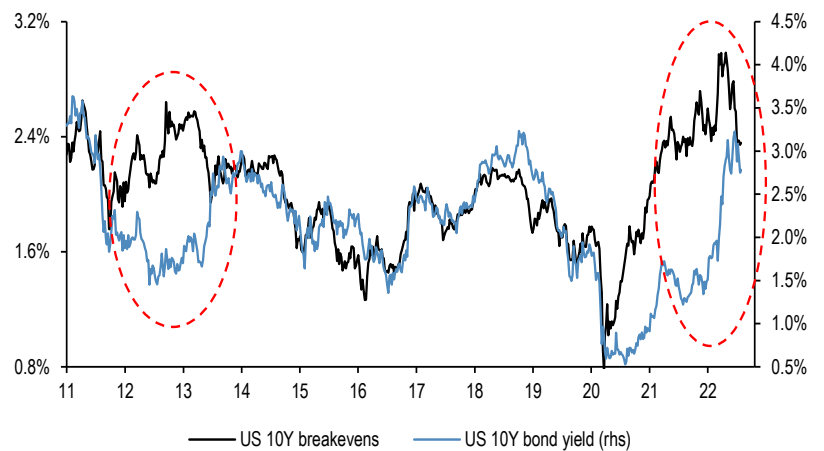
Source: Datastream

Fed funds futures vs DXY



Source: Bloomberg Finance L.P.

US 10Y breakevens and 10Y bond yield

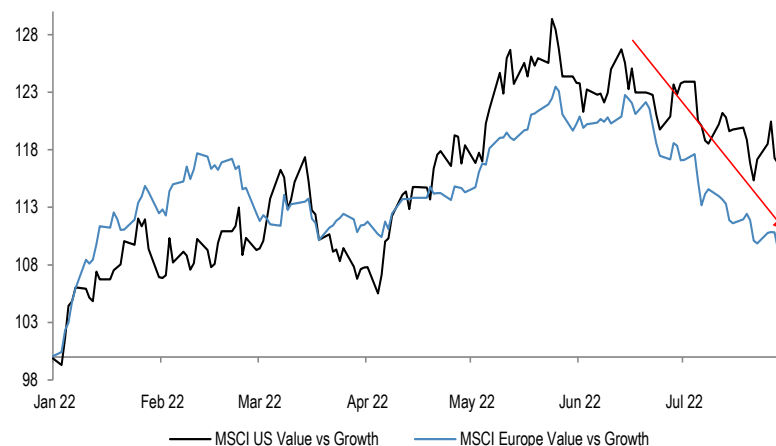


Source: Bloomberg Finance L.P.

...we have recently argued for a tactical bounce in Growth style vs Value; Defensives look the most stretched...

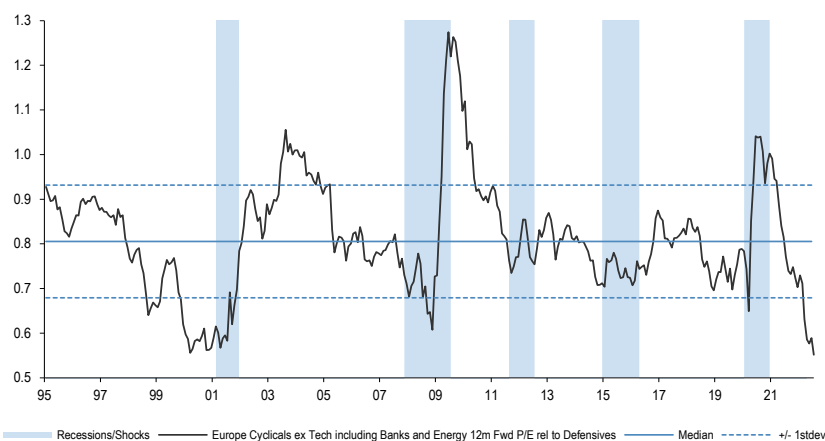
- The peak Fed hawkishness could help Growth part of the market stabilize, especially post the recent very poor performance of the group. We argued a month ago to tactically buy Tech sector and Growth style..
- It is Defensives which are now priced too aggressively, trading as if we are at the worst points of past recessions.
- We believe that as we move through 2H, both Value and Growth could start beating Defensives.

MSCI US and Europe Value vs Growth



Source: Datastream

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



Source: IBES

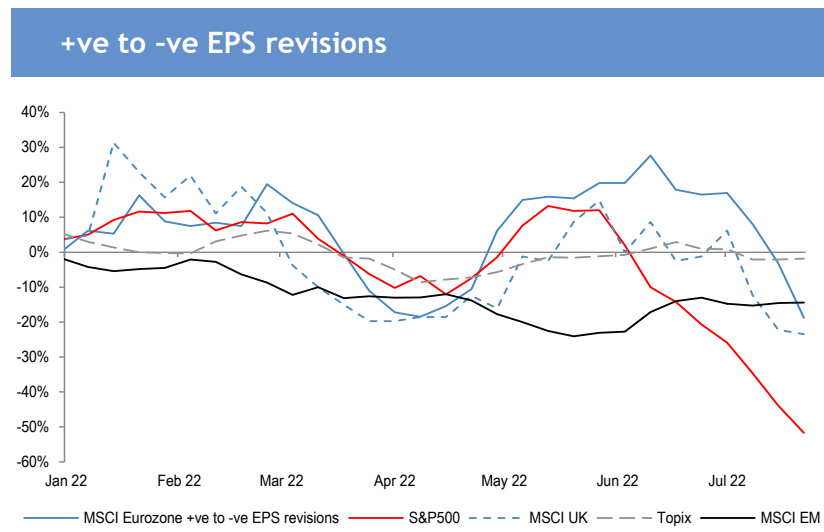
Performance of Staples post peak P/E relative

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

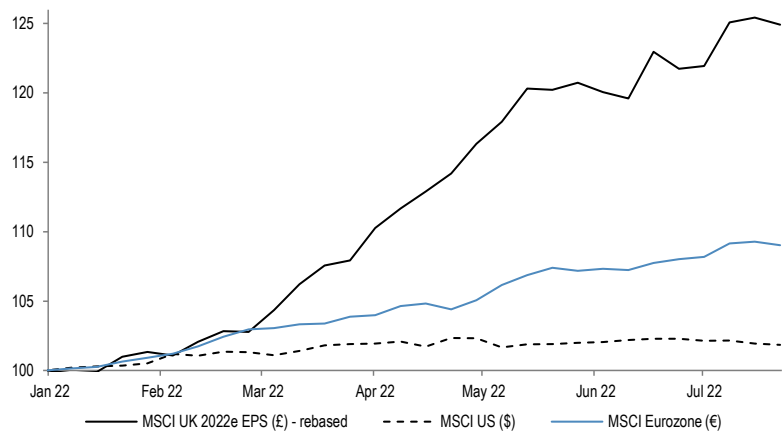
...earnings have been very resilient so far, but the reset is coming... this might be welcome...

- Earnings have been revised up ytd, by 25% in the UK, 9% in Eurozone and 2% in the US.
- The resilience is fairly broad based. Most sectors have seen upward moves in 2022 EPS projections, apart from Industrials, Financials and Real Estate.
- However, as activity weakens in the coming weeks, it is likely that earnings will see some correction, as well. EPS revisions have moved into negative territory. Most clients need to see this in order to add risk.



Source: IBES

MSCI US, UK and Eurozone 2022e EPS



Source: IBES

2022e EPS change for MSCI Eurozone sectors

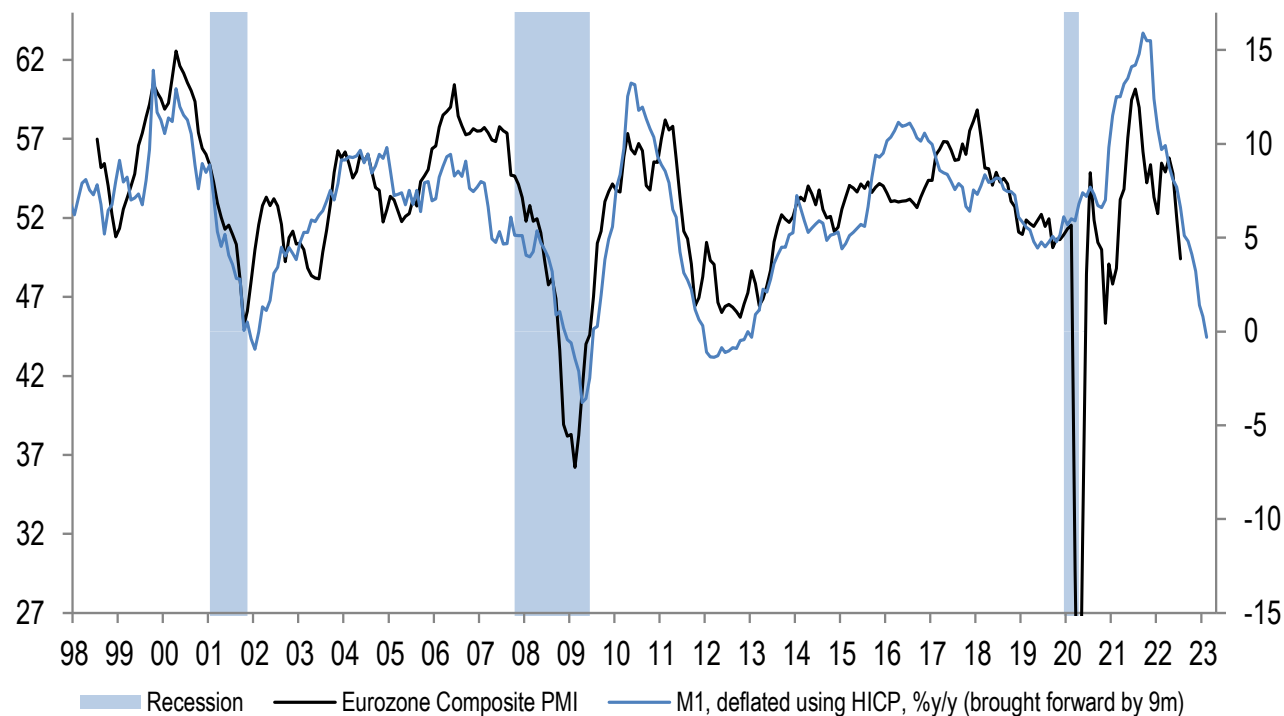
	26-Jul	1-Jan	YTD change
Market	19.3	17.7	9.0%
Energy	35.0	17.4	101.0%
Materials	24.3	21.8	11.7%
Industrials	20.0	20.0	-0.2%
Discretionary	15.9	15.4	3.1%
Staples	10.4	10.3	1.0%
Healthcare	14.9	14.5	3.0%
Financials	5.8	5.9	-1.6%
IT	7.5	7.4	1.6%
Comm Services	3.2	3.2	2.2%
Utilities	9.1	8.5	7.0%
Real Estate	49.1	52.4	-6.3%

Source: IBES

...M1 lead indicator is pointing to continued PMIs slowdown...

- 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.

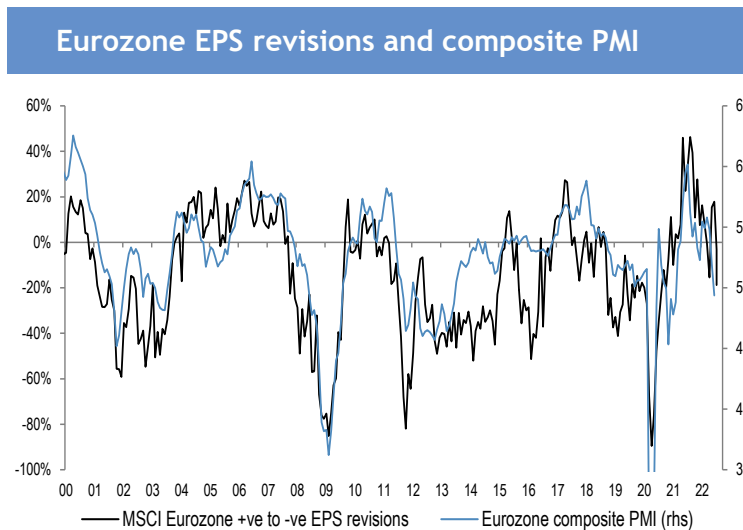
Eurozone M1 growth (deflated by HICP) vs PMI



Source: Bloomberg Finance L.P. , Markit

...the earnings downside in past recessions was material... we do not expect an above average downturn this time around

- PMIs below 53-54 have typically meant a spell of EPS cuts.
- Earnings decline in past recessions was 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 inflation rates, in contrast to the 1970-ies experience.



Source: IBES , Markit

Changes in Eurozone equities, earnings and GDP during past recessions

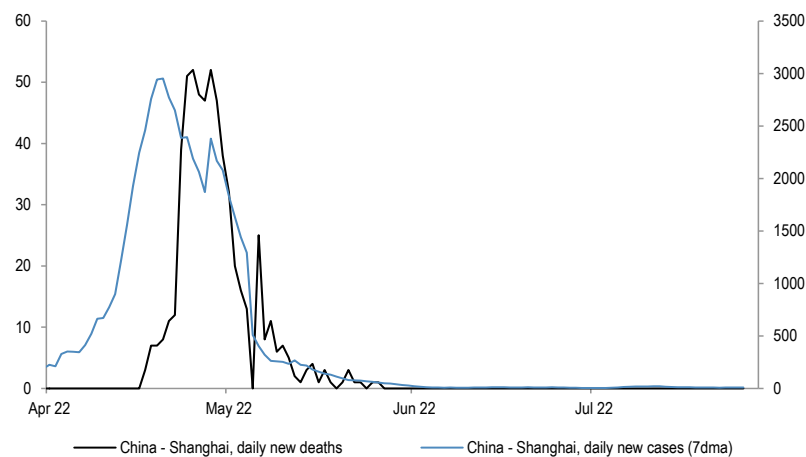
Recession	Peak in MSCI Eurozone	Trough In MSCI Eurozone	MSCI Eurozone peak to trough move	12m Fwd P/E at MSCI Eurozone trough	12m Fwd P/E at trough - Eurozone vs US	Peak in MSCI Eurozone Fwd. EPS	Trough In MSCI Eurozone Fwd. EPS	MSCI Eurozone Fwd. EPS peak to trough move	Peak to Trough - MSCI Eurozone actual EPS	MSCI Eurozone actual EPS peak to trough move	Peak in Euro Area 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	Jun-22	-22%	11.1	0.68	At peak		-		-			-

Source: Bloomberg Finance L.P. , Markit

We held a cautious China stance through most of last year and until May of this year, but expect better China risk-reward from here

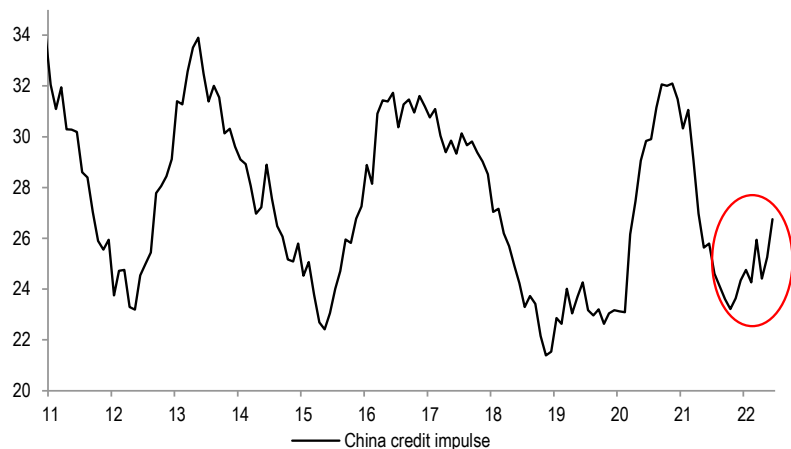
- We have been cautious on China through last year and until recently this year, but believe that China risk-reward is finally improving. Zero COVID lockdowns are out in the open, and the case count has been stabilizing. China credit impulse has turned, with more stimulus likely ahead.
- At the recent lows, Chinese equities were already down 50% from last February highs, a lot is in the price.

China - Shanghai COVID cases



Source: WHO, Bloomberg Finance L.P.

China credit impulse



Source: Bloomberg Finance L.P.

MSCI China



Source: IBES

Fundamentally: 1) The resilient private sector backdrop does not argue for a prolonged downturn

- The current geo-political dislocation and the squeeze on consumer incomes has dented what would otherwise have been a recovery year, as COVID dislocations ease.
- We could embark on a period of contraction ahead, but we are unlikely to see a painful spell of balance sheet adjustment.

J.P.Morgan global manufacturing PMI

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

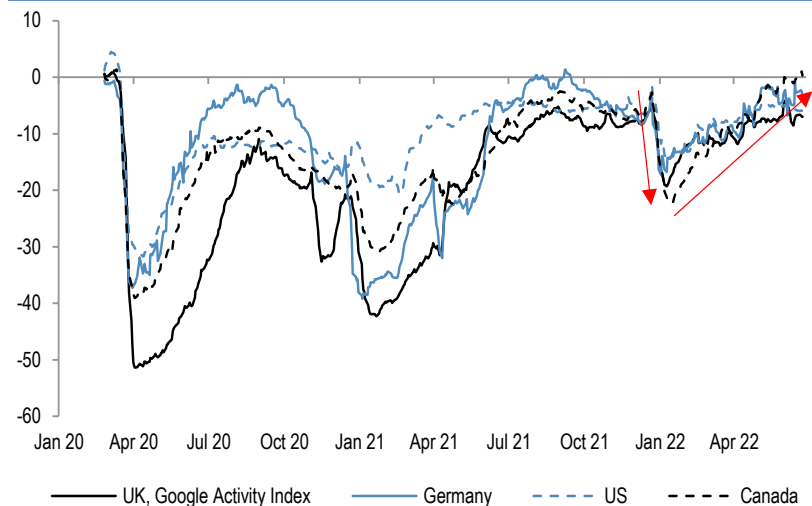
Source: J.P. Morgan

JPM GDP forecasts, by region

	Real GDP		
	2021	2022E	2023E
		% oya	
United States	5.7	1.9	1.3
Eurozone	5.3	3.0	0.7
United Kingdom	7.4	3.3	0.3
Japan	1.7	1.4	1.6
Emerging markets	7.1	3.3	3.7
Global	6.0	2.7	2.2

Source: Bloomberg Finance L.P., Markit

Google Activity Index for DM countries



Source: J.P. Morgan

Our economists downgraded Eurozone GDP growth forecasts, and now expect a mild winter contraction

- Our economists have revised their GDP forecasts down again last week, driven largely by the inflation shock and gas concerns.
- While their full-year 2022 projections remain above-trend, at 3%, they now expect a mild GDP contraction in Q4 '22 and Q1 '23.

JPM's real GDP growth forecasts

	Real GDP, % over previous period saar		
	US	Euro Area	EM
2020	-3.4%	-6.4%	-1.1%
21'Q1	6.3%	-0.5%	5.4%
21'Q2	6.7%	8.9%	3.4%
21'Q3	2.3%	9.6%	1.7%
21'Q4	6.9%	1.0%	7.6%
2021	5.7%	5.3%	7.1%
22'Q1	-1.6%	2.5%	5.8%
22'Q2e	0.7%	1.5%	-3.8%
22'Q3e	1.0%	0.5%	5.7%
22'Q4e	1.5%	-0.5%	3.7%
2022e	1.9%	3.0%	3.3%
2023e	1.3%	0.7%	3.7%
Average since '11	2.2%	1.6%	2.8%

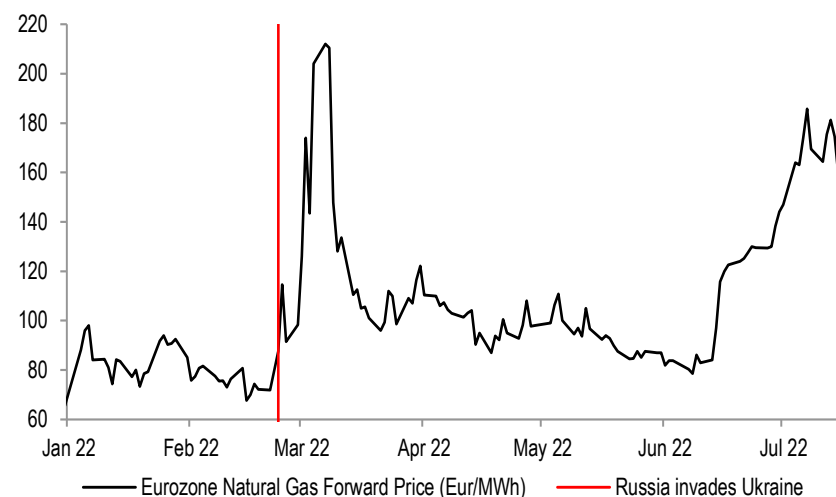
Source: J.P.Morgan

Change in JPM estimates of Euro Area GDP

	Eurozone real GDP, % q/q saar	
	Current	Estimates at Jan '22
Q1 '22	2.0%	2.0%
Q2 '22	2.8%	6.5%
Q3 '22	0.5%	5.0%
Q4 '22	-0.5%	3.5%
2022*	3.0%	4.6%

Source: J.P. Morgan. * %oya

EU natural gas price

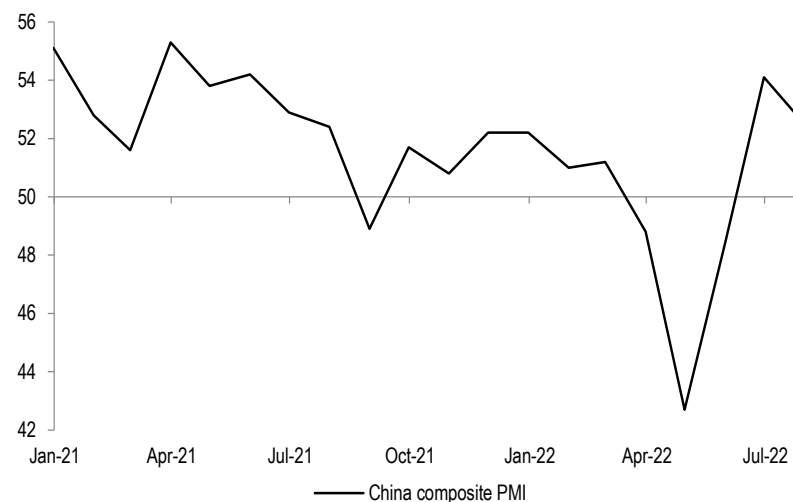


Source: Bloomberg Finance L.P.

We expect a better China showing this year than last, especially relative to current more downbeat projections... base effects are much easier now...

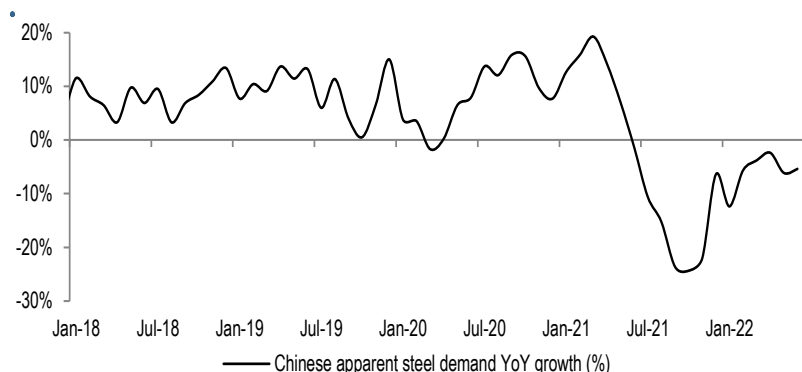
- Chinese activity has been weighed down by a number of factors, some of which are not going away, including the “zero-COVID cases” policy, focus on “common prosperity”, focus on reducing corporate leverage, decarbonization drive, increasing regulation.
- However, we see these pressures easing, and we do see signs of bottoming out in activity. China credit impulse bottomed late last year, PMIs are holding up and steel demand, among other, has inflected.

China composite PMI



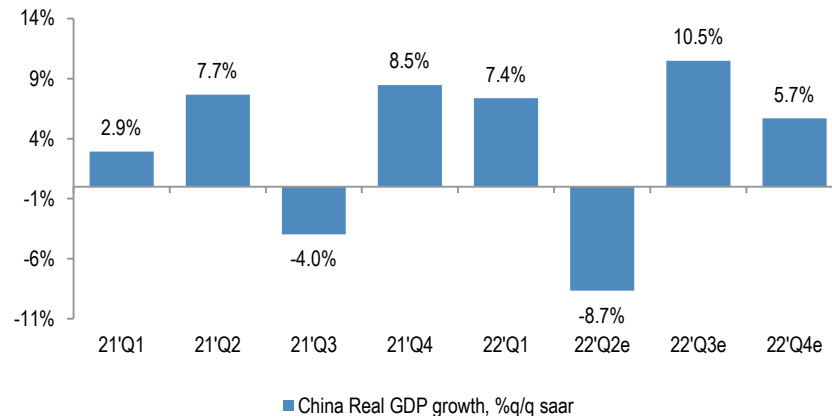
Source: Bloomberg Finance L.P.

China steel demand



Source: J.P. Morgan Metals & Mining Research

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

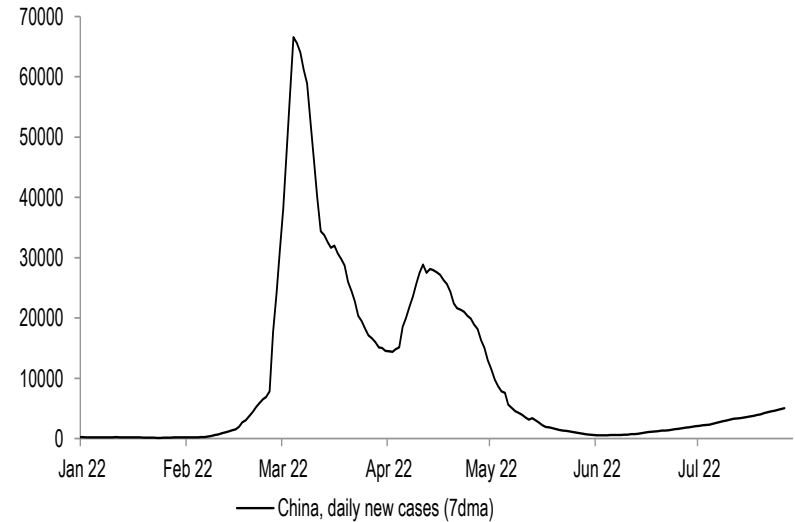


Source: J.P. Morgan

...China policy direction has turned, from restrictive towards seeking “stability”

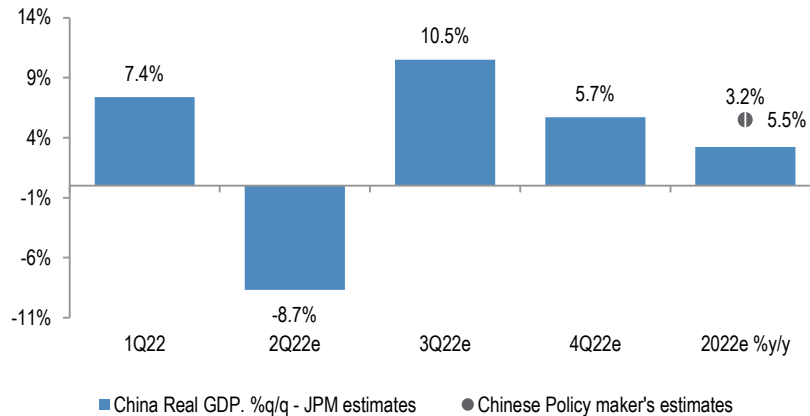
- China’s policy stance has moved from being restrictive at the start of last year towards accommodative more recently. This should help improve the risk-reward for China equities, and stabilize the growth outlook. Notably, Chinese M2 has rebounded strongly.
- Zero-COVID policy remains a key risk, but it is starting to be relaxed, and low COVID case numbers are encouraging.

China COVID Cases



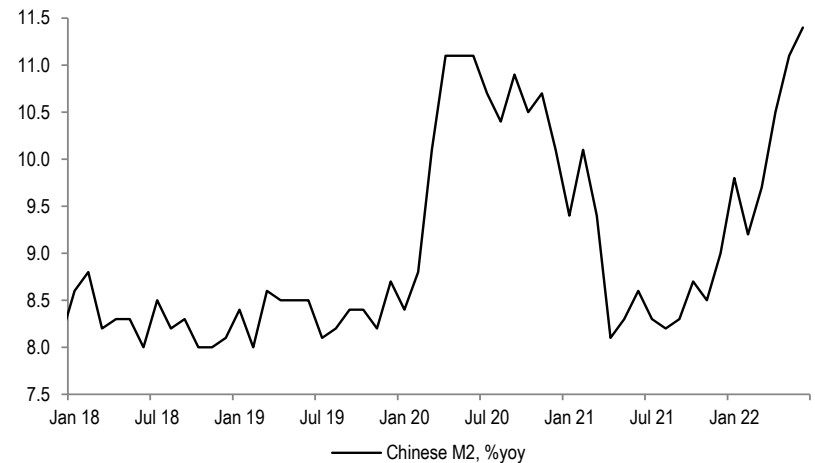
Source: Bloomberg Finance L.P.

China Real GDP projections



Source: JPMorgan

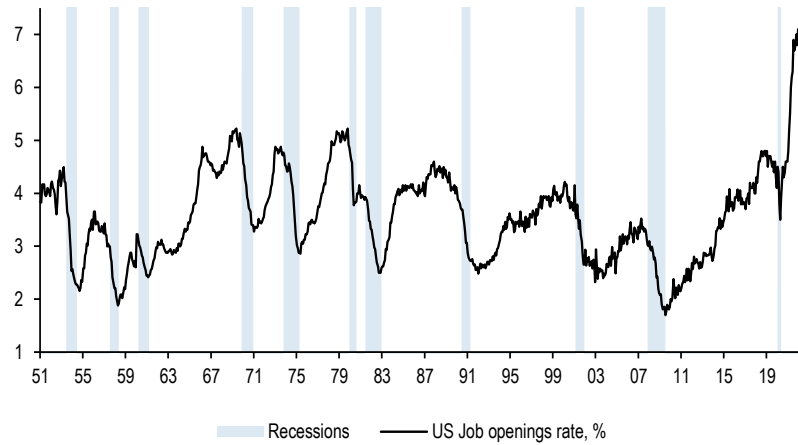
Chinese M2



Source: Bloomberg Finance L.P.

Global labour markets have been extremely tight... some weakness might even be welcome... claims spiking to 10% qoq are a key threshold...

US job vacancies rate



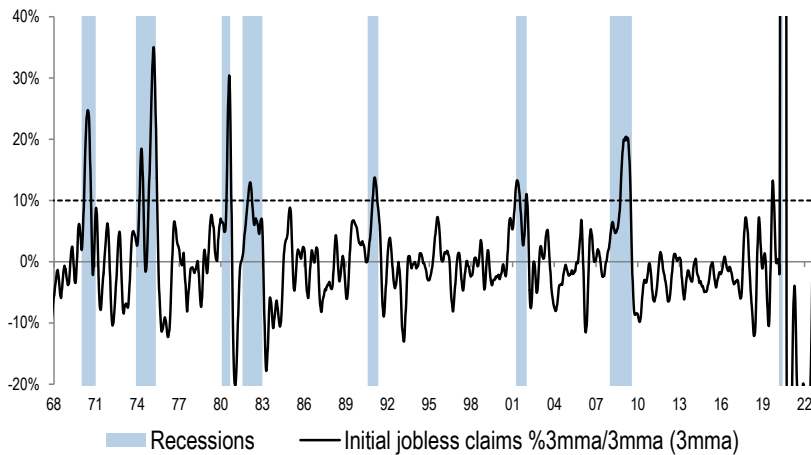
Source: Barnichon, SF Fed, J.P. Morgan

US job openings and unemployed population



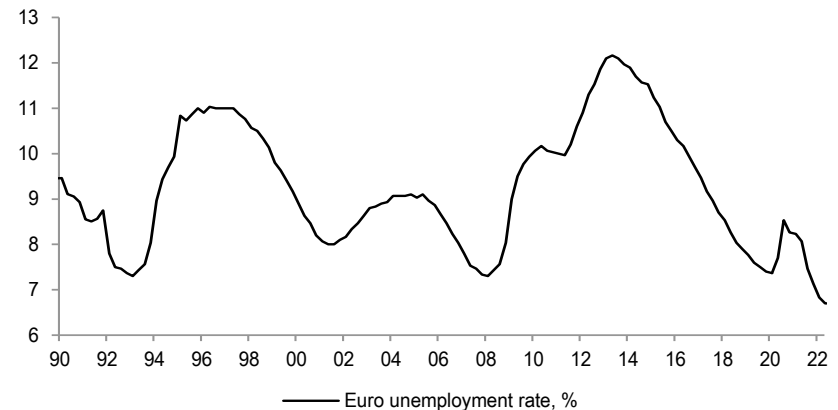
Source: J.P. Morgan

US jobless claims and recessions



Source: Bloomberg Finance L.P.

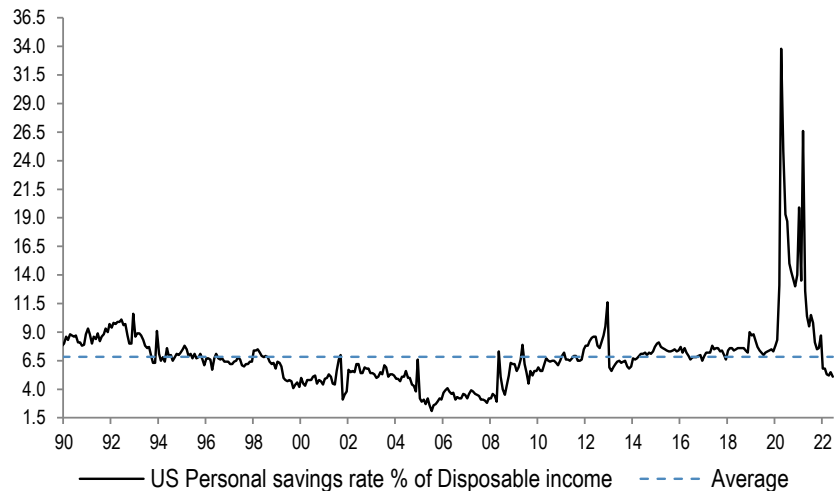
Eurozone unemployment rate



Source: JPMorgan

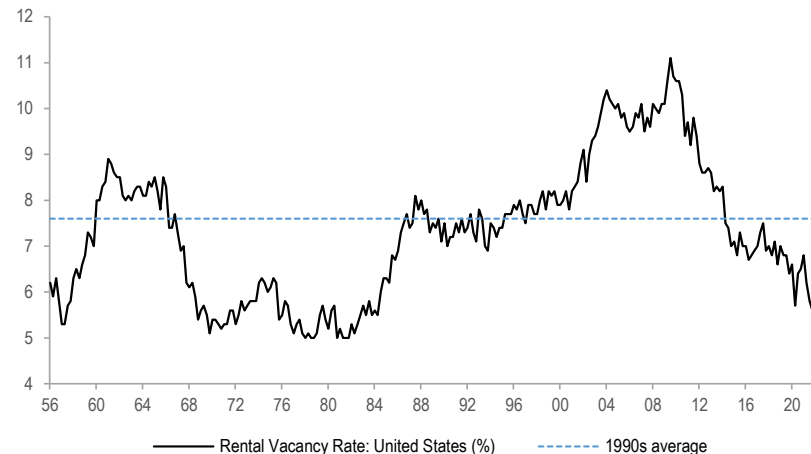
...house prices are unlikely to move lower, as inventories are low... consumer leverage is not significant

US savings rate



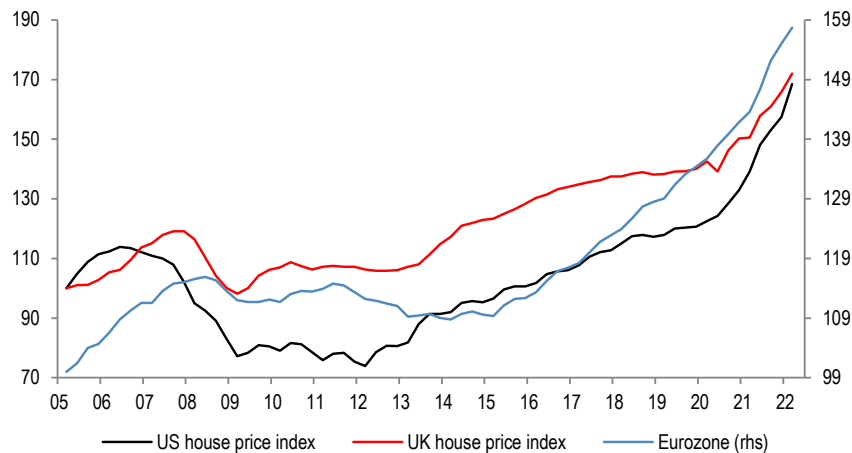
Source: Bloomberg Finance L.P.

US rental vacancy rate



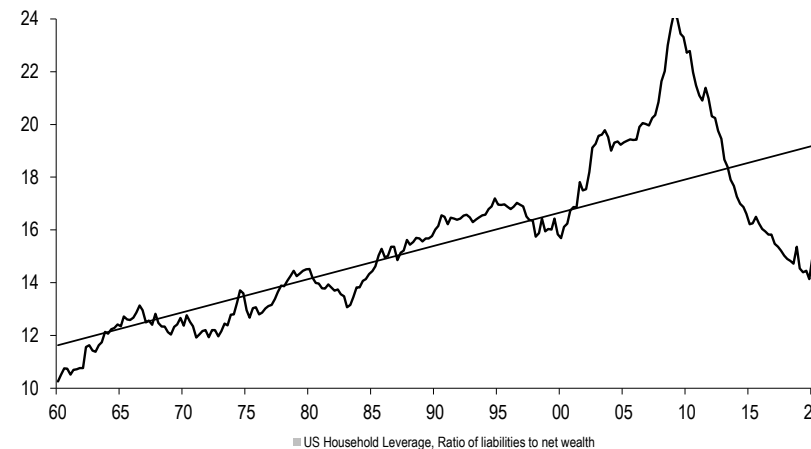
Source: Bloomberg Finance L.P.

US, UK and Eurozone house prices



Source: Bloomberg Finance L.P.

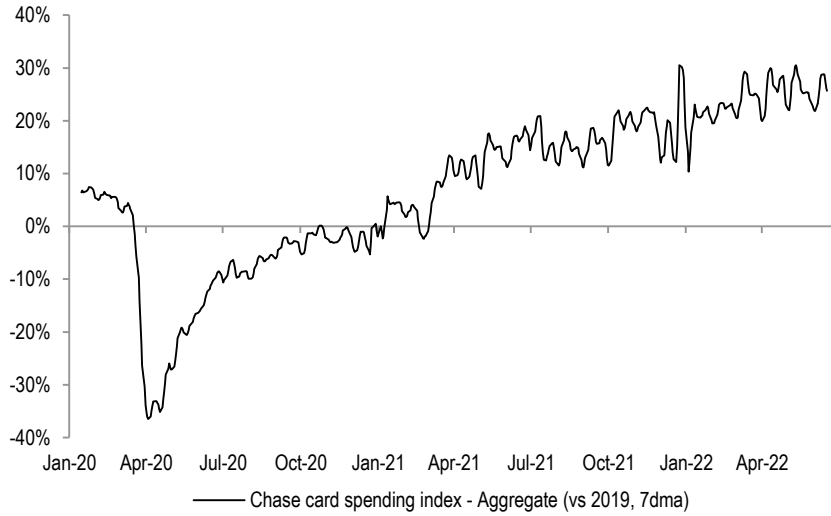
US household leverage (%)



Source: FRB

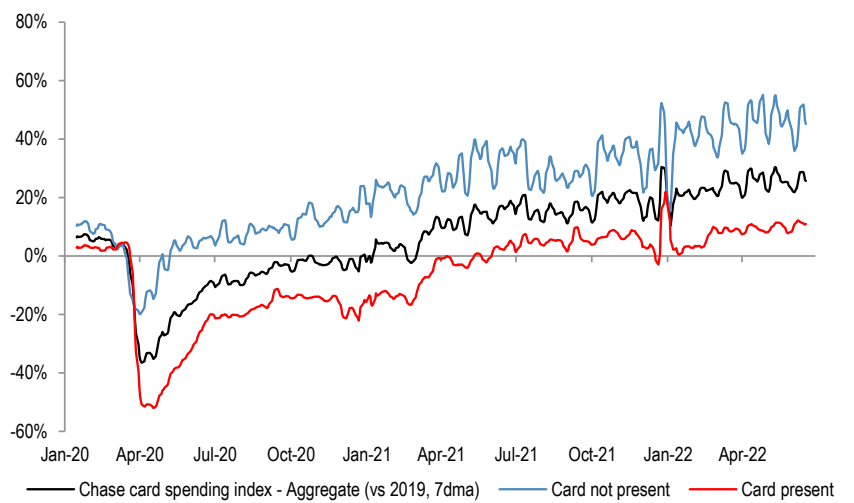
JPM's Chase credit card data to date is resilient...

Chase card data - Aggregate



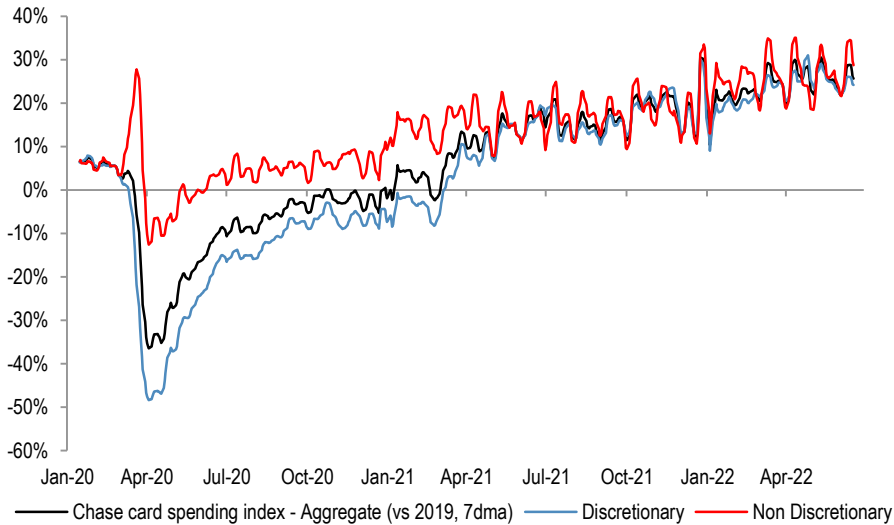
Source: JPM Economics Research

Chase card data - In Person/POS vs Online sales



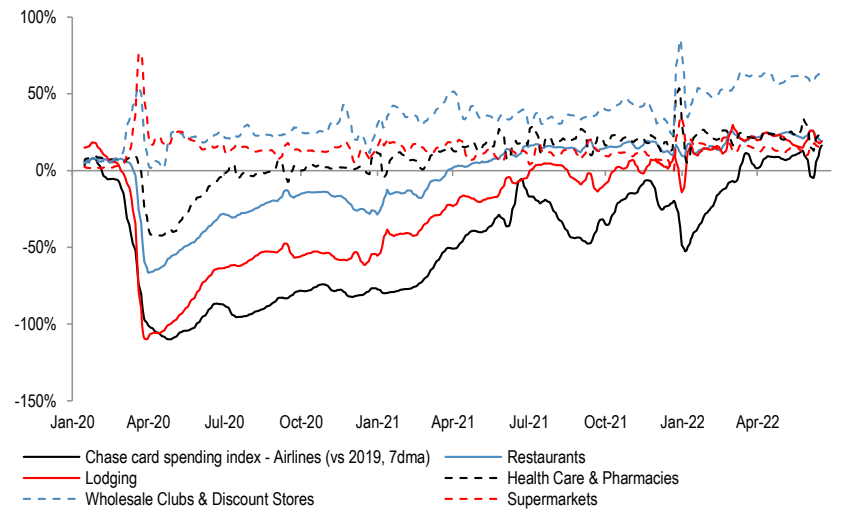
Source: JPM Economics Research

Chase card data - Discretionary/Non-discretionary



Source: JPM Economics Research

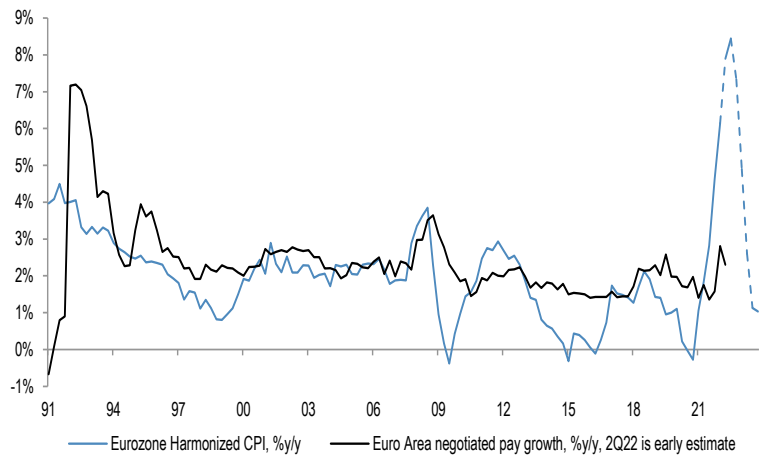
Chase card data - by spending categories



Source: JPM Economics Research

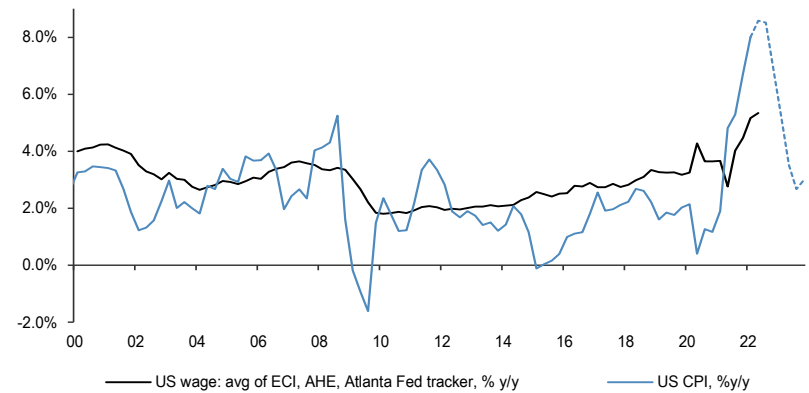
...wages vs CPI wedge to start closing in a favourable way as we move through 2H

Euro Area negotiated pay vs Harmonized CPIs



Source: J.P. Morgan

Wages vs CPI US

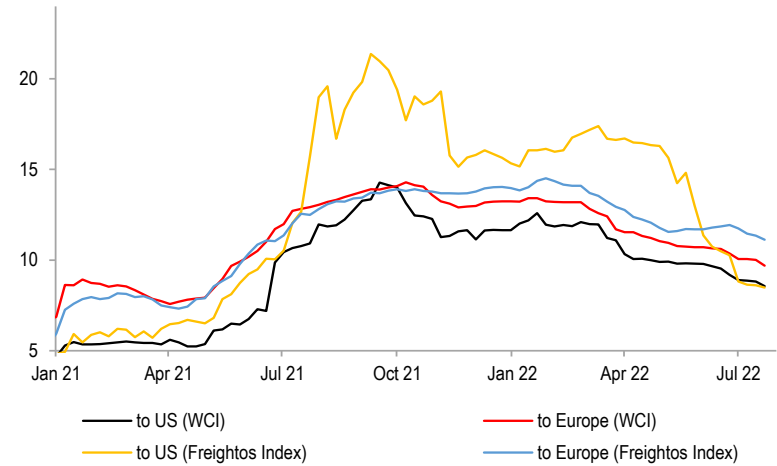


Source: J.P. Morgan

Supply chain bottlenecks are getting better...

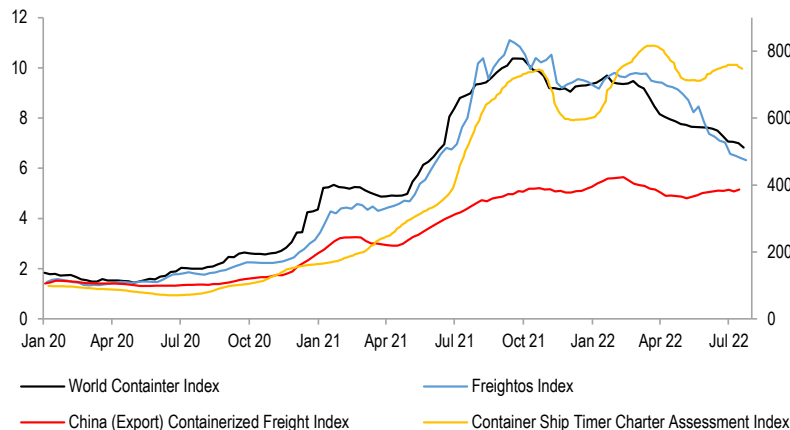
- Faster than expected economic recovery post the COVID-19 driven slump created supply bottlenecks. A number of key components, including semiconductors, were in short supply. Shipping costs skyrocketed as uneven demand weighed on shipping capacity. The issue was further exacerbated by scarcity of truck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

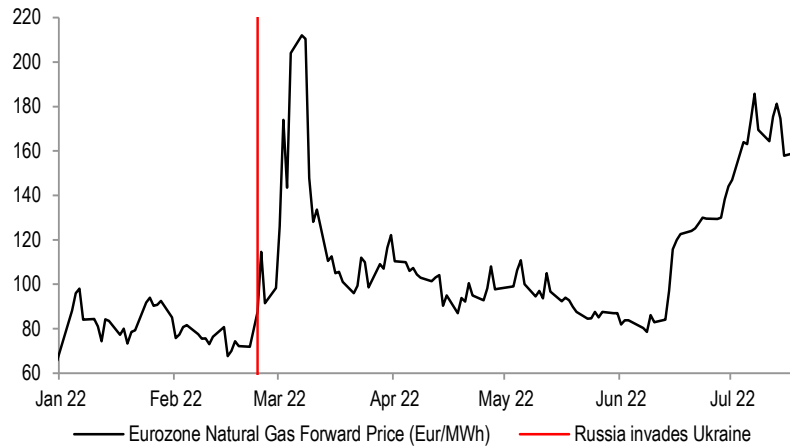
Container ships outside the Ports of Los Angeles/ Long Beach



Source: J.P Morgan Economics Research

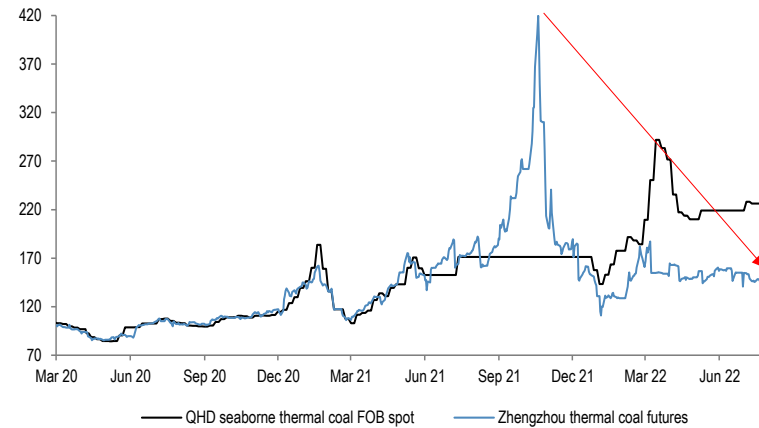
...the potential continued spike in Eurozone gas prices is one of key concerns, but other inflation pressures are peaking

EU Natural gas price



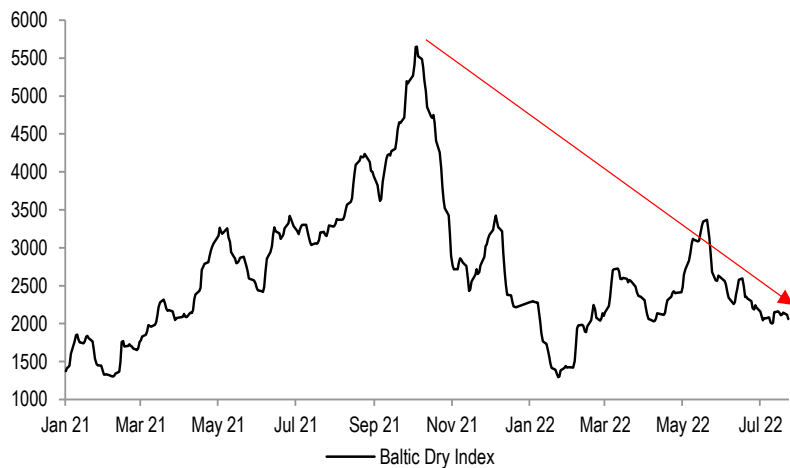
Source: Bloomberg Finance L.P.

China thermal/cooking coal price



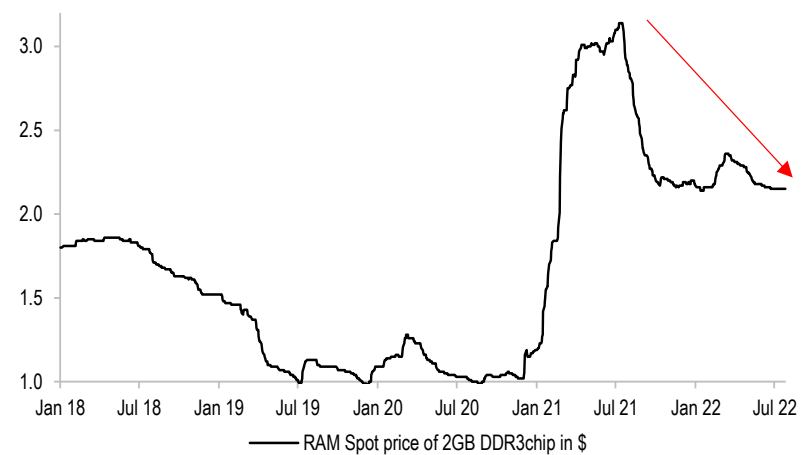
Source: J.P. Morgan China Research team

BDI Index



Source: Bloomberg Finance L.P.

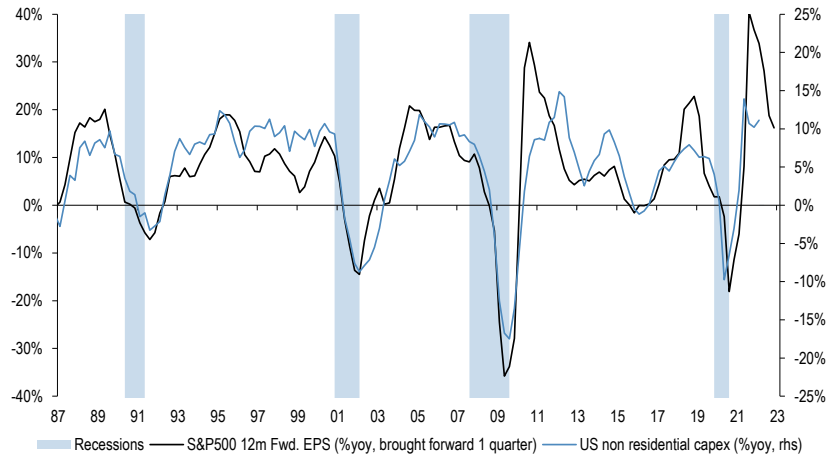
RAM prices



Source: Bloomberg Finance L.P.

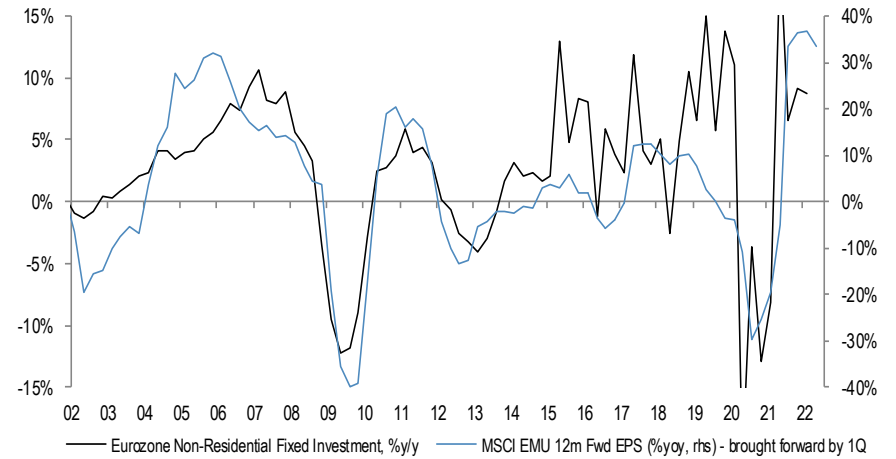
Capex has been resilient... government capex is bottoming out

US earnings vs capex



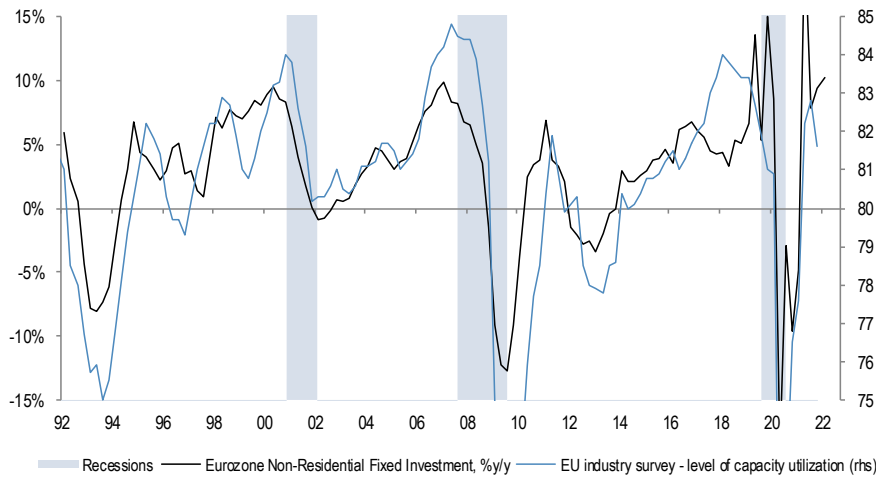
Source: IBES, BEA

Eurozone non-residential capex and earnings



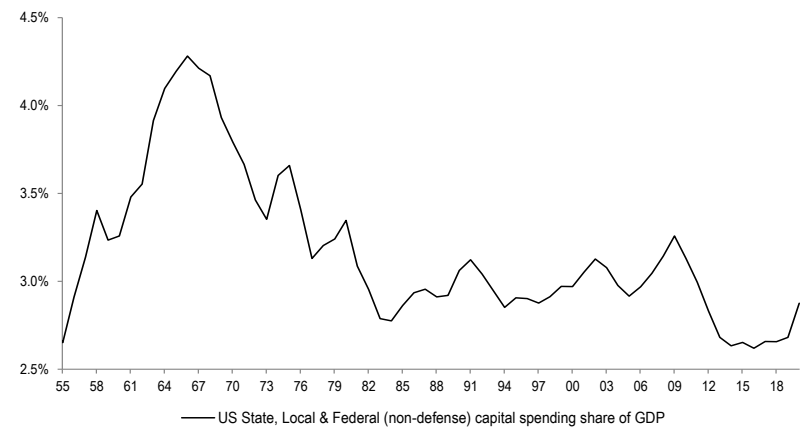
Source: IBES, ECB

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...

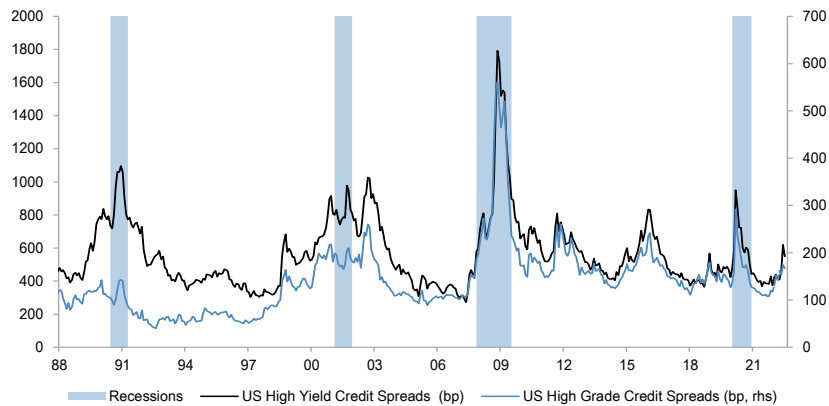
- Our credit strategists don't expect the recent weakness in HY spreads to continue.
- Credit standards are on the decline, but are not yet outright tightening.

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

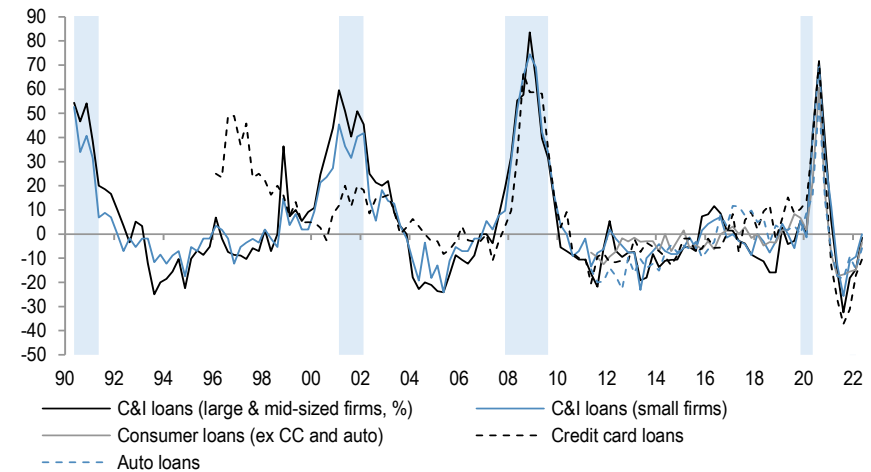
Source: J.P. Morgan, *move from trough to present

US HY and HG credit spreads



Source: J.P. Morgan, NBER

% of US domestic banks tightening lending standards

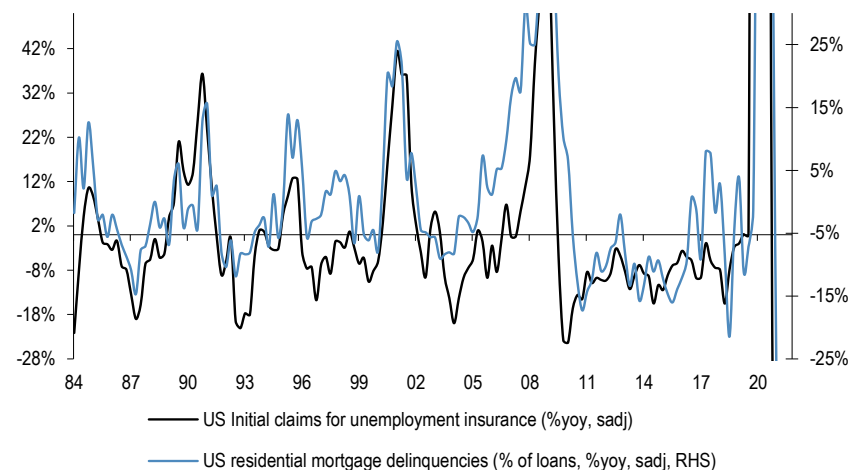


Source: J.P. Morgan

...default rates are at lows; Russia impact is likely to be manageable

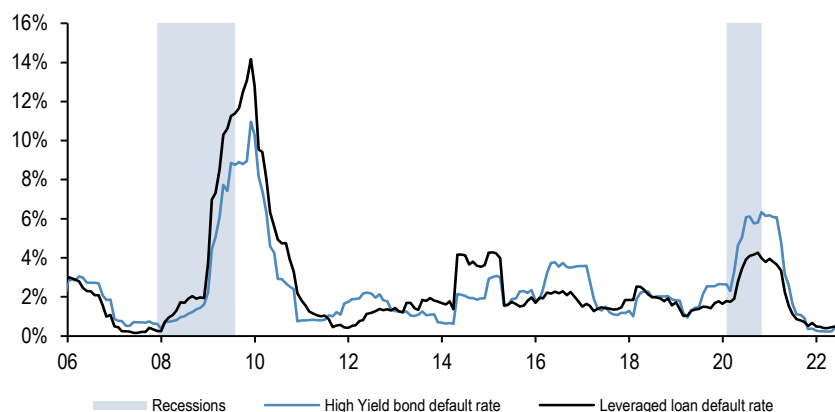
- There are not many maturities coming up in the credit space, as companies have used the favorable market conditions over the last few years to refinance, and increase duration of their debt.
- Default rates spiked in 2020, but much less than during the GFC, and have already come down meaningfully.

US mortgage delinquencies vs jobless claims



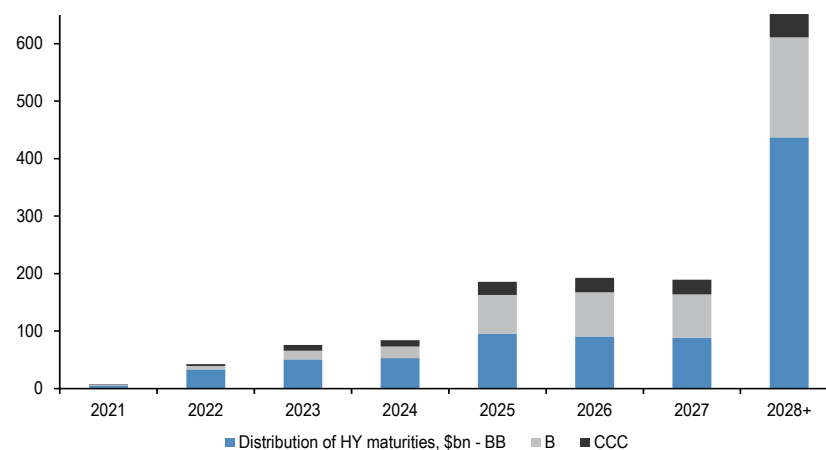
Source: Datastream

US HY default rate



Source: JP Morgan

Distribution of US HY bond maturities by rating

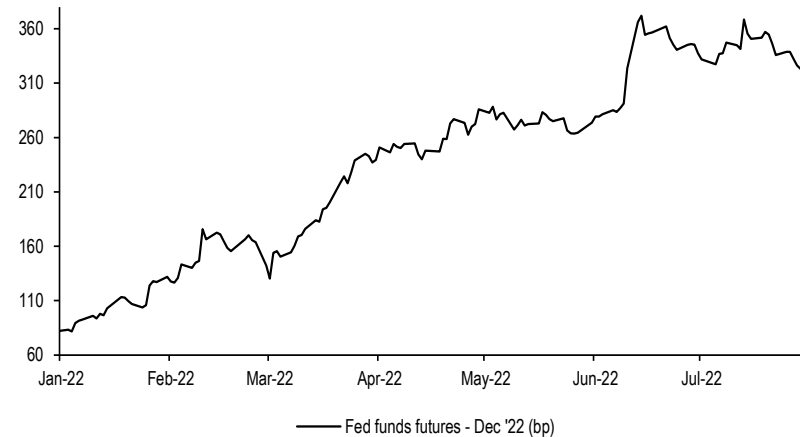


Source: J.P. Morgan

2) Peak Fed hawkishness call might not be broken, it is likely to gain traction as we move through 2H

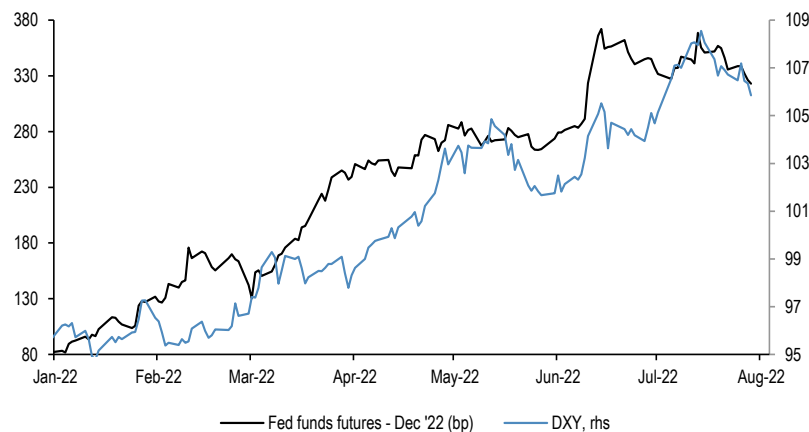
- Money market is pricing in a 50bp hike in September, after last week's 75bp hike. With these, Fed rate would be at 3.0%, which is generally considered a tight territory.
- As the data softens in the interim, this could allow Fed to become more balanced in their messaging.
- In the 1H of the year, DXY, Fed rates, bond yields and inflation were all spiking. This might not be repeated in 2H.

Fed Funds futures



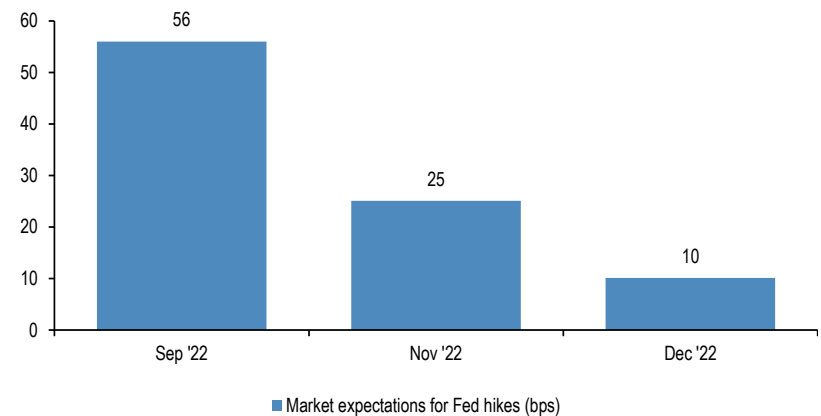
Source: Bloomberg Finance L.P.

Fed and USD



Source: Bloomberg Finance L.P.

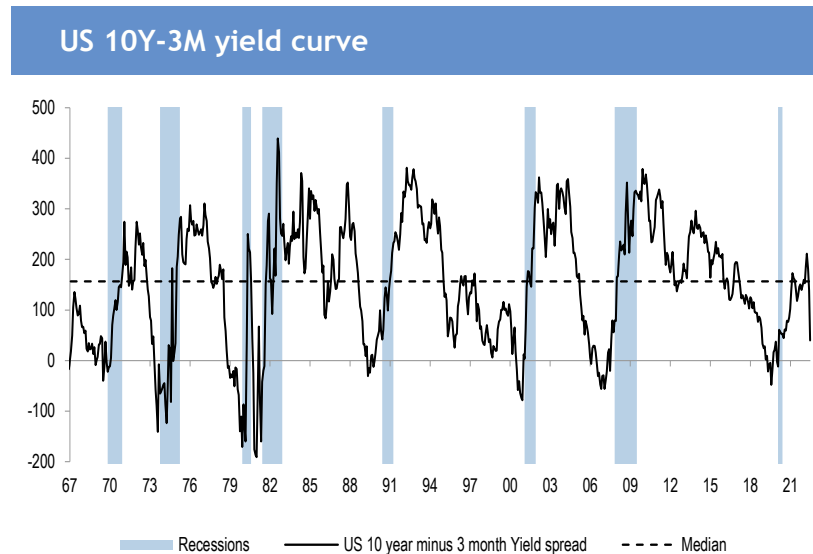
Projections for Fed hikes until year end (bps)



Source: Bloomberg Finance L.P.

Yield curve framework is sending a recession signal, but some of this might be already in 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.
- We note that, even post inversion, equity markets usually peak in about a year's time and the recession itself starts a further six months later.
- US 10Y/3M yield spreads, another reliable recession indicator, has also been flattening recently.

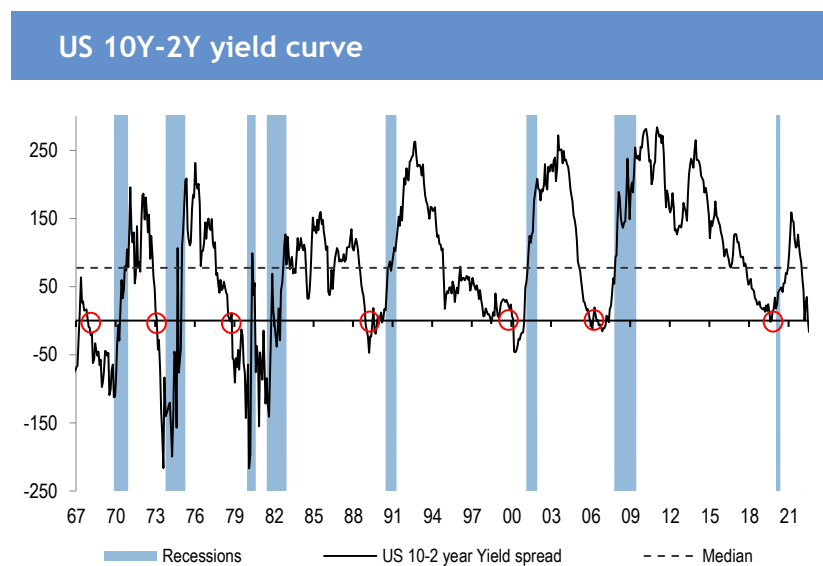


Source: Bloomberg Finance L.P.

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.

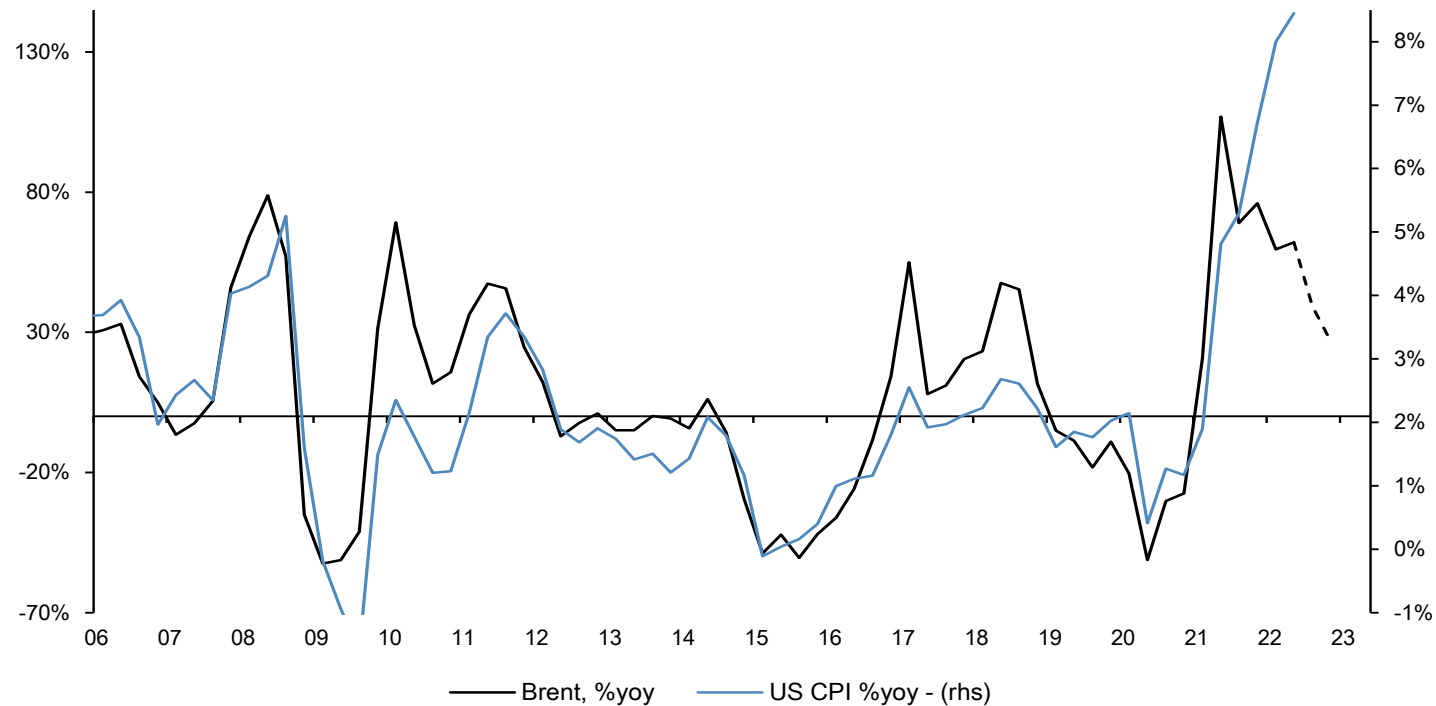


Source: Bloomberg Finance L.P.

Headline CPI is still likely to peak out in 2H...

- With respect to inflation, while it is likely to remain elevated for longer, J.P. Morgan economists project that headline CPI will roll over in 2H. Stabilisation in Brent would go a long way in ensuring this forecast comes through.

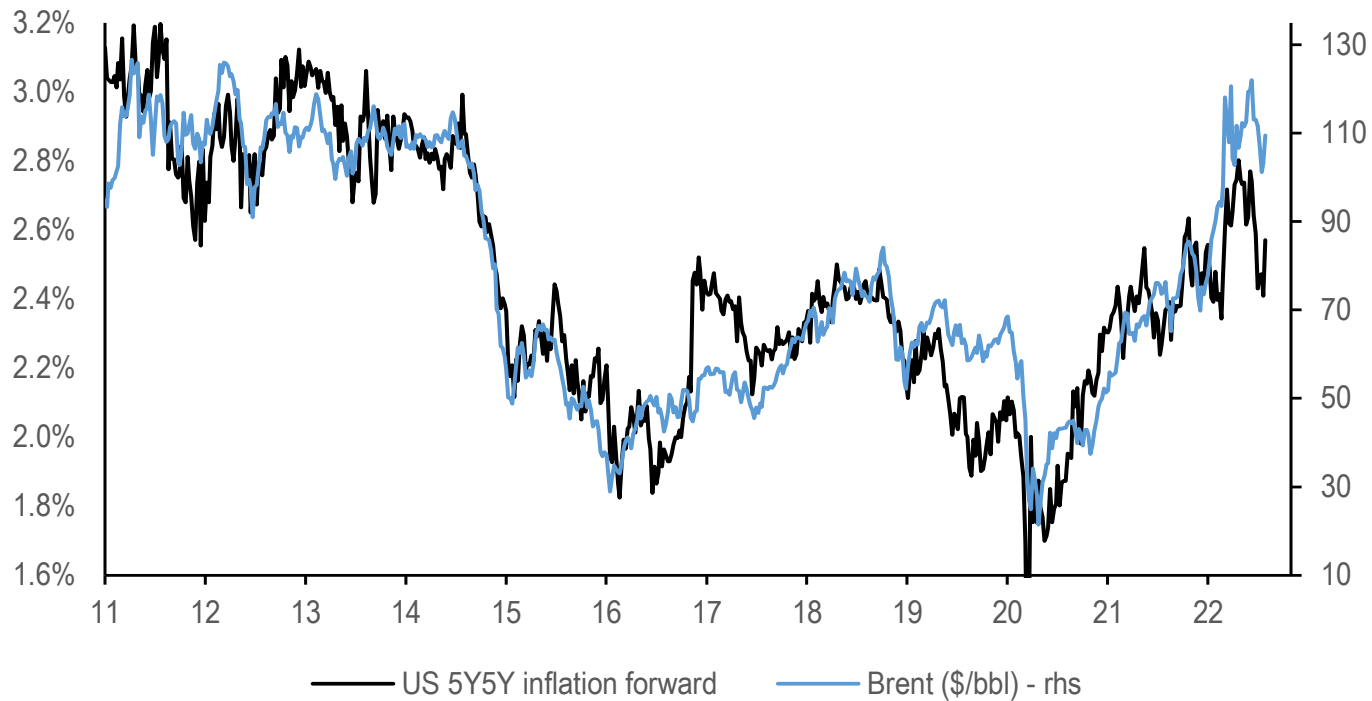
US CPI vs oil*



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

...oil price is closely linked to inflation expectations, and it is not advancing further...

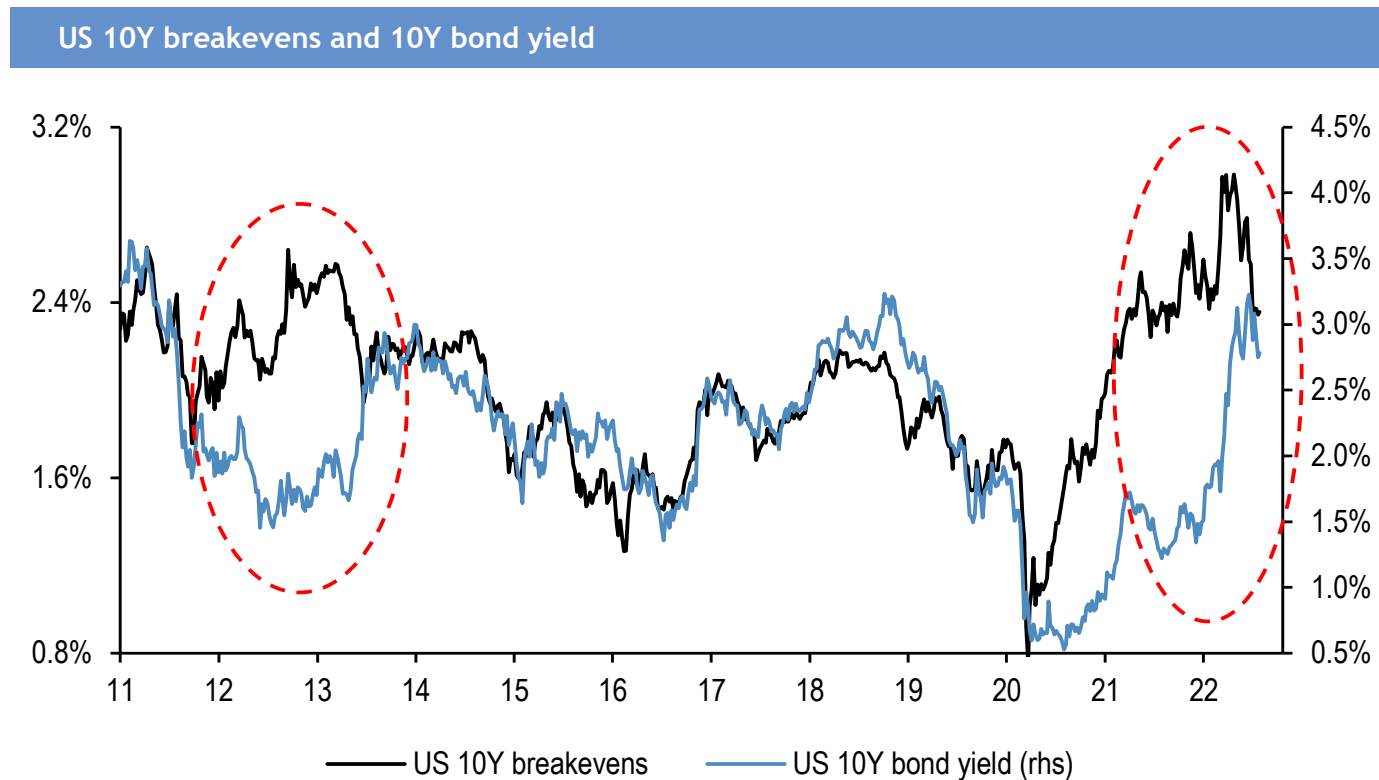
US inflation forwards and Brent



Source: Bloomberg Finance L.P.

...we argued that the gap between breakevens and bond yields will close, resulting in higher real rates... this is largely completed

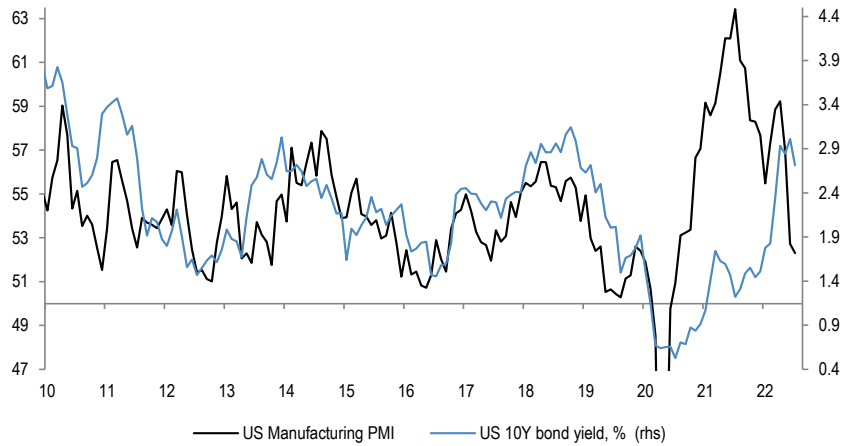
- The '12-'13 gap has ultimately closed with bond yields moving higher, and inflation forwards falling, as tapering started. We see something similar happening again. Bond yields might not need to reprice much higher, which is important for equity valuations.



Source: Bloomberg Finance L.P.

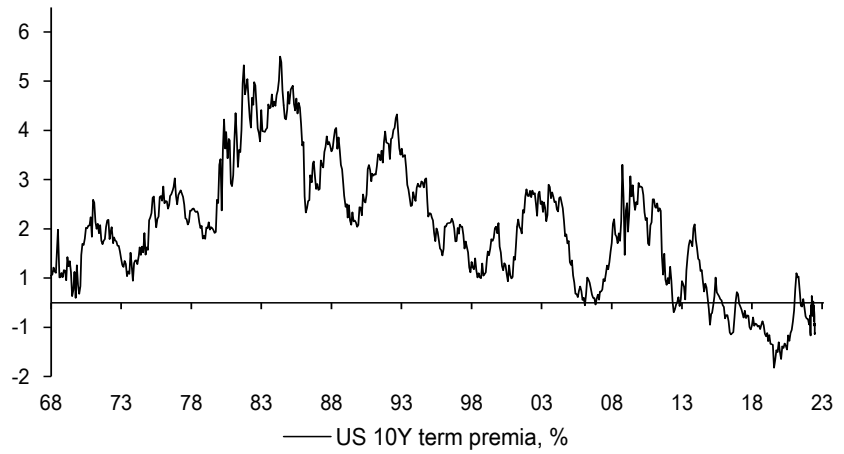
Term premia is still low, but short-term activity weakness is a constraint... flattening curve is the norm as Fed hikes

US manufacturing PMI and US 10Y bond yield



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

US 10-year term-premia



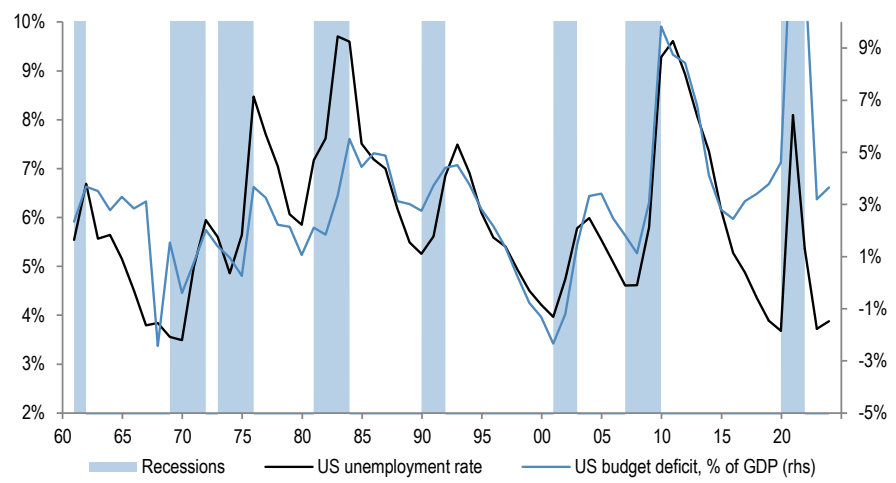
Source: J.P. Morgan

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	-14	91	105

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...

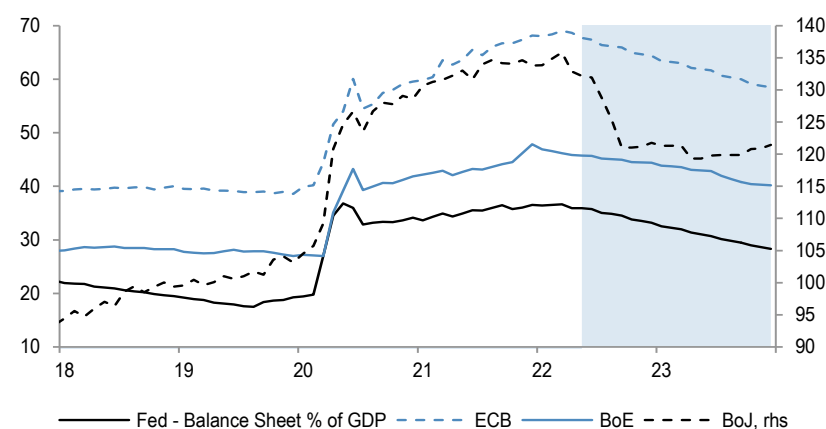
- The aggregate central banks balance sheet is set to contract, but not in an aggressive manner.

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

	2017	2018	2019	2020	2021	2022
Fed	-9	-385	115	3161	1431	-299
ECB	846	244	-32	2470	1693	-131
BoJ	346	236	161	997	163	-324
BoE	124	34	-12	396	279	-60
Total	1307	128	233	7024	3566	-814

Source: J.P. Morgan Economics Research

Central Bank Balance sheets as a share of GDP



Source: J.P. Morgan Economics Research

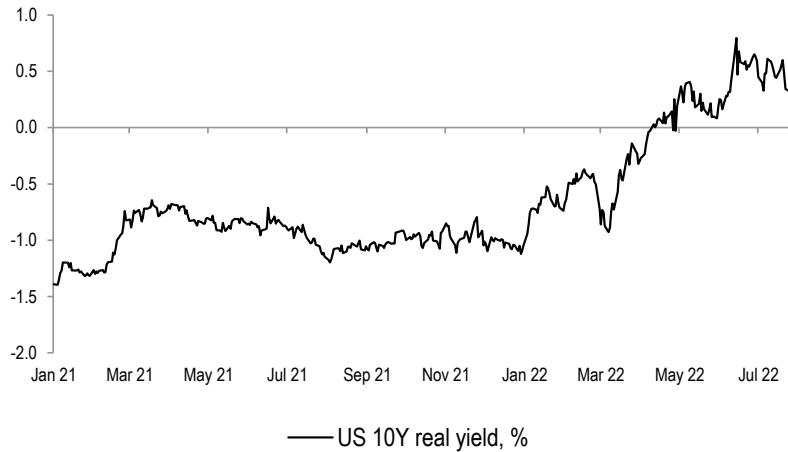
G5 Central Bank Balance sheet and Nominal GDP

	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	8.6	63%	13%	-11%
BoE	0.8	1.2	1.5	1.3	56%	23%	-14%
BoJ	5.3	6.8	6.4	5.0	29%	-6%	-21%
PBOC	5.3	5.9	6.2	5.9	12%	5%	-6%
G3 Aggregate CB Balance Sheet	14.6	22.6	24.7	22.0	55%	9%	-11%
G5 Aggregate CB Balance Sheet	20.7	29.8	32.5	29.2	44%	9%	-10%
G3 Nominal GDP Growth					1%	6%	-1%
G5 Nominal GDP Growth					4%	10%	-1%
G3 Aggregate CB Balance Sheet vs Nominal GDP Growth					54%	3%	-10%
G5 Aggregate CB Balance Sheet vs Nominal GDP Growth					40%	-1%	-9%

Source: J.P. Morgan Economics Research

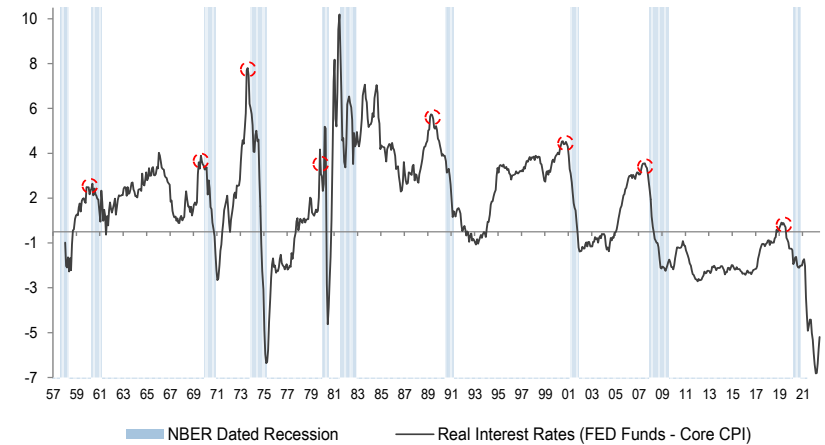
... real rates moved higher, but are not very high in the longer-term context

US real rates



Source: Bloomberg Finance L.P.

US real policy rates and recessions



Source: Bloomberg Finance L.P.

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	-4.7%	-5.7%

Source: Bloomberg Finance L.P.

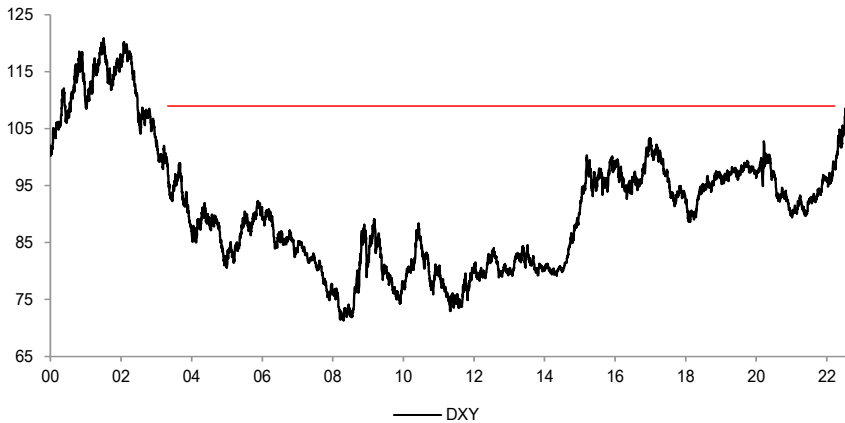
US real rates at the point of curve inversion

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... the good news is that USD shorts, which were record at the start of the last year, have been taken out

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%	-	-
Median	0.0%	1.2%	-3.2%	-2.5%
Average	-0.1%	0.2%	-2.7%	-3.2%

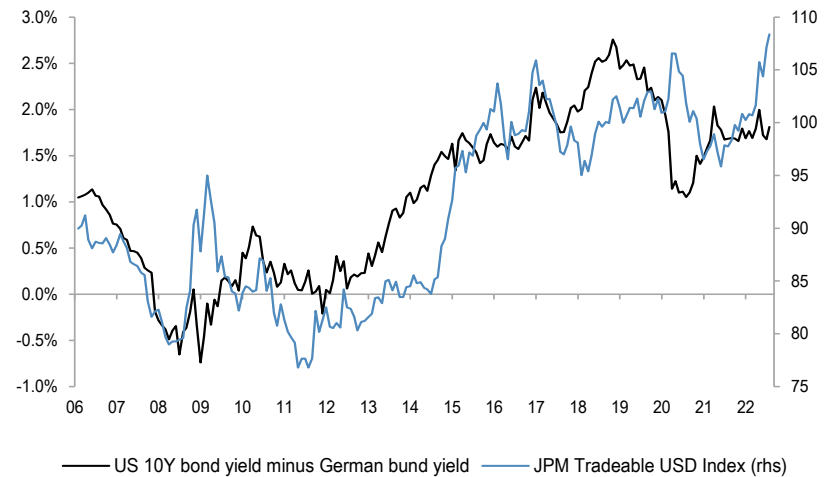
Source: Bloomberg Finance L.P.

USD net positioning



Source: J.P. Morgan

US-German 10Y bond yield differential and USD

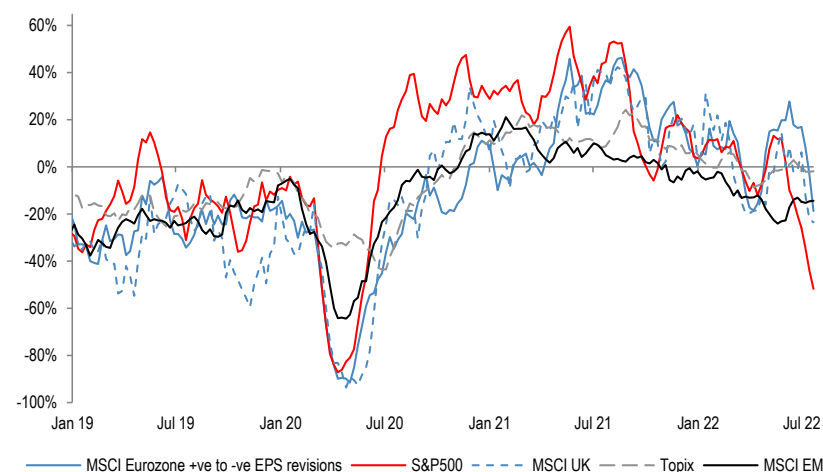


Source: Bloomberg Finance L.P.

3) Even with weaker activity, the downside to earnings might not be dramatic...

- After a very strong earnings rebound in 2021, base effects are no longer favourable.
- Despite this, 2022 EPS projections have been revised higher ytd. This has been fairly broad-based, with only Industrials, Financials and Real Estate seeing EPS downgrades this year. A reset will be welcome by investors.
- We note that EPS revisions have moved into negative territory.

+ve to -ve EPS revisions in key regions



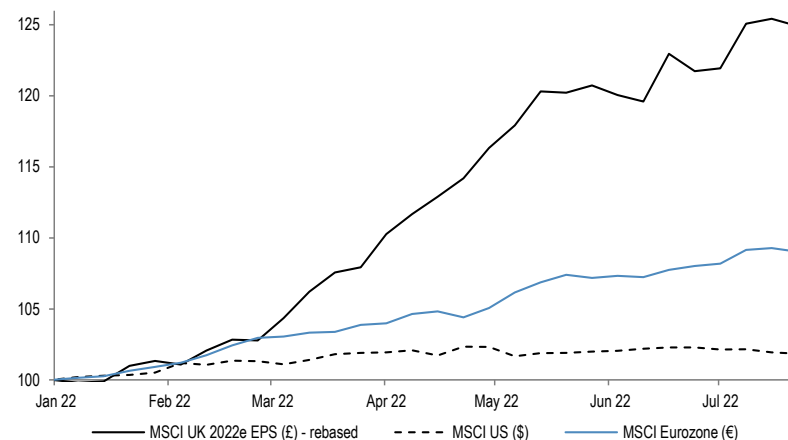
Source: IBES

2022e EPS change for MSCI Eurozone sectors

	26-Jul	1-Jan	YTD change
Market	19.3	17.7	9.0%
Energy	35.0	17.4	101.0%
Materials	24.3	21.8	11.7%
Industrials	20.0	20.0	-0.2%
Discretionary	15.9	15.4	3.1%
Staples	10.4	10.3	1.0%
Healthcare	14.9	14.5	3.0%
Financials	5.8	5.9	-1.6%
IT	7.5	7.4	1.6%
Comm Services	3.2	3.2	2.2%
Utilities	9.1	8.5	7.0%
Real Estate	49.1	52.4	-6.3%

Source: IBES

MSCI US, UK and Eurozone 2022e EPS



Source: IBES

...updating our targets, post the recent GDP revisions...

- Following our economists' downgrade to GDP projections last week, we are revising our Eurozone EPS growth forecasts lower, to 10% y/y for 2022, from 12% y/y, and to 3% y/y for 2023, down from 8% y/y.
- We have correspondingly updated our year-end price target for MSCI Eurozone, to 260, from 275 earlier, but continue to see upside.

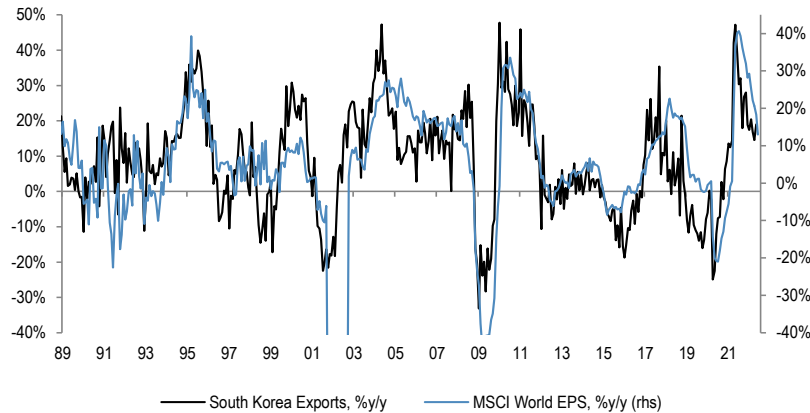
JPM earnings growth projections and price target for MSCI Eurozone

	EPS growth		P/E	Price Target	Upside	GDP growth	
	2022	2023				2022	2023
Old	12%	8%	13.5	275	19%	3.2%	2.1%
New	10%	3%	13.5	260	12%	3.0%	0.7%

Source: JP Morgan; COB 28th July 2022

...operating leverage is likely to be softer, but not dramatically

Korean exports vs global earnings



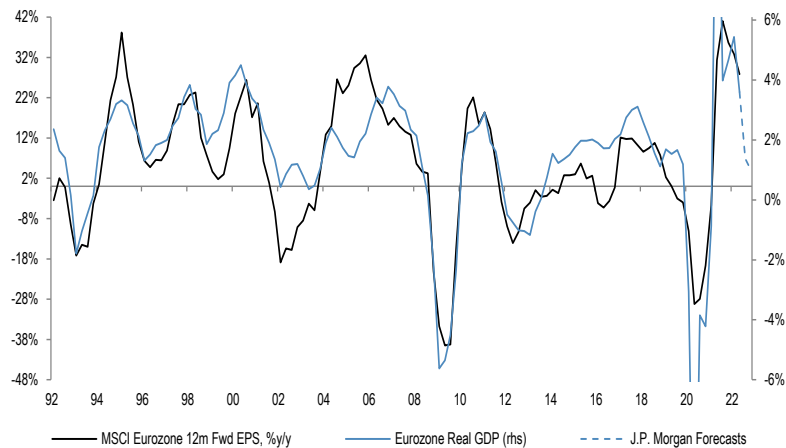
Source: IBES, KOSTAT

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%

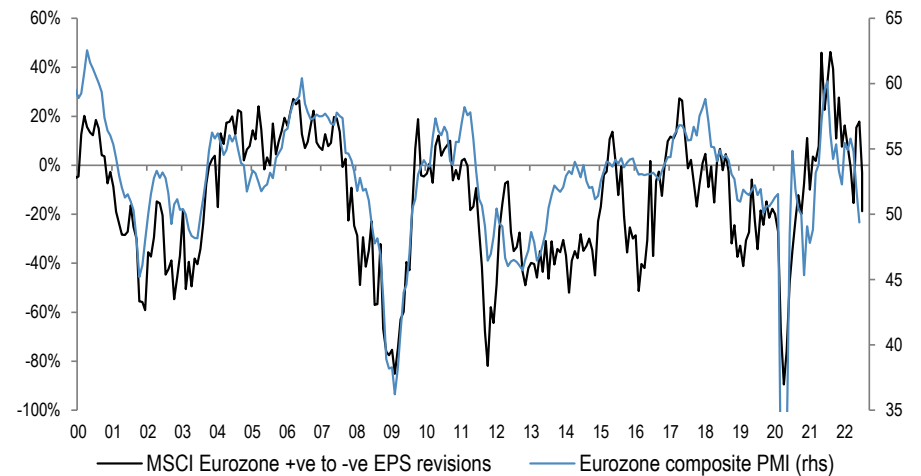
Source: Bloomberg Finance L.P.

Eurozone EPS growth vs GDP growth



Source: IBES, J.P. Morgan

Eurozone EPS revisions and composite PMI

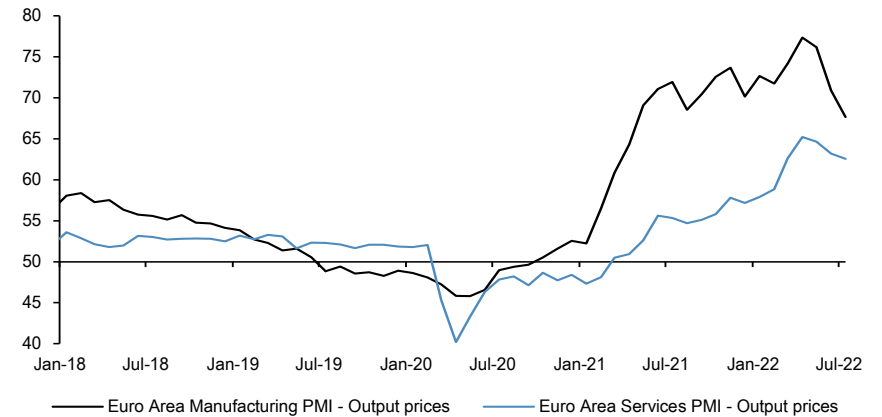


Source: IBES, Markit

Many worry about high input cost pressures, and this can hurt individual companies, but market wide profit margin proxies are resilient...

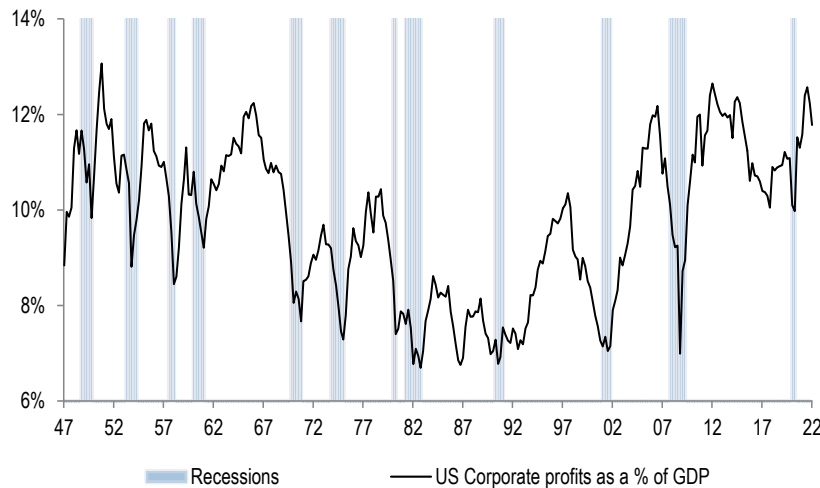
- US corporate profit margins are near all-time highs.
- The profit margin proxy – output prices minus input costs – is still at elevated levels.
- Importantly, PMI pricing indicators are strong.

Euro Area Output prices PMI



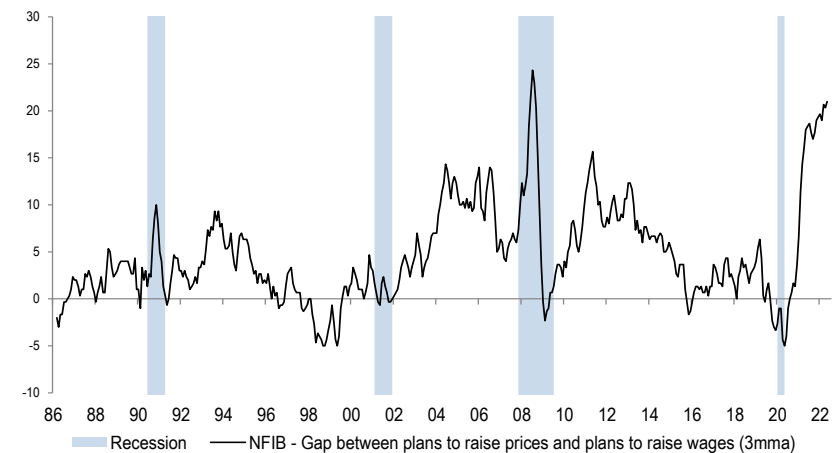
Source: Markit

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

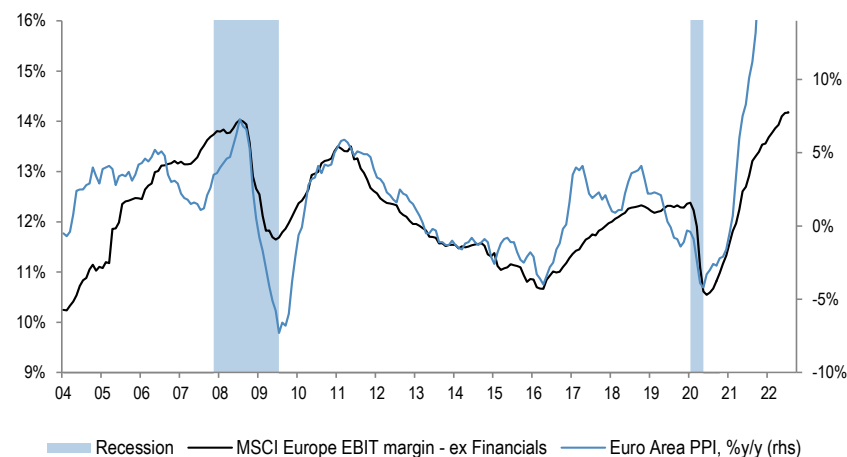
US profit margins in different PPI and CPI regimes

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%

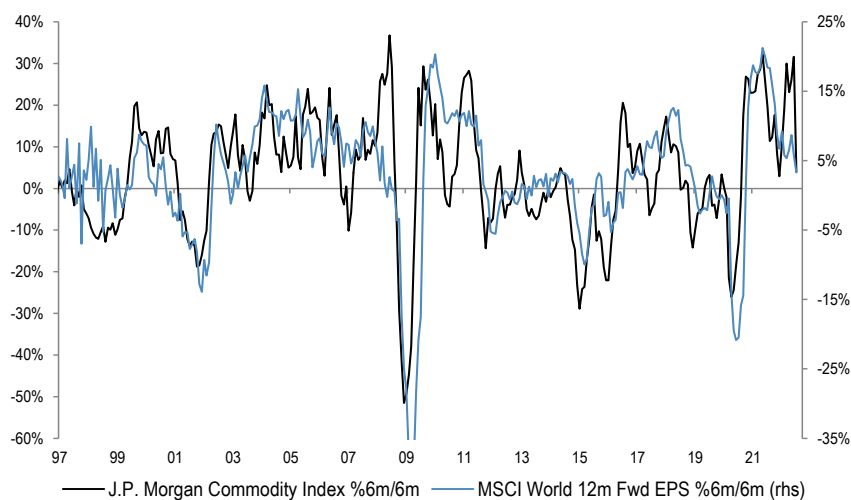
Source: BEA, Bloomberg Finance L.P., J.P. Morgan

Europe profit margins vs PPI



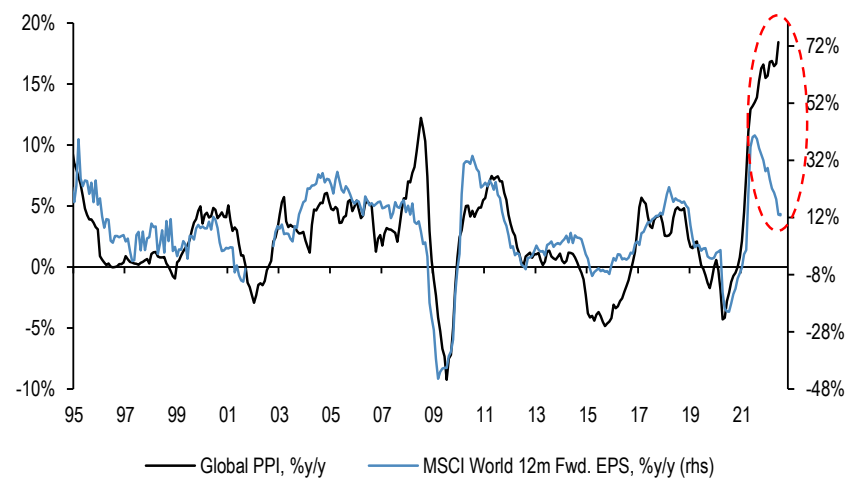
Source: IBES, J.P. Morgan

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	Feb-91	May-91	-21%
2001	Mar-00	Sep-01	-31%
2008	Nov-07	Mar-09	-40%
2020	Feb-20	May-20	-23%
Average			-29%
Median			-27%
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	216.7	156.8	38%

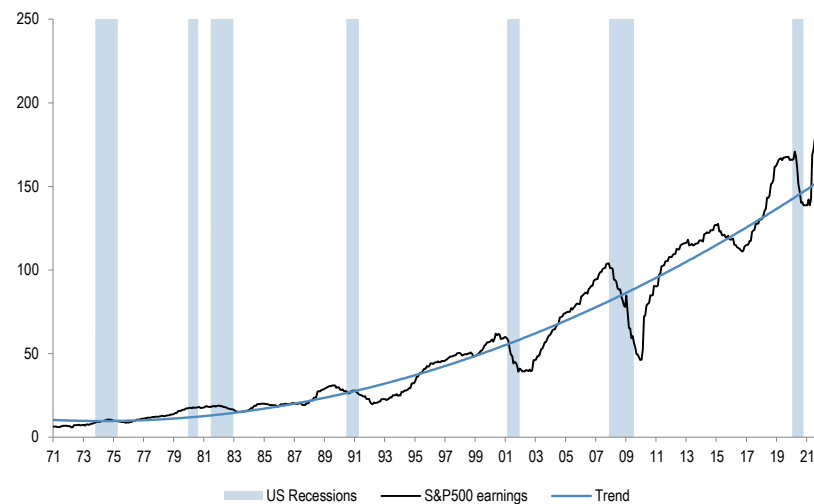
Source: Datastream

Key regions EPS levels 2022 vs 2019

	EPS levels		
	2022e	2019	2022e vs 2019
MSCI World	40.7	30.6	33%
S&P 500	225.0	157.2	43%
MSCI Europe	137.2	112.8	22%
MSCI Eurozone	19.3	13.8	40%
FTSE 100	739.5	515.1	44%

Source: IBES

S&P500 EPS vs trend

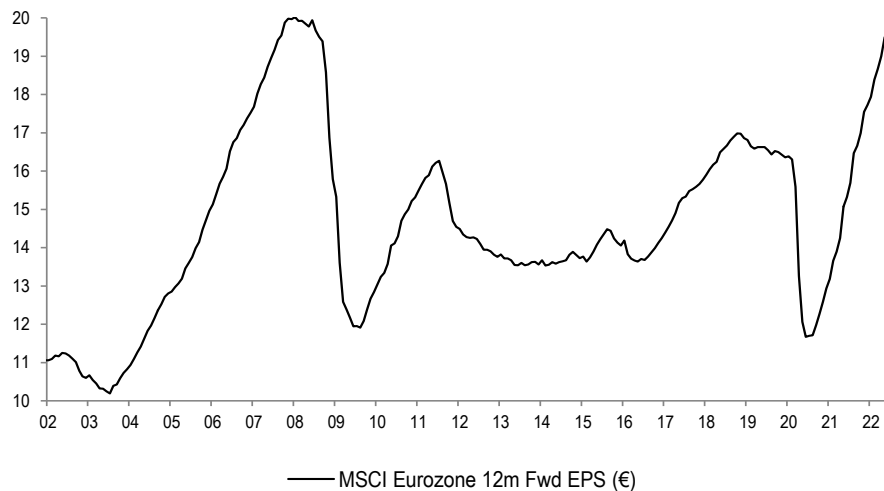


Source: IBES, NBER, Thomson Reuters. *Trailing EPS

...Eurozone earnings base is less stretched than in the US, which is mainly accounted for by domestic sectors, and could see a turn

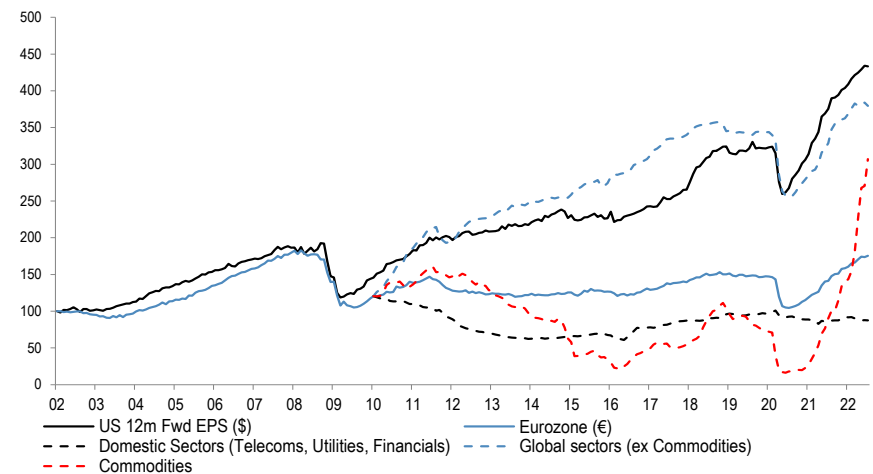
- Within Eurozone, it is the earnings base of domestic plays that has historically been low. Commodity sectors have seen earnings move higher most recently.

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

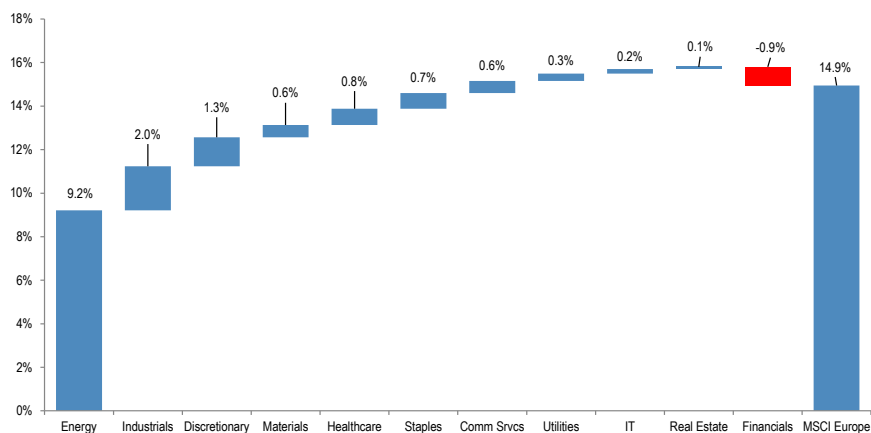
Sectoral earnings contribution breakdown

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%	6.8%	9.1%	8.9%	14.9%	2.8%	13.8%	4.8%	17.4%	-0.5%	4.4%	8.0%	9.9%	7.6%
Energy	115.6%	-11.9%	147.9%	-11.6%	95.9%	-15.1%	90.4%	-16.7%	101.4%	-13.3%	-6.3%	2.6%	48.9%	-9.1%
Materials	10.7%	-12.8%	17.0%	-9.8%	4.9%	-17.8%	-5.2%	-14.1%	8.2%	-22.8%	1.4%	7.4%	-10.0%	-2.7%
Industrials	16.5%	8.5%	15.3%	18.4%	18.4%	2.9%	17.6%	15.6%	15.7%	10.9%	-9.2%	5.5%	28.9%	-13.7%
Discretionary	9.5%	23.2%	8.9%	34.0%	12.9%	9.0%	10.8%	8.3%	18.6%	8.8%	13.3%	7.5%	30.5%	31.8%
Staples	5.1%	7.9%	3.5%	6.4%	7.3%	9.5%	8.2%	10.9%	5.3%	8.9%	10.4%	10.2%	4.5%	14.8%
Healthcare	4.6%	4.6%	3.6%	2.9%	6.1%	10.4%	7.5%	7.9%	8.0%	14.4%	8.5%	14.3%	2.2%	25.8%
Financials	-7.5%	12.8%	-12.8%	13.9%	-2.7%	13.3%	1.2%	10.9%	-16.4%	16.3%	7.8%	8.0%	9.7%	11.2%
IT	11.8%	10.4%	12.3%	10.0%	5.0%	18.0%	5.8%	18.7%	8.3%	10.2%	6.6%	9.5%	16.7%	5.1%
Telecoms	1.2%	14.7%	-6.9%	15.8%	18.7%	8.7%	30.7%	9.1%	6.8%	8.1%	8.3%	13.8%	-23.3%	21.5%
Utilities	7.9%	9.0%	6.7%	8.2%	8.1%	3.4%	8.6%	1.8%	2.0%	17.3%	104.8%	-0.9%	-17.6%	57.1%
Real Estate	-0.8%	4.1%	-7.2%	1.9%	10.4%	3.4%	13.4%	1.6%	6.0%	9.0%	6.4%	5.8%	7.9%	10.4%
Median	10.0%	9.6%	8.9%	10.2%	8.9%	9.5%	8.6%	9.8%	11.3%	6.9%	5.9%	8.6%	15.8%	16.8%
Median ex-commo	9.3%	10.2%	7.8%	10.4%	8.7%	10.3%	8.6%	11.1%	10.5%	7.9%	6.3%	8.7%	15.4%	17.8%
Median - Cyclicals	13.7%	10.9%	14.4%	11.1%	10.9%	11.0%	8.9%	12.0%	13.8%	6.5%	6.4%	9.1%	19.1%	19.1%
Median - Defensives	6.4%	8.8%	4.8%	7.9%	8.8%	10.2%	8.2%	8.6%	8.5%	8.0%	11.3%	8.3%	15.4%	18.2%

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

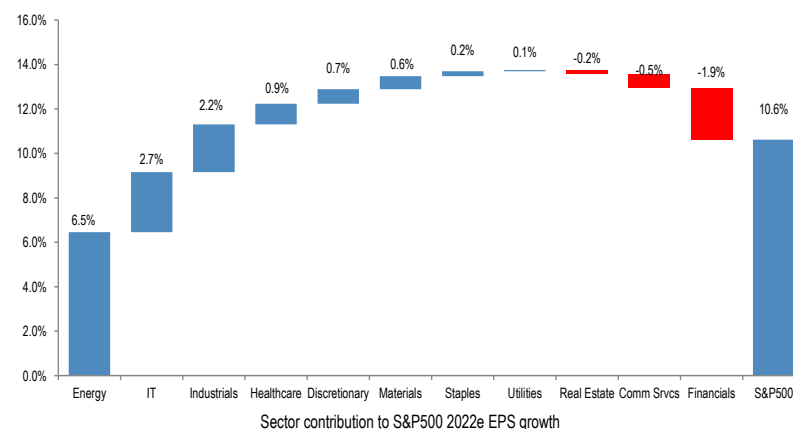
Sector contribution to MSCI Europe 2022e EPS growth



Sector contribution to MSCI Europe 2022e EPS growth

Source: IBES.

Sector contribution to S&P500 2022e EPS growth



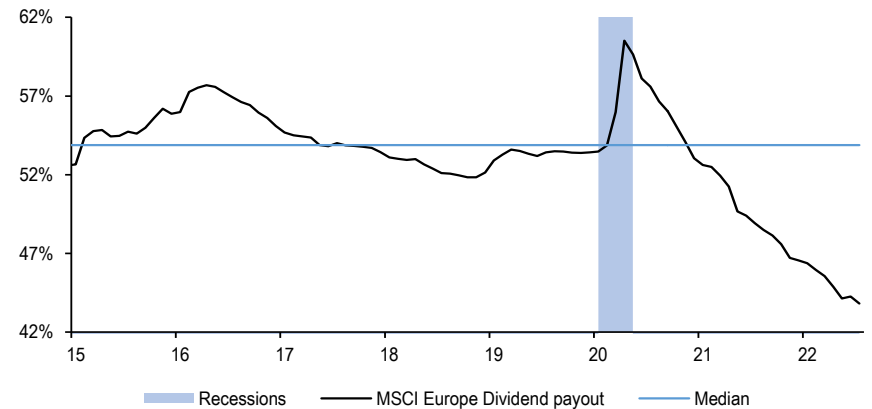
Sector contribution to S&P500 2022e EPS growth

Source: IBES.

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

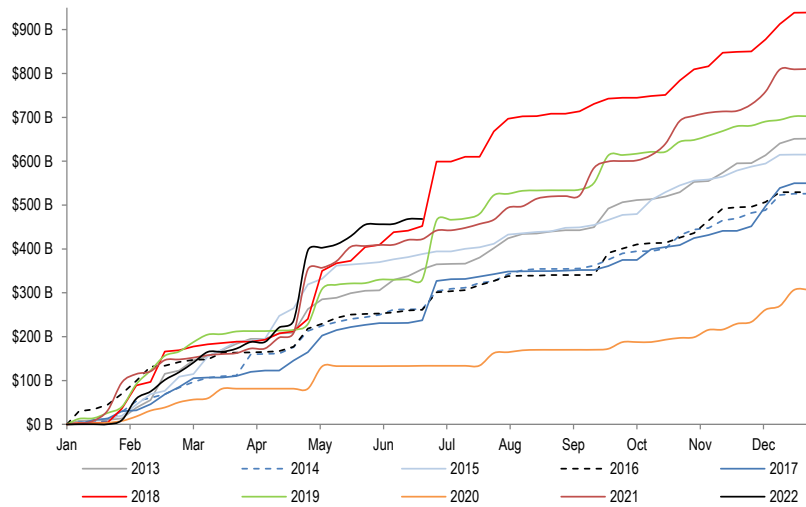
- US buybacks rebounded in 2021, after a very subdued 2020. This year again, we have seen strong momentum in buyback announcements thus far.
- Buybacks as a share of profits are still low.
- Dividend payout ratios are low, too.

MSCI Europe dividend payout ratio



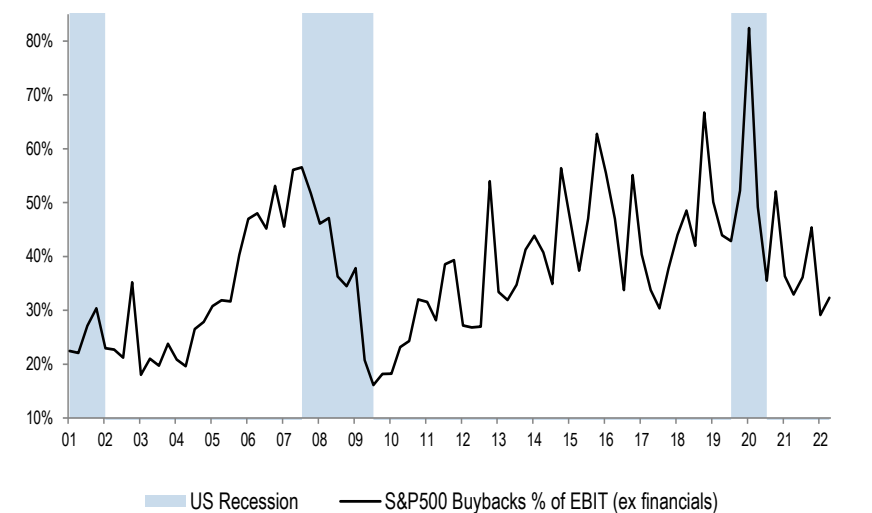
Source: IBES

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	7.9	15.0	-48%	12.2	-35%
Germany	9.9	16.4	-40%	12.4	-20%
Spain	10.2	16.6	-38%	11.9	-14%
France	11.4	18.4	-38%	12.8	-11%
Eurozone	11.7	18.1	-35%	12.8	-8%
UK	9.8	14.9	-34%	12.5	-21%
Japan	12.3	18.7	-34%	14.5	-15%
EM	11.2	16.5	-32%	11.1	1%
World	14.8	21.2	-30%	15.0	-2%
US	16.4	22.9	-28%	15.7	5%
Switzerland	16.3	20.6	-21%	14.8	10%

Source: IBES *as of cob 25th July 2022

...DY-BY gap is not challenging, especially for non-US markets...

- DY-BY gap is better than past averages in most regions.

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



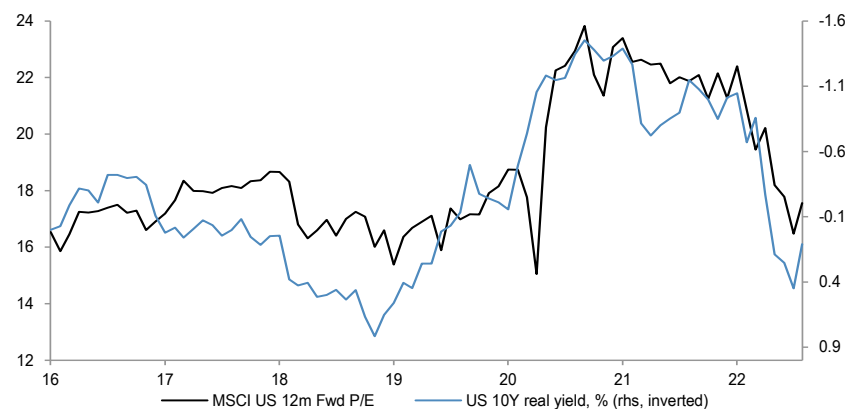
Source: Datastream, IBES

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	1.6%	2.8%	-1.2%	-1.3%	9
Japan	2.4%	0.1%	2.3%	0.8%	145
Eurozone	3.3%	2.2%	1.1%	0.4%	64
UK	4.0%	1.9%	2.0%	0.6%	142

Source: Datastream

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



Source: Datastream

...equities continue scoring well relative to credit

- Relative to credit, too, equities look cheap on most valuation measures.
- The gap between the dividend yield on a stock vs the high-grade yield at which these companies borrow is as much as 40bp, on average, in Eurozone.

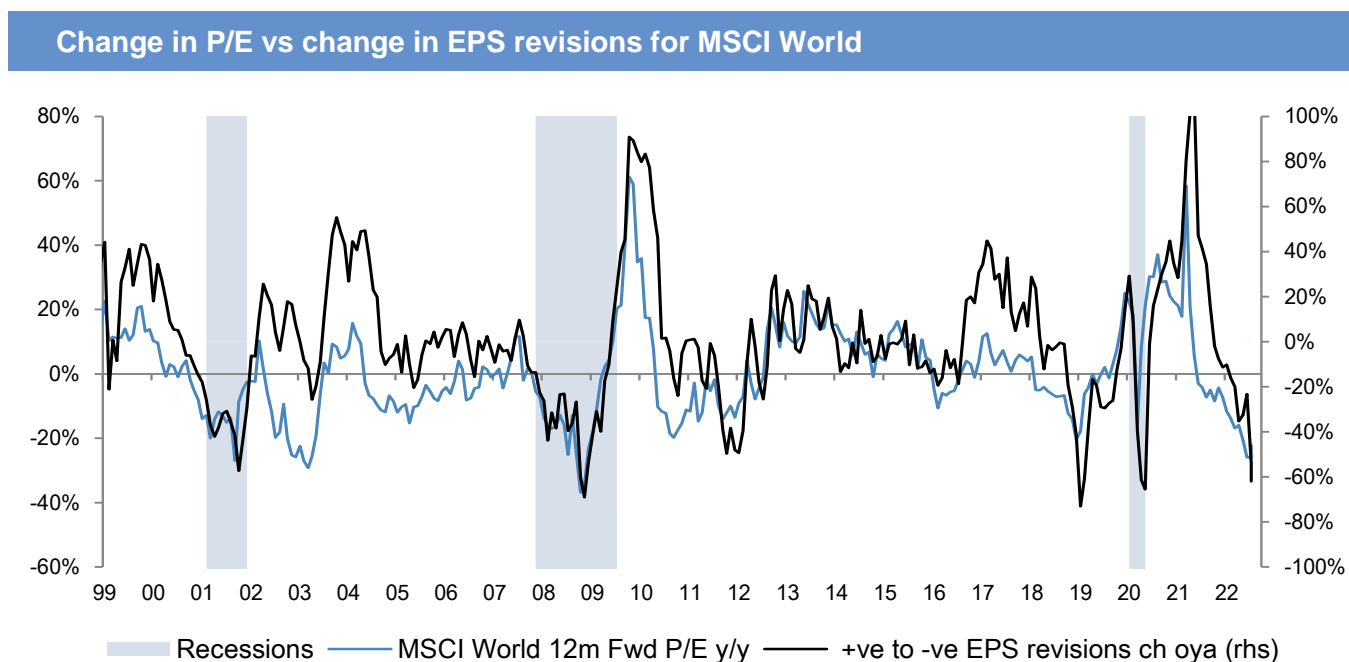
Spread between dividend yield and credit yield

	Dividend Yield	High Grade Yield	Dividend Yield vs HG yield	LT Average	Current yield gap vs LT Average
Autos	5.9%	3.1%	2.8%	-0.3%	3.1%
Financials	6.2%	3.1%	3.0%	0.6%	2.5%
Energy	5.3%	2.8%	2.4%	1.1%	1.3%
Utilities	5.0%	3.0%	2.0%	1.3%	0.7%
Chemicals	3.8%	2.2%	1.6%	0.3%	1.2%
Materials	3.7%	2.2%	1.5%	-0.2%	1.6%
Const Materials	3.7%	2.8%	0.9%	-0.6%	1.5%
Eurozone	3.3%	2.8%	0.5%	0.1%	0.4%
Real Estate	5.0%	4.6%	0.3%	0.5%	-0.1%
Telecoms	3.7%	3.0%	0.6%	1.0%	-0.4%
Transport	3.0%	2.8%	0.2%	-0.5%	0.7%
Capital Goods	2.5%	2.7%	-0.2%	-0.6%	0.4%
Discretionary	2.7%	3.0%	-0.3%	-0.7%	0.4%
Media	2.2%	2.6%	-0.5%	0.1%	-0.5%
Staples	2.0%	3.0%	-1.0%	-0.9%	-0.1%
Technology	1.1%	2.5%	-1.4%	-2.3%	0.9%

Source: J.P. Morgan, Datastream, LT average computed since 1998

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

- The moves in P/Es are strongly positively correlated with EPS revisions. While EPS revisions have rolled over, hurting P/Es, 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%

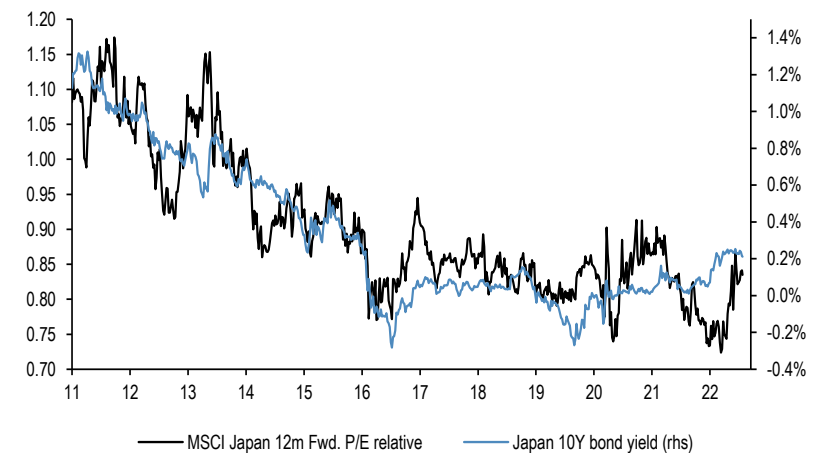
Source: Bloomberg Finance L.P.

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	0.3%	0.0%
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

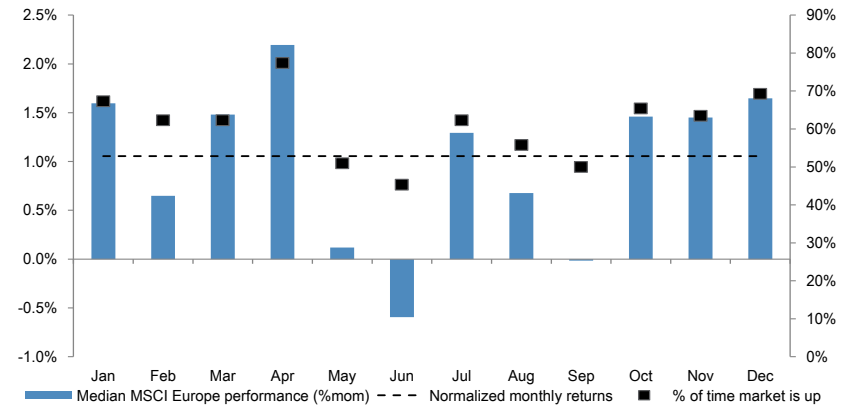


Source: IBES, Bloomberg Finance L.P.

5) Sentiment is depressed and positioning is rather light...

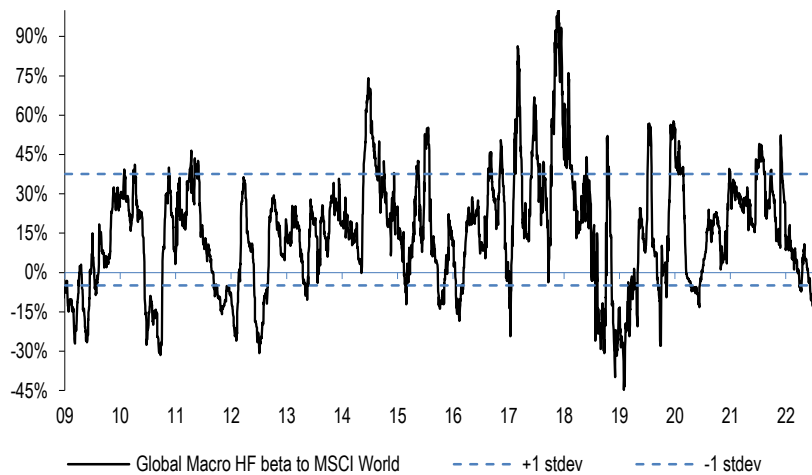
- The overall technical backdrop for equities looks favourable, given the selloff.
- HF beta has rolled over.
- Seasonally, equity performance is lower than average in August.

Seasonality* of MSCI Europe performance



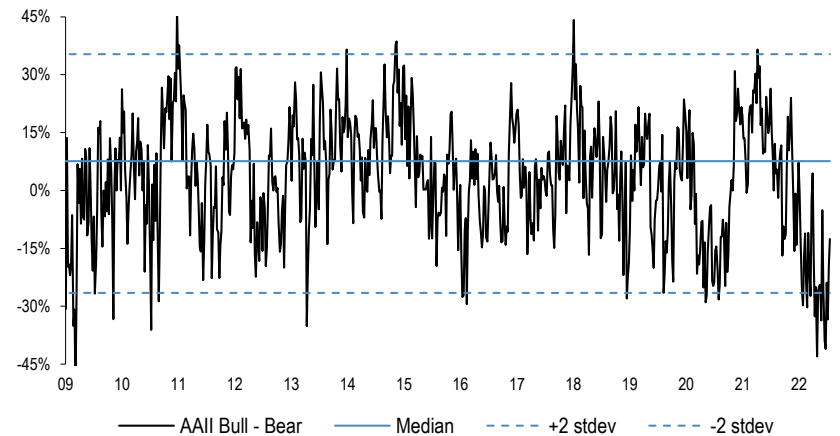
Source: Datastream, *Median since 1970

Macro HF beta



Source: Bloomberg Finance L.P.

AAll Bull-Bear

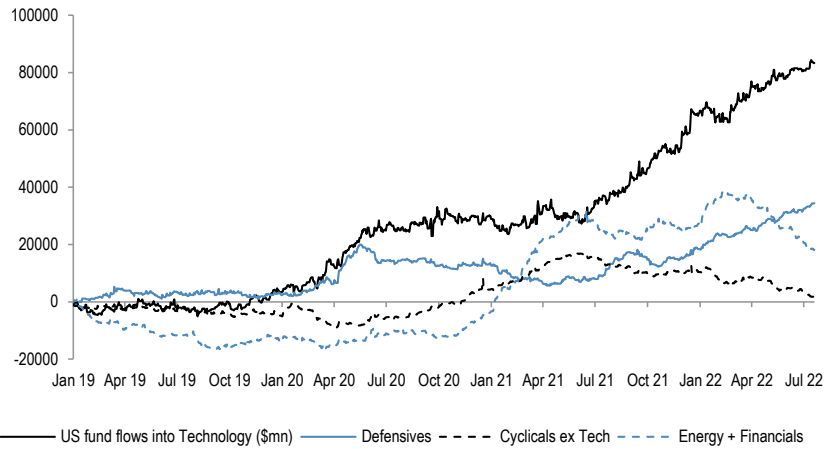


Source: Bloomberg Finance L.P.

...retail inflows are not reversing

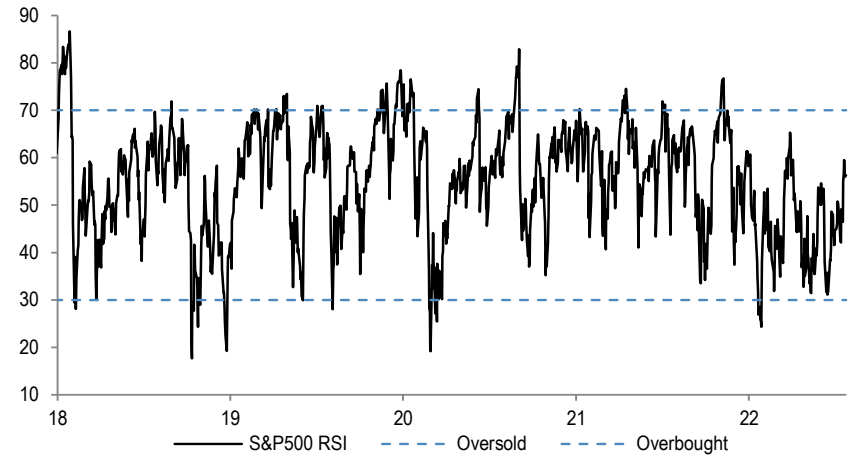
- Full list of technical indicators is in the last section of the chartbook.

Flows into US sectors



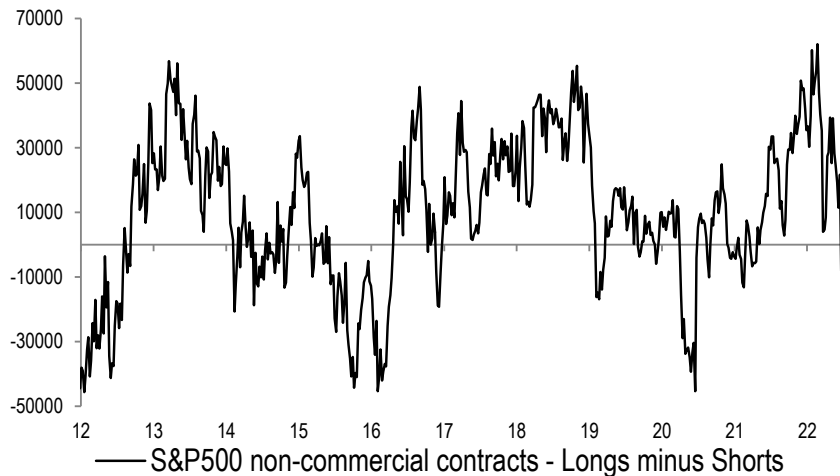
Source: Bloomberg Finance L.P.

S&P500 RSI



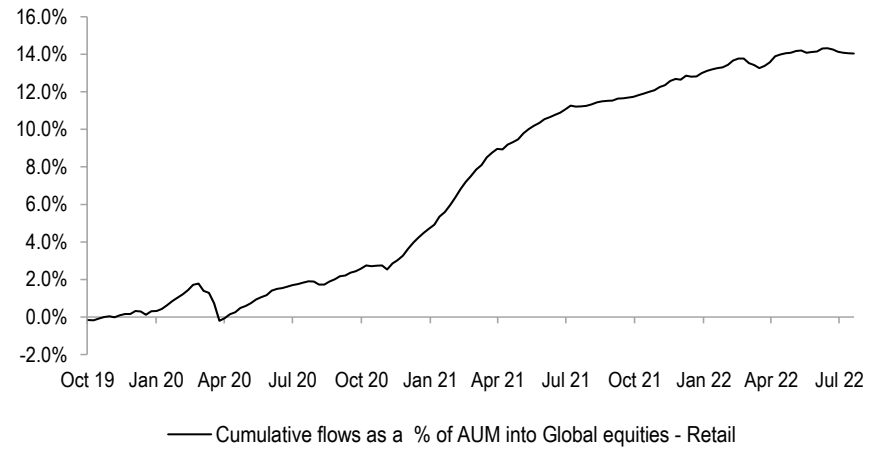
Source: Bloomberg Finance L.P.

Speculative positions on S&P500 futures contracts



Source: Bloomberg Finance L.P.

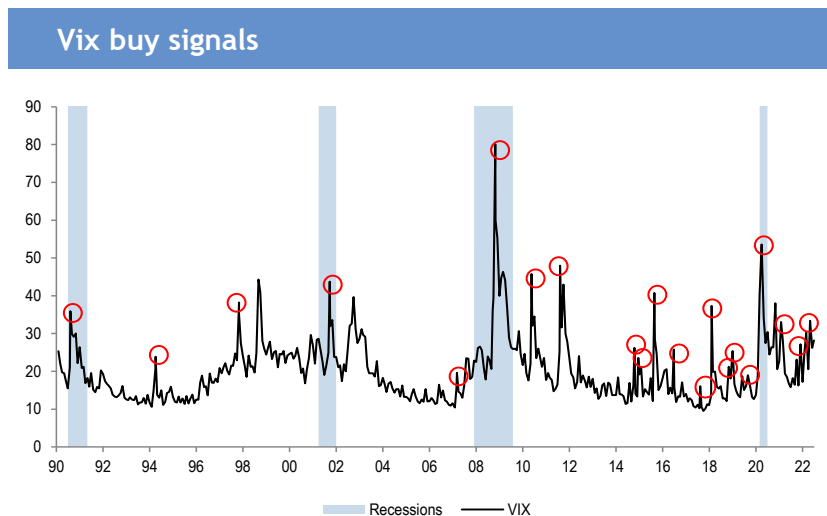
Cumulative retail fund flows into global equity funds



Source: EPFR

Vix is in a stress territory... post it, equities tended to be higher, but predominantly outside recessions

- Our Vix signal has entered buy territory towards the end of January. Almost all of the time equities were up over the next 1 and 6 months post the signal, outside recessions.



Source: Bloomberg Finance L.P.,

S&P500 performance after the VIX signal is triggered*

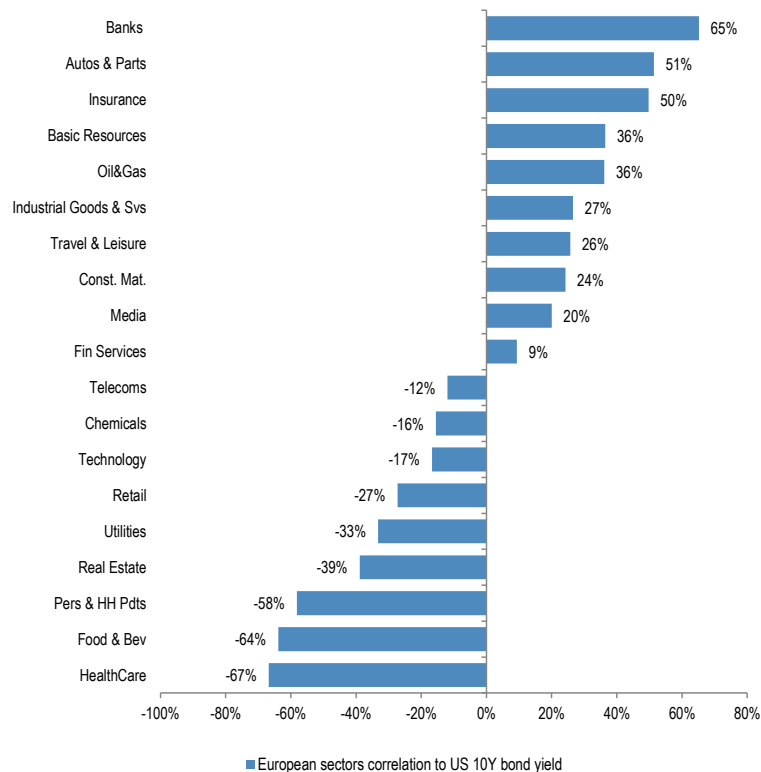
	Level of VIX	+1 month	+3 month	+6 month
Aug 90	36	-4%	-7%	7%
Apr-94	24	3%	2%	4%
Oct-97	38	6%	8%	23%
Sep-01	44	9%	16%	17%
Mar-07	20	5%	11%	7%
Sep-08	36	-19%	-22%	-33%
Oct-08	80	5%	0%	1%
May-10	46	4%	0%	12%
Aug-11	48	6%	14%	21%
Oct-14	26	10%	7%	13%
Dec-14	24	2%	5%	6%
Aug-15	41	2%	10%	2%
Jun-16	26	7%	6%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

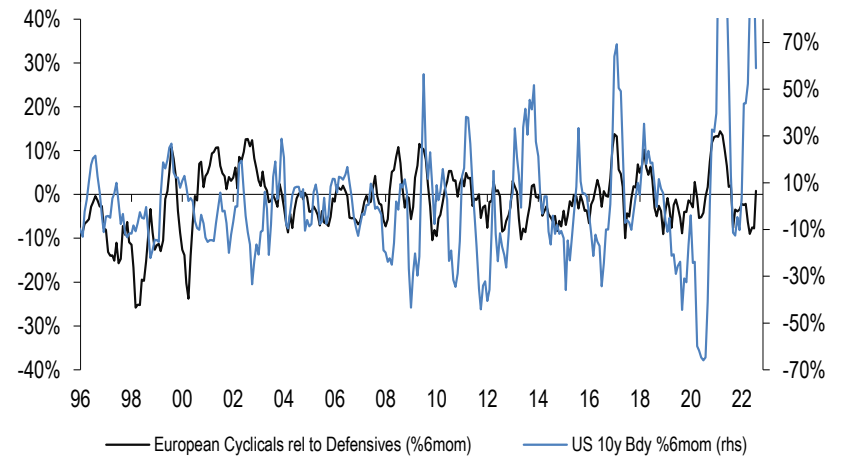
- Cyclical and Banks show the highest correlation to bond yields, out of any sector.
- Crucially, the correlation is coincident. If yields move up, Cyclical and Financials are likely to perform, and vice versa.

European sectors correlation to bond yields



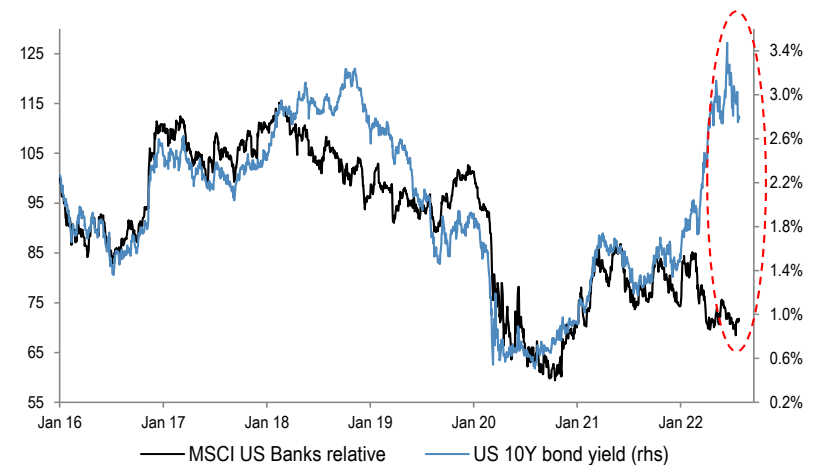
Source: Bloomberg Finance L.P.

European Cyclical versus Defensives and bond yields



Source: Datastream

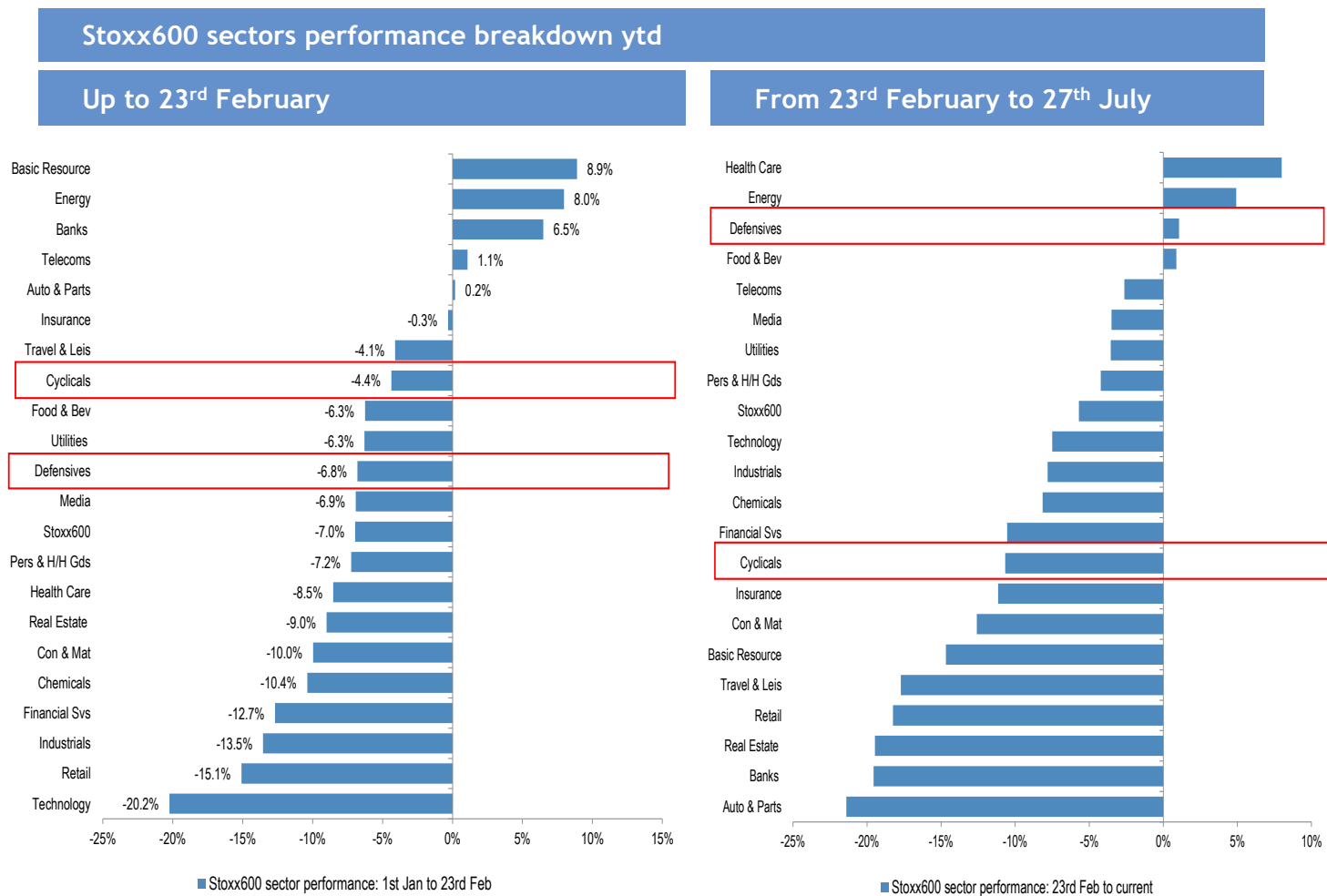
US Banks relative vs US 10-year yield



Source: Datastream

Up to the start of hostilities, Cyclical&Value were in the lead... risk-off followed

- Until the start of the Russia-Ukraine crisis, Cyclical and Value – such as Banks, Autos and Commodities – were the best performing sectors, while the bond yields were also moving higher.
- From then, the leadership was more Defensive.

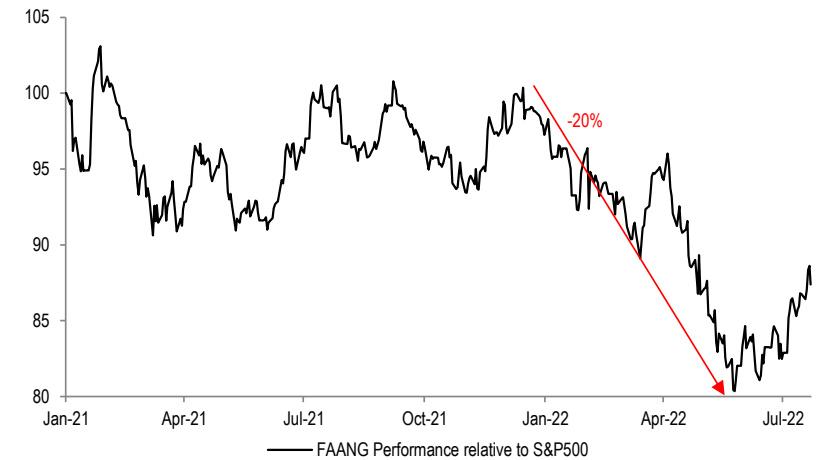


Source: Bloomberg Finance L.P.

Tactically, we have called for the Growth part of the market to stabilize a month ago... various Growth groups had pulled back hard...

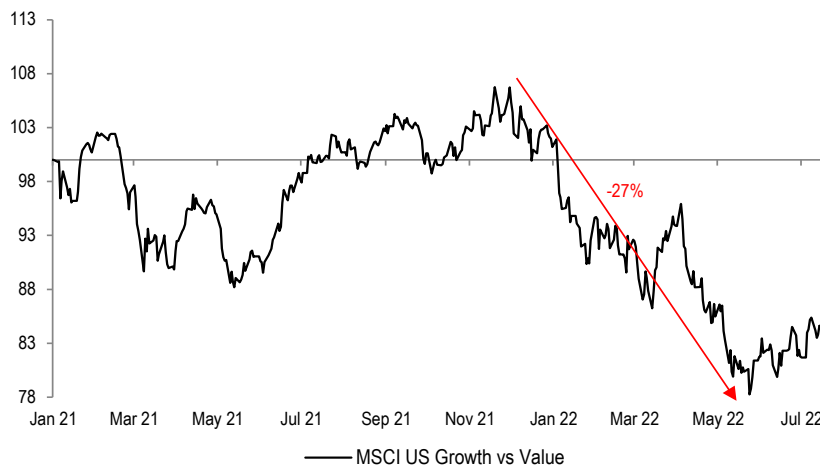
- Various Growth groups had fallen by 20% - 40% from highs. We think this is a good tactical entry point, especially as yields peak.

FAANG price relative



Source: Bloomberg Finance L.P.

MSCI US Growth vs Value



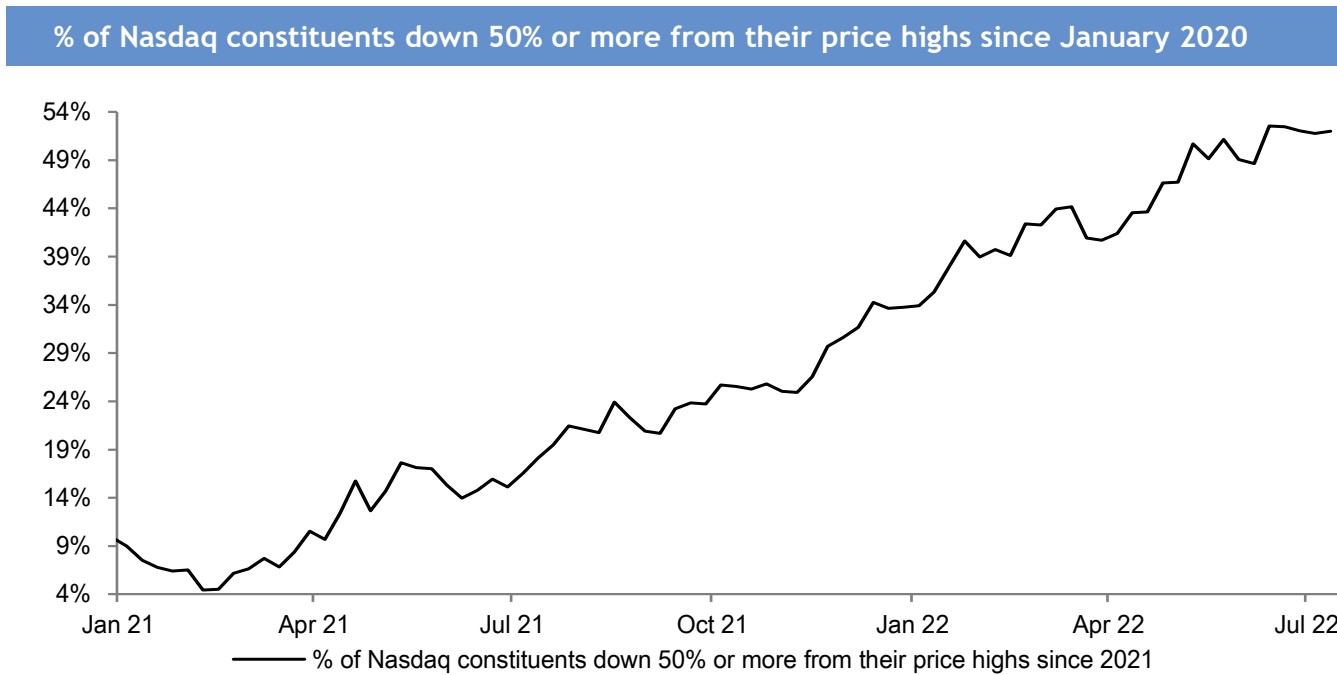
Source: Bloomberg Finance L.P.

Global Fintech Index relative



Source: Bloomberg Finance L.P.

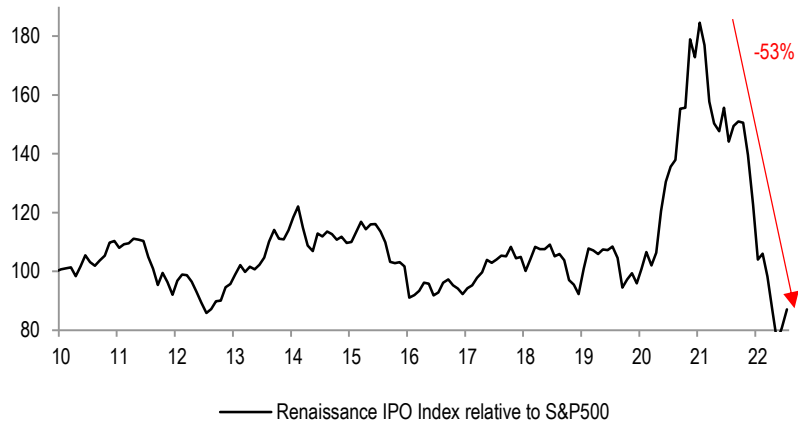
...almost half of Nasdaq constituents are trading at least 50% down vs 2020 highs...



Source: Datastream

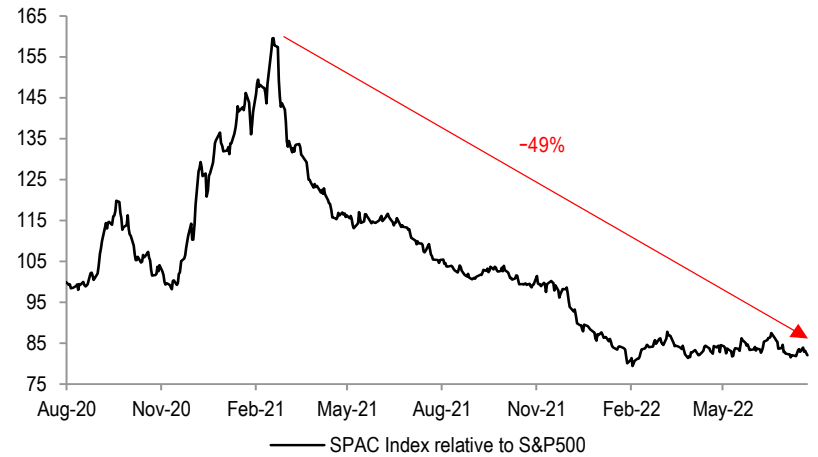
...poor performance of Bitcoin, SPACs and IPOs in the background

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

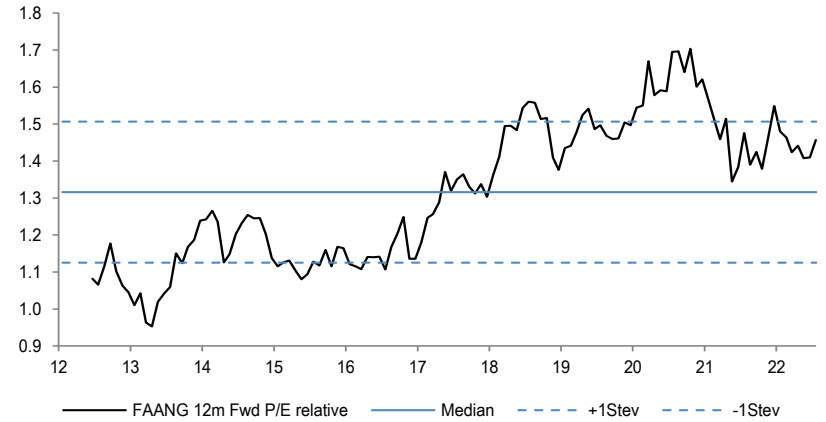


Source: Bloomberg Finance L.P.

Many Growth groups have derated meaningfully

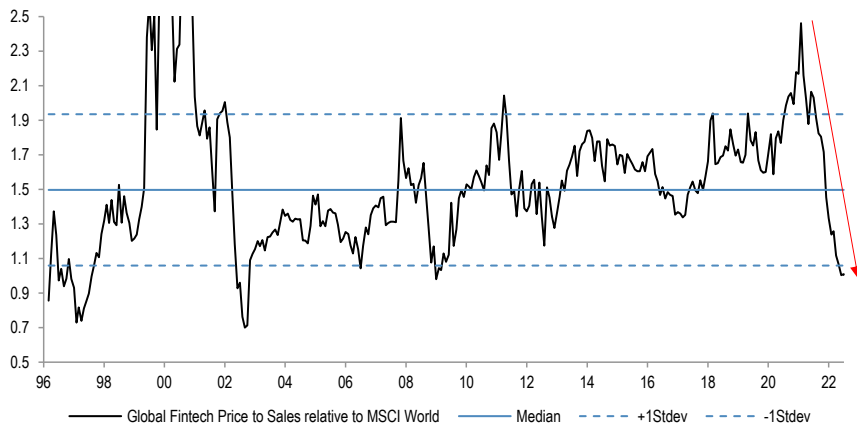
- Growth sectors are becoming cheaper.

FAANG 12m Fwd. P/E relative



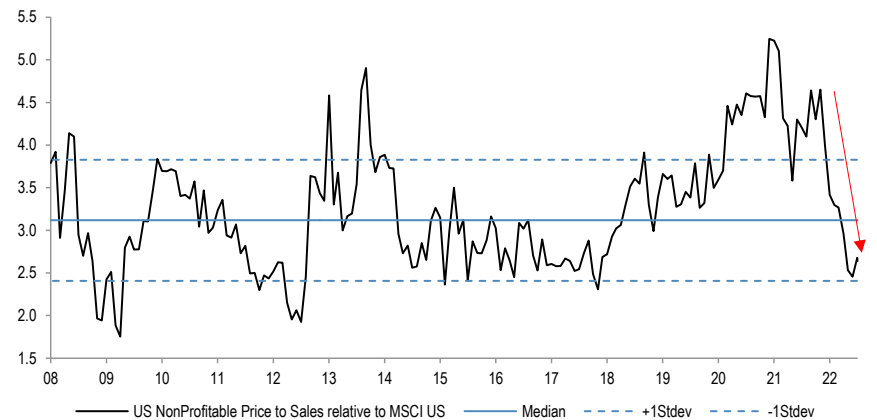
Source: Datastream

Global Fintech P/Sales relative



Source: IBES

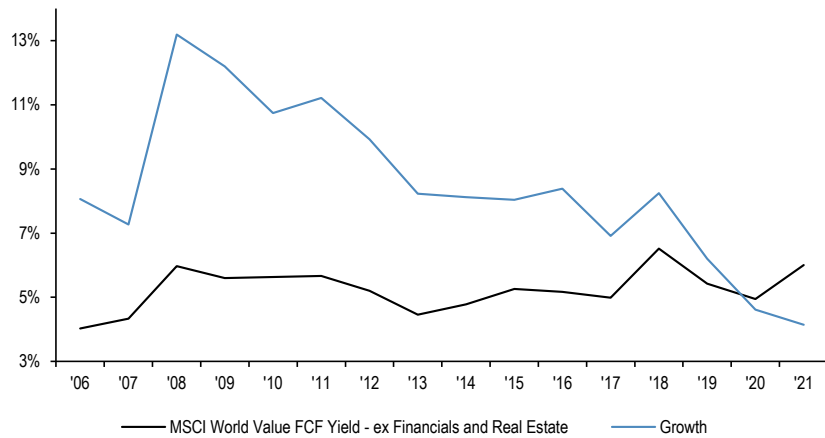
US non-profitable Tech P/sales relative



Source: IBES

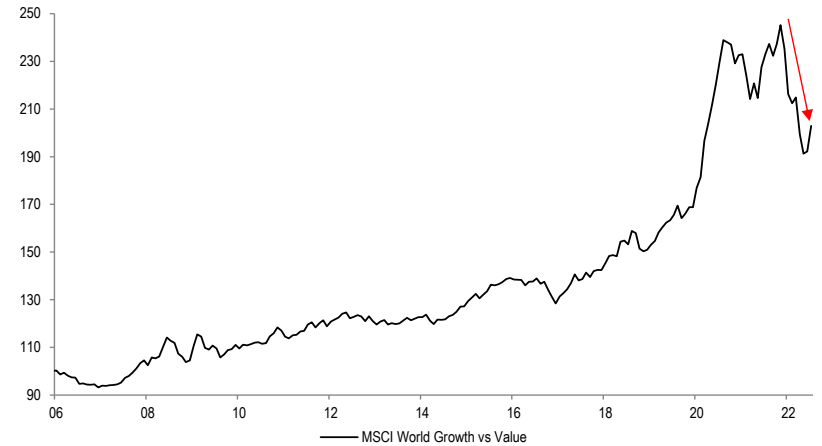
Near-term stabilisation in Growth likely, but we still prefer Value medium term. Growth style remains elevated in a longer term context

MSCI World Value and Growth FCF yield



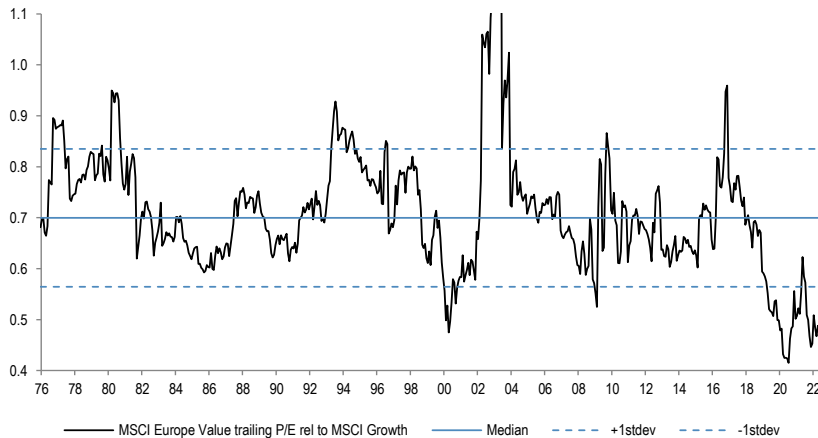
Source: Datastream

Growth vs Value price relative



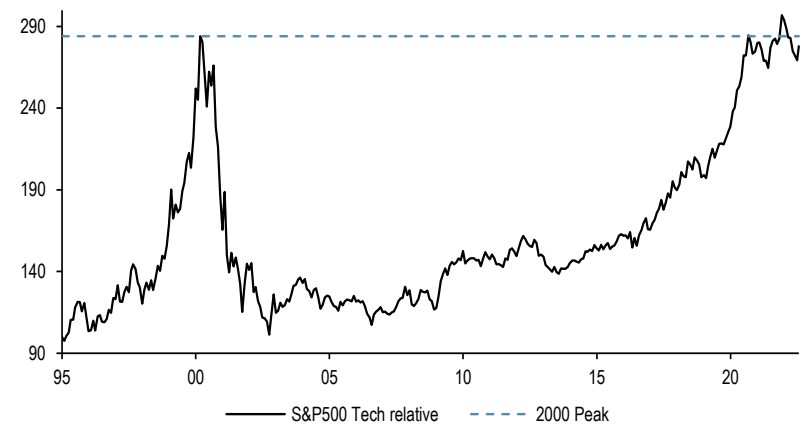
Source: Datastream

MSCI Europe Value vs Growth P/E



Source: Datastream

S&P500 Tech relative

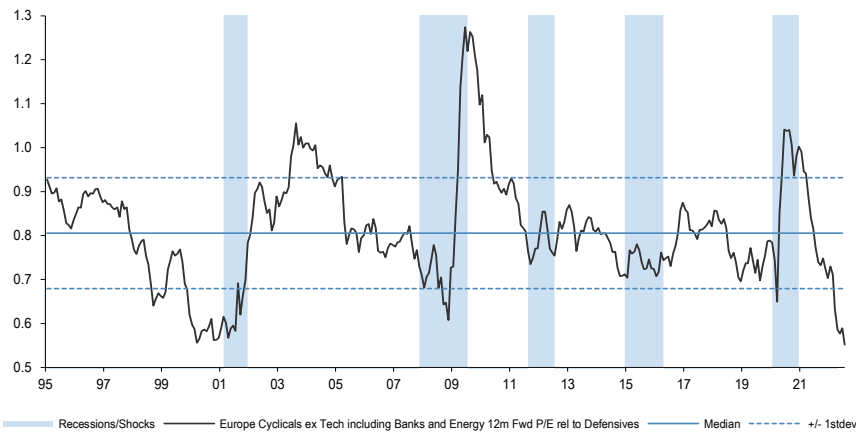


Source: Datastream

Valuations of Cyclical and Value appear far from stretched

- Value valuations remain depressed vs Growth.
- Cyclicals ex Tech including Banks and Energy vs Defensives P/E has also derated over the past months.

European Cyclical vs Defensives 12m Fwd P/E relative



Source: IBES

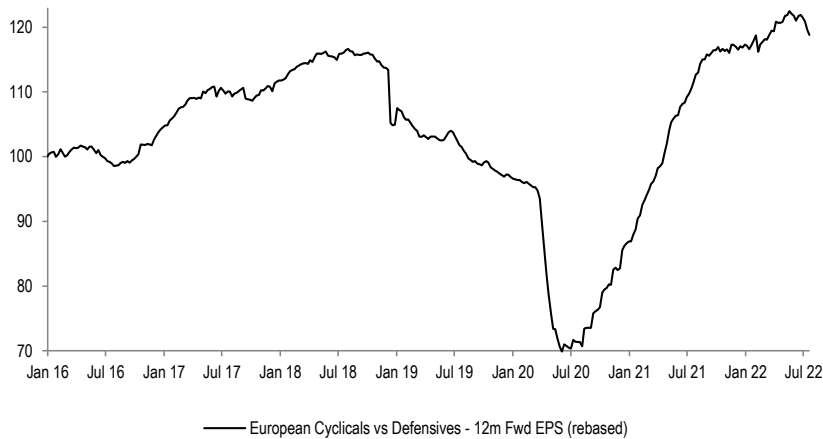
MSCI World Value vs Growth P/Book



Source: Datastream

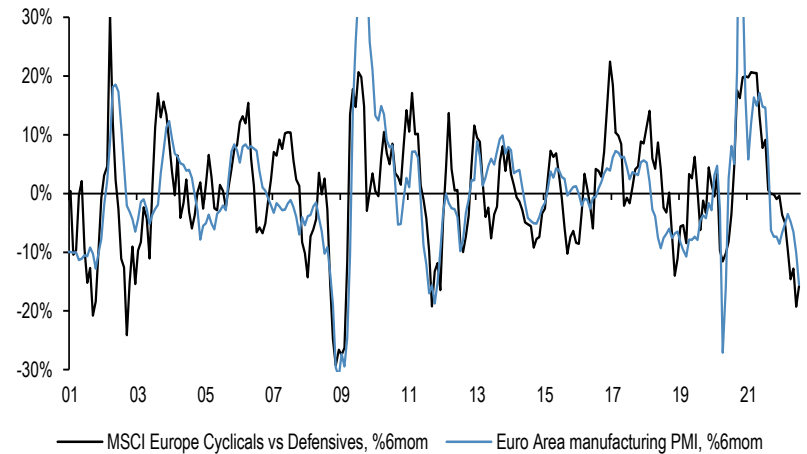
Cyclicals' earnings are likely to peak, but should not fall for long, geopolitics willing

European Cyclicals vs Defensives forward EPS relative



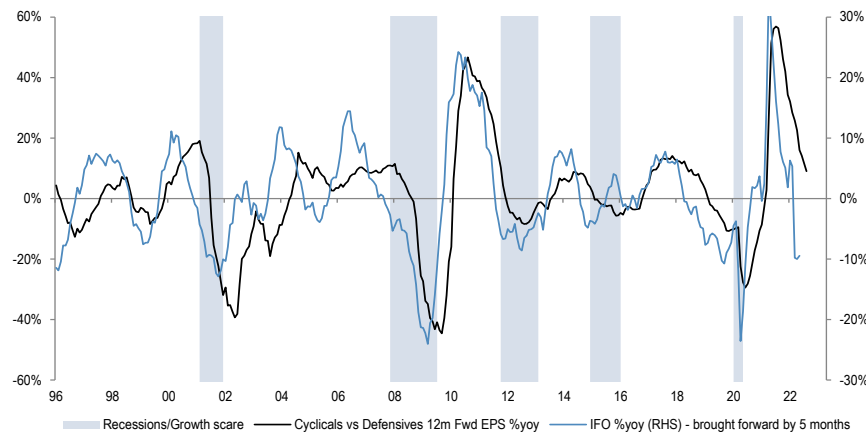
Source: Datastream

European Cyclicals vs Defensives and Manufacturing PMI



Source: Datastream, Markit

Cyclicals EPS relative to Defensives vs IFO



Source: Bloomberg Finance L.P., IBES

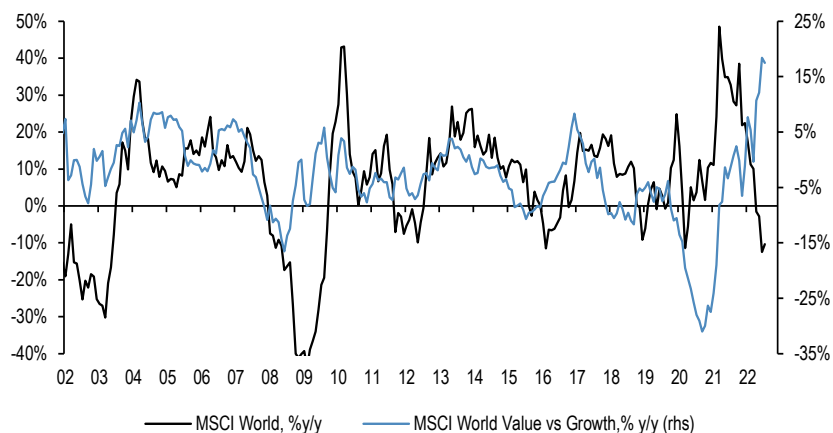
Cyclicals vs Defensives EPS trend in different PMI regimes

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

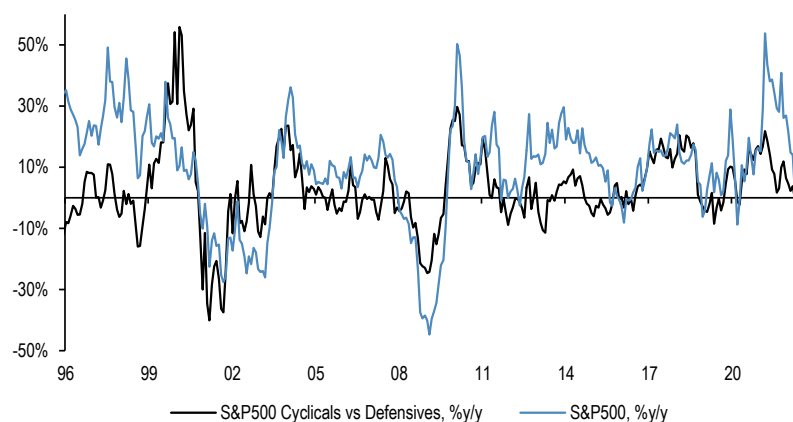
Don't expect the sustained rotation... market direction and Cyclical/Value leadership are typically positively correlated

MSCI World and MSCI World Value vs Growth



Source: Datastream

S&P500 Cyclical vs Defensives and market



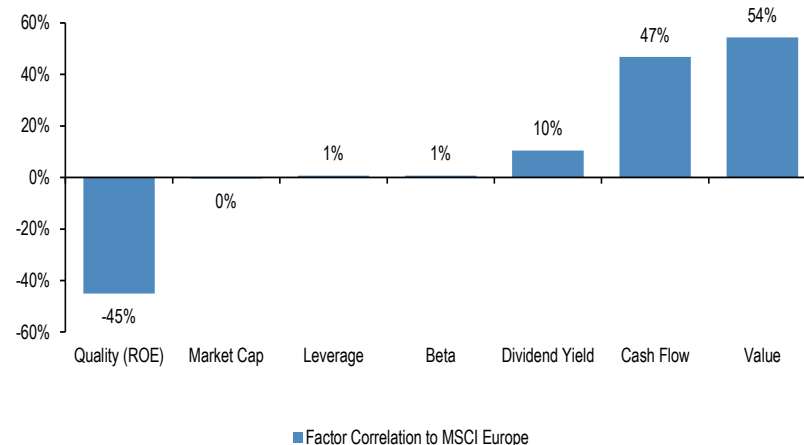
Source: Datastream

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%

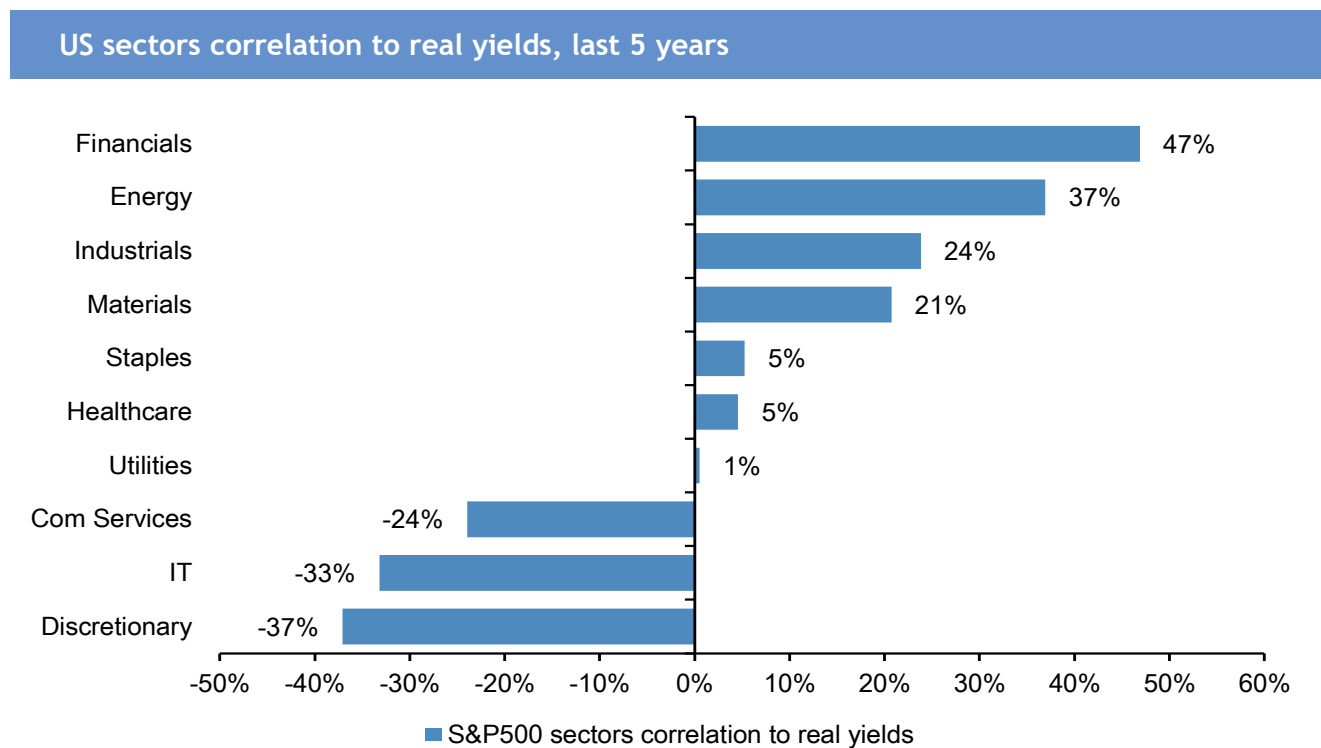
Source: Datastream

Factor performance correlation to market



Source: Datastream, J.P. Morgan

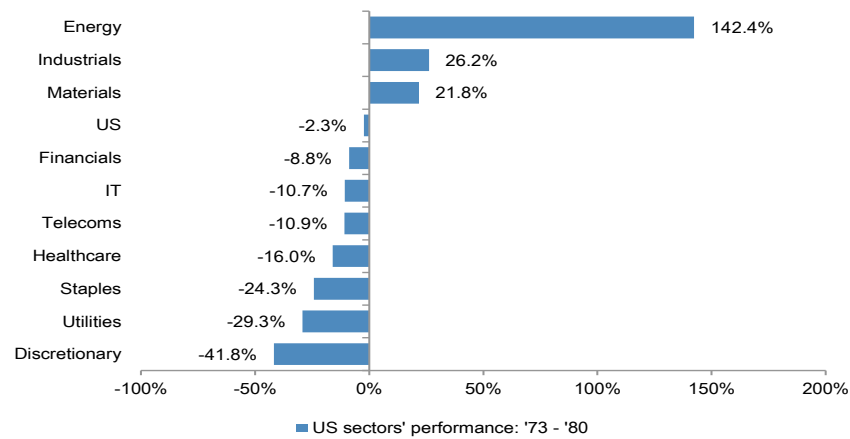
Sectoral correlations to real yields



Source: Bloomberg Finance L.P.

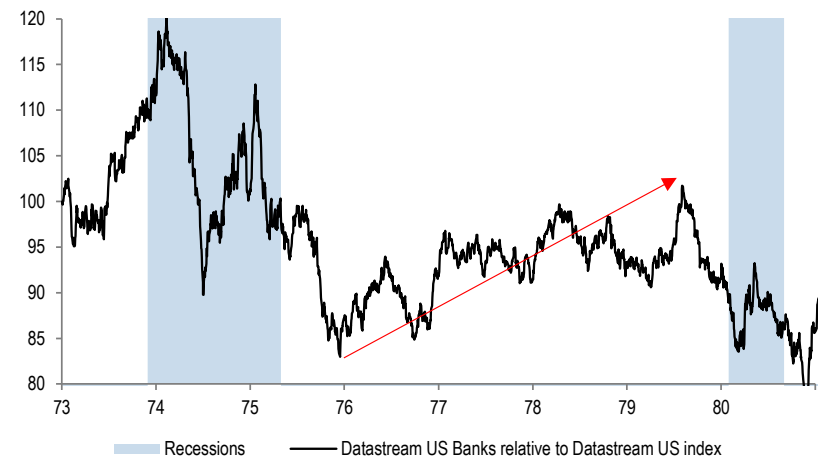
The high inflation, low growth backdrop in the 70's saw commodity sectors and Industrials do better; Financials did well outside recessions

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

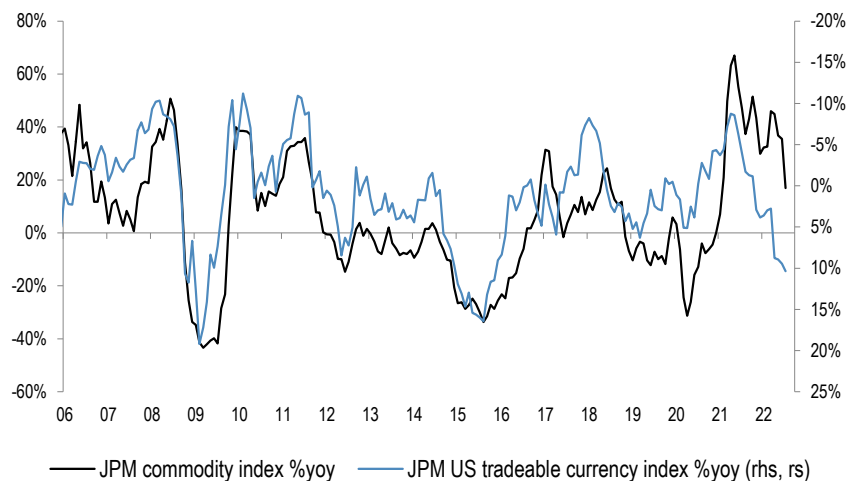
- Historically, equities did better in weaker USD regimes, especially the EMs.
- Commodities are inversely correlated to the USD.

MSCI World performance in different DXY regimes

MSCI World (\$) monthly performance since '10		
	DXY up	DXY down
Average	-0.9%	2.4%
Median	-0.1%	2.3%
% positive	48%	77%

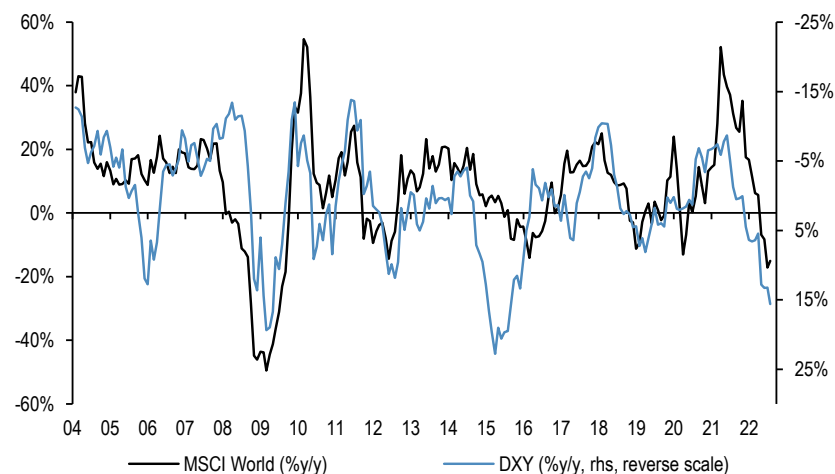
Source: Bloomberg Finance L.P.

Commodity index and trade-weighted USD



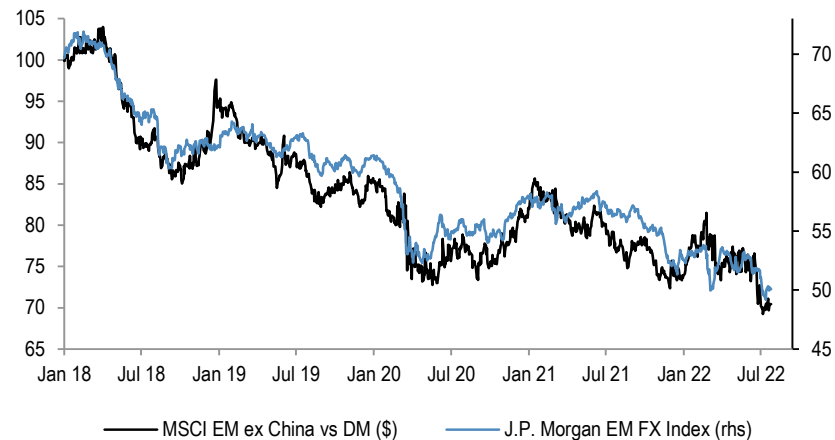
Source: Bloomberg Finance L.P., J.P.Morgan

MSCI World performance and DXY



Source: Bloomberg Finance L.P.

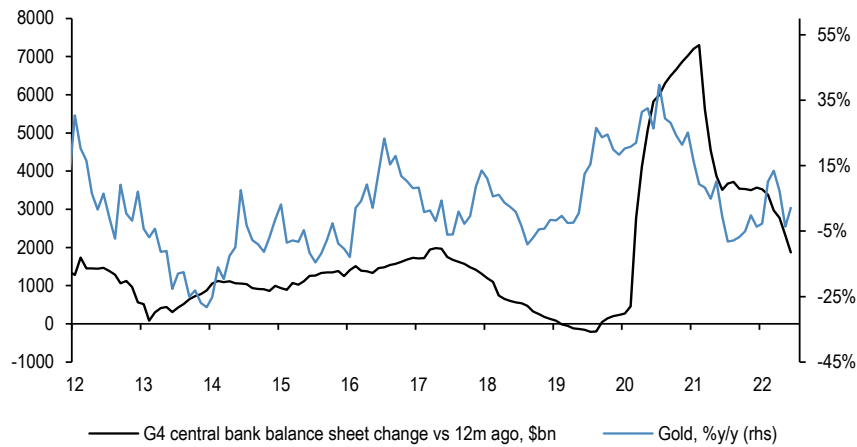
MSCI EM ex China vs DM and EM FX



Source: Bloomberg Finance L.P.

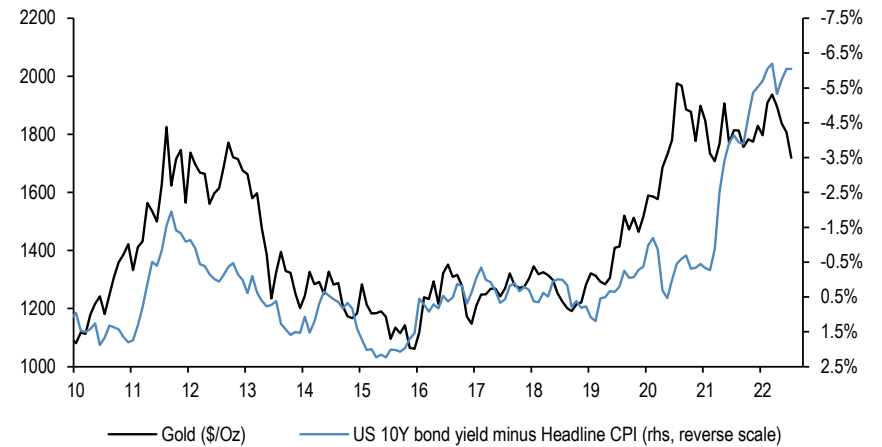
Gold near term is a safe haven, but medium-term outlook is not too bullish

Gold and central bank balance sheet



Source: Bloomberg Finance L.P., JP Morgan

Gold and 10Y real yield

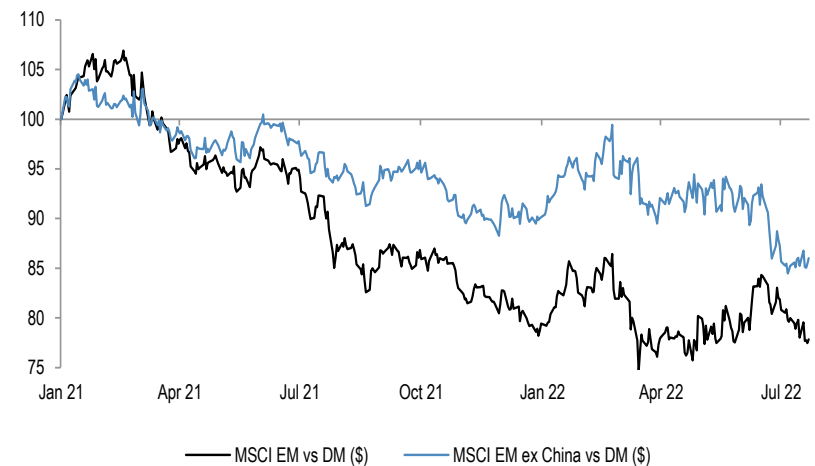


Source: Bloomberg Finance L.P.

Regional allocation: 1) OW EM, now including China... the potentially improving relative growth would be a tailwind...

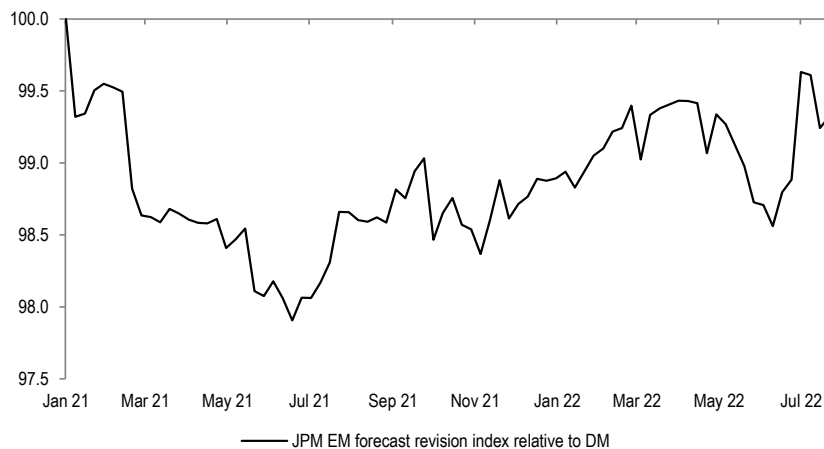
- We have been cautious on EM & China most of last year, but have closed our cautious call on EM ex China in Q4. We believe that the trading environment for EM equities could start becoming more favourable going forward. In addition, we have in May upgraded China direct exposure, as well.
- JPM forecast revision index, which tracks change in GDP projections, is showing signs of stabilization, as China activity improves. 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

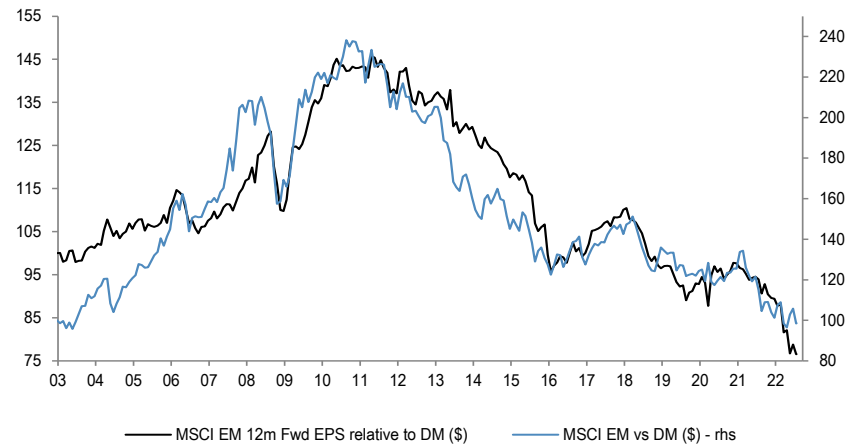


Source: JPMorgan

...EM EPS revisions vs DM have improved significantly, and turned outright positive...

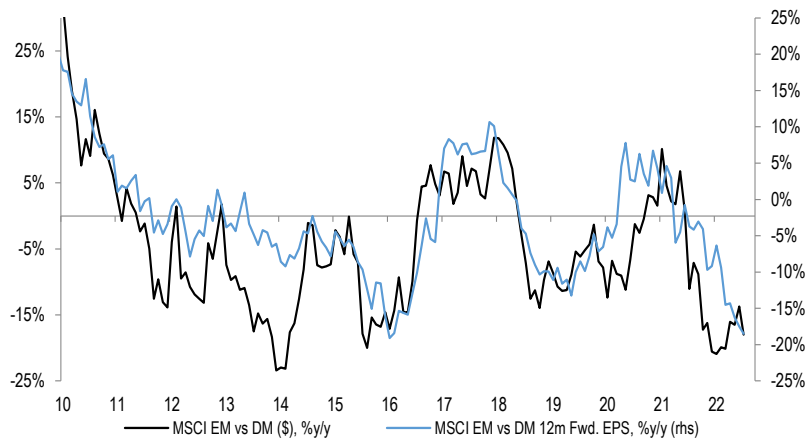
- In the past, as EM growth weakened, EM relative earnings faltered as well, which in turn explains the poor relative price performance.
- The potential bottoming out in relative EM earnings should help drive its relative equity market outperformance.

EM vs DM and EPS relative



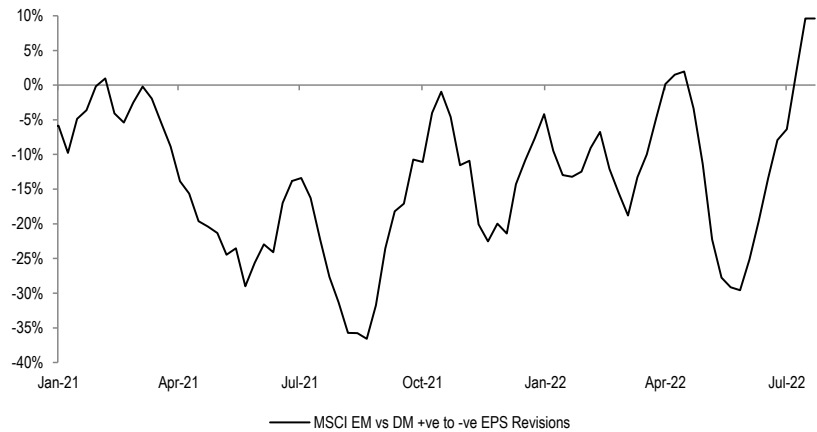
Source: IBES

MSCI EM vs DM price and EPS relative



Source: IBES

MSCI EM vs DM EPS revisions

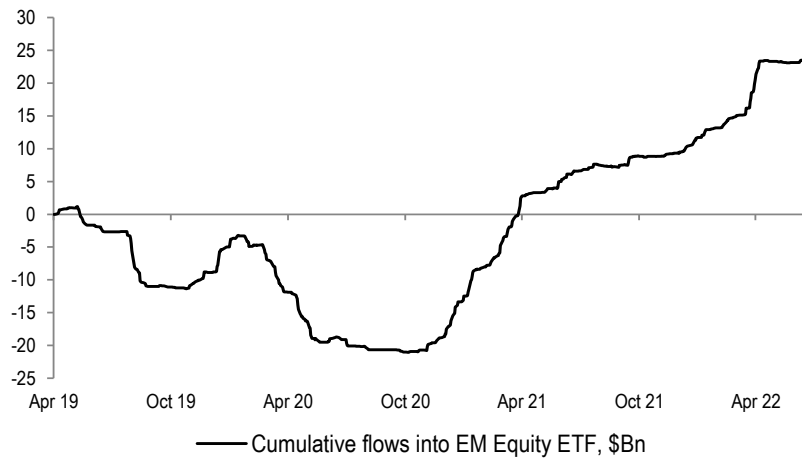


Source: IBES

...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 in recent quarters.

Flows into EM equity ETFs



Source: J.P. Morgan

MSCI EM vs DM Price to Book

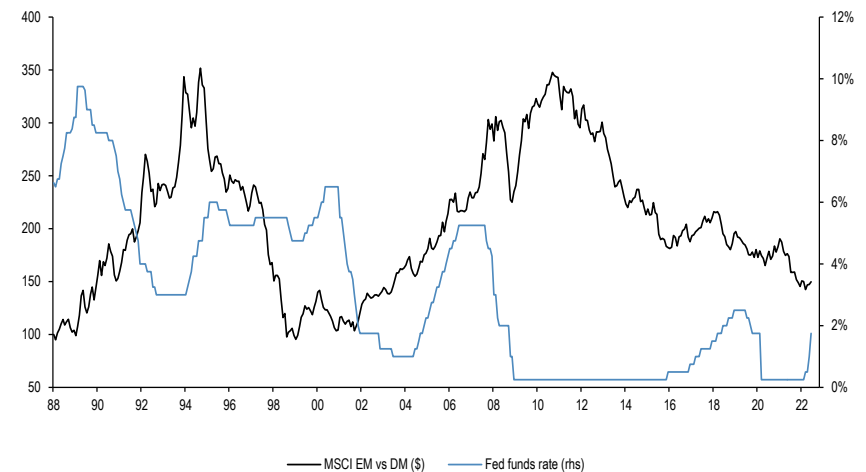


Source: IBES

Historically, EM did not tend to 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



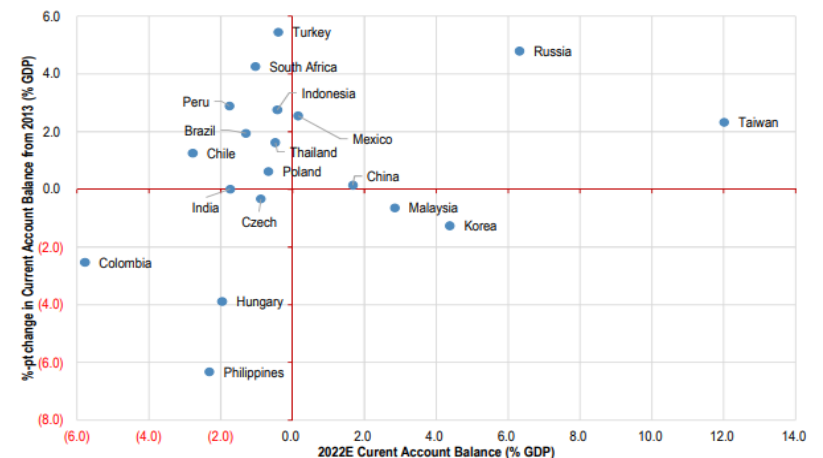
Source: Datastream

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)

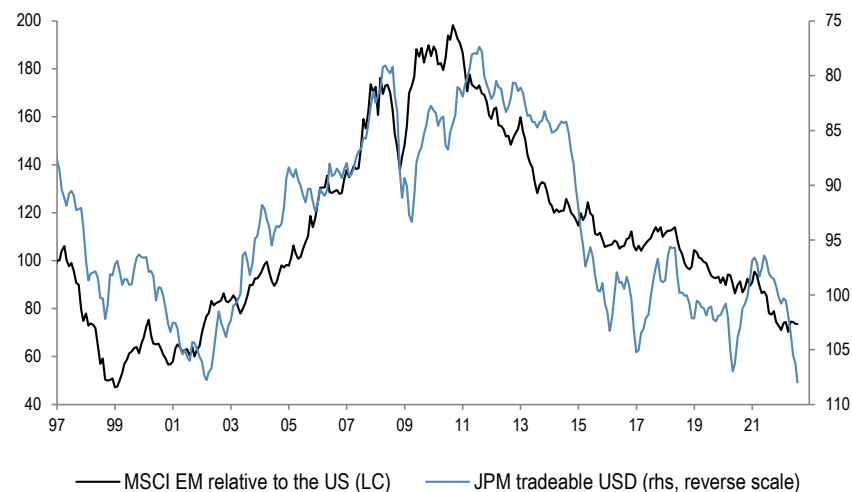


Source: J.P. Morgan EM Equity Strategy

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, post the recent dollar rally, we see limited potential for dollar to keep moving higher.

EM relative performance and USD in the long term

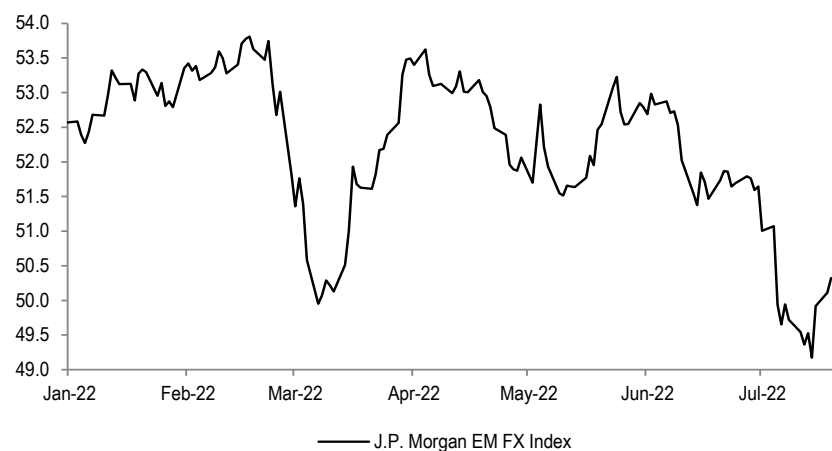


MSCI EM ex China vs DM and EM FX



Source: Datastream, J.P. Morgan

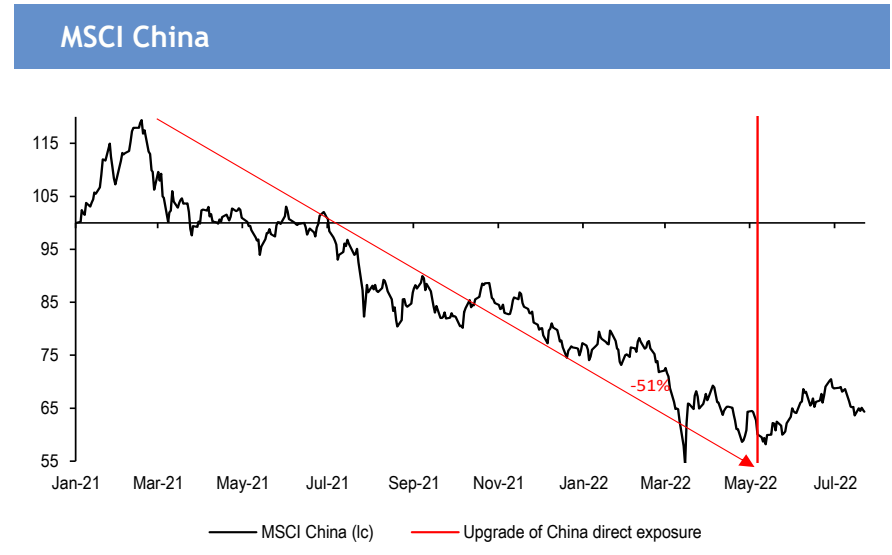
J.P. Morgan EM FX Index



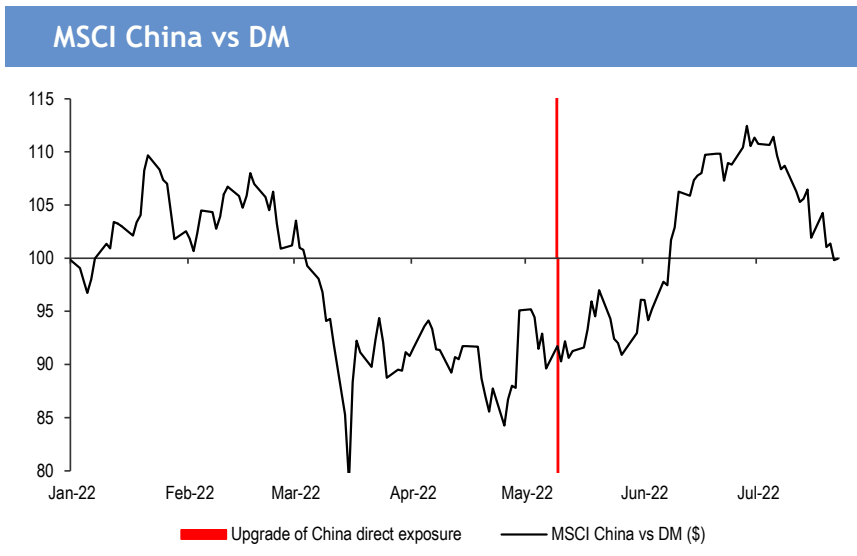
Source: Bloomberg Finance L.P.

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

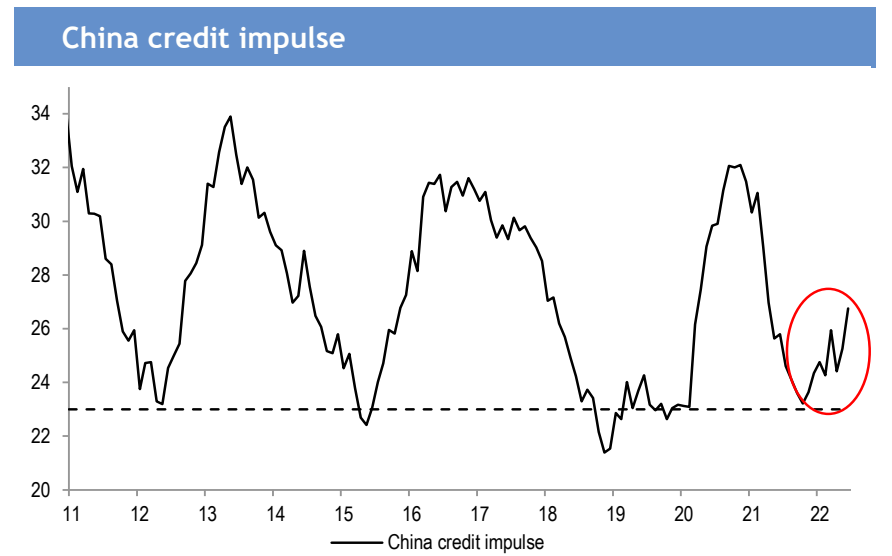
- Chinese equities were a drag on the overall EM performance ytd, but that could start to change.
- We believe Chinese credit impulse is bottoming and the growth expectations are now sufficiently downbeat. Big tail risks are now in the open.
- Chinese equities have lost roughly 50% from their last February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



Source: Datastream



Source: Datastream, J.P. Morgan



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.

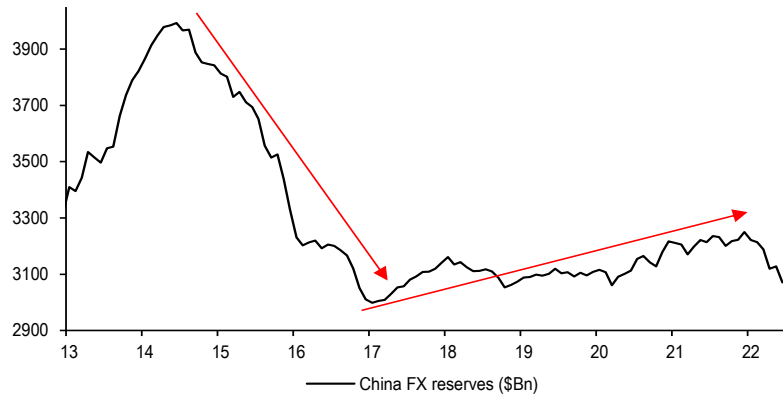
Chinese policy measures announced	
Policy measures	
Fiscal policy and related measures	In order to support the corporate sector and ensure stability in the labour market, the State Council announced additional tax rebates of 140 billion yuan for the corporate sector, equivalent to about 0.1% of GDP.
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

Source: J.P. Morgan

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

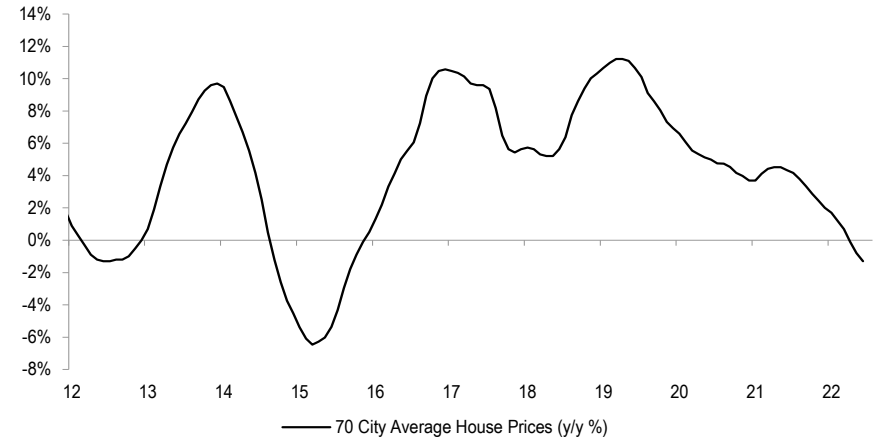
- Falling Chinese house prices and rising inventory is a concern, but situation appears more manageable compared to 2015.

Chinese FX reserves



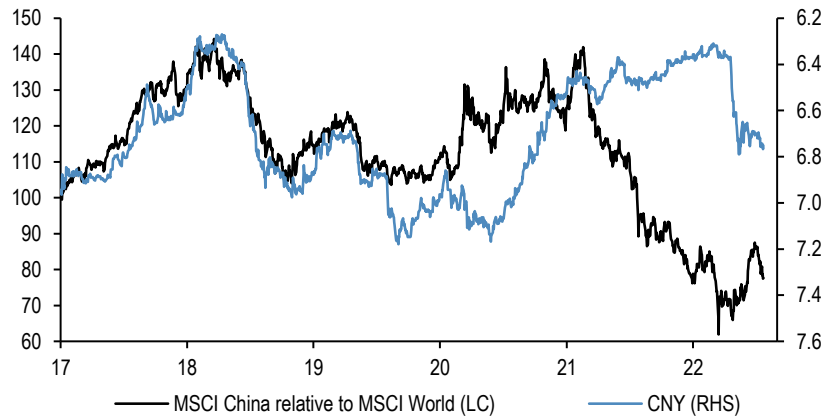
Source: Bloomberg Finance L.P.

Chinese house prices



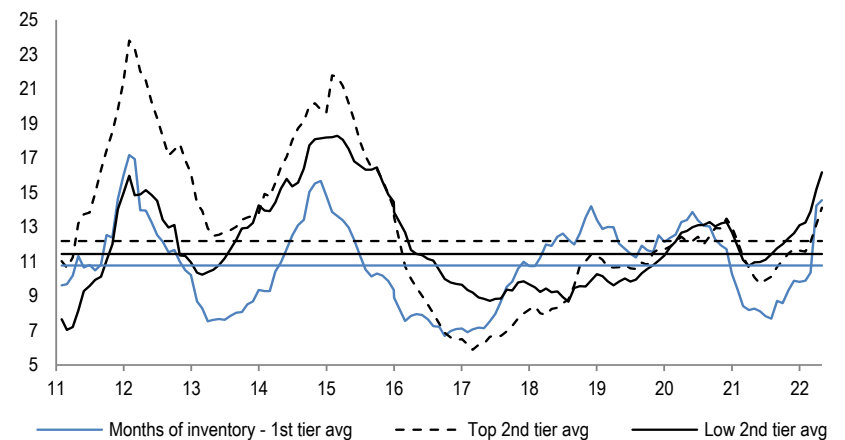
Source: NBS

MSCI China relative vs CNY



Source: Datastream

China property inventory



Source: Soufun, CREIS

Headline newsflow risk for China Internet is potentially lower from here

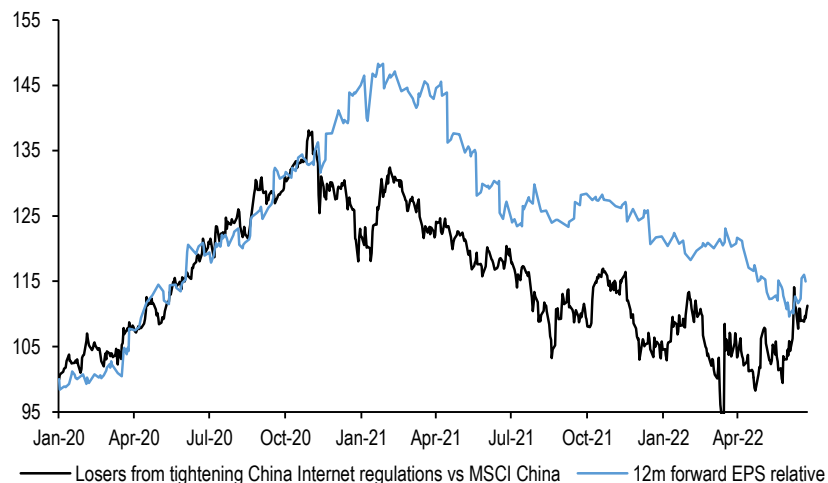
- Some of the key stocks in MSCI China, Alibaba and Tencent, are down ~50-70% from highs due to increased regulatory uncertainty, with their earnings projections also under pressure.
- We note an already significant derating of the affected stocks. The stock price reactions might become less negative 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	12.2%	-56.1%
ALIBABA GROUP HOLDING	9.4%	-68.8%
MEITUAN	4.4%	-58.3%
JD.COM	2.8%	-41.9%
PINDUODUO	1.5%	-73.0%

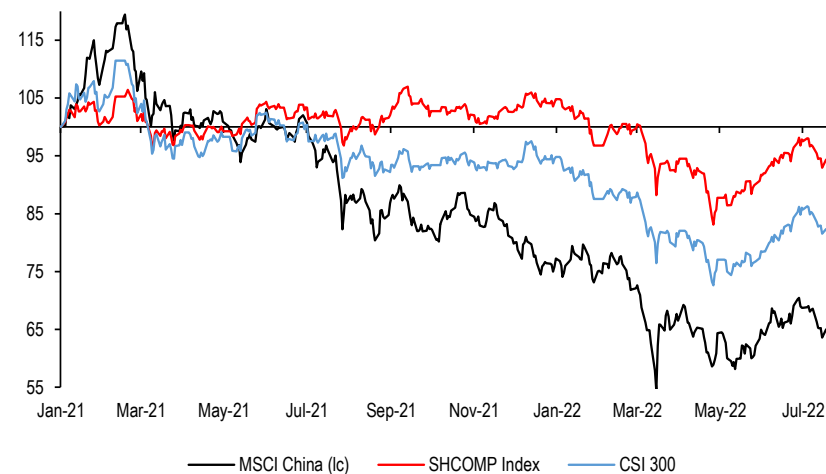
Source: Datastream, J.P. Morgan

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

J.P.Morgan

China heat map

Chinese data watch

	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Manufacturing PMI													
Caixan	51.3	50.3	49.2	50.0	50.6	49.9	50.9	49.1	50.4	48.1	46.0	48.1	51.7
NBS	50.9	50.4	50.1	49.6	49.2	50.1	50.3	50.1	50.2	49.5	47.4	49.6	50.2
Services PMI													
Caixan	50.3	54.9	46.7	53.4	53.8	52.1	53.1	51.4	50.2	42.0	36.2	41.4	54.5
NBS	53.5	53.3	47.5	53.2	52.4	52.3	52.7	51.1	51.6	48.4	41.9	47.8	54.7
Composite PMI - Caixan													
	50.6	53.1	47.2	51.4	51.5	51.2	53.0	50.1	50.1	43.9	37.2	42.2	55.3
Industry													
Electricity Production, %oya	7.4%	9.6%	0.2%	4.9%	3.0%	0.2%	-2.1%	-	-	0.2%	-4.3%	-3.3%	1.5%
IP, %oya	8.3%	6.4%	5.3%	3.1%	3.5%	3.8%	4.3%	-	-	5.0%	-2.9%	0.7%	3.9%
FAI, %oya	12.6%	10.3%	8.9%	7.3%	6.1%	5.2%	4.9%	-	12.2%	9.3%	6.8%	6.2%	6.1%
Consumer Activity													
Retail Sales, %oya	12.1%	8.5%	2.5%	4.4%	4.9%	3.9%	1.7%	-	-	-3.5%	-11.1%	-6.7%	3.1%
Passenger Car Sales, %yoy	-11.0%	-6.8%	-11.5%	-16.2%	-4.9%	-4.6%	2.0%	6.9%	28.7%	-0.5%	-43.4%	-1.4%	41.6%
70-city house price index, %oya	4.3%	4.1%	3.7%	3.3%	2.8%	2.4%	2.0%	1.7%	1.2%	0.7%	-0.1%	-0.8%	-1.3%
Liquidity & Monetary Conditions													
M2, %oya	8.6%	8.3%	8.2%	8.3%	8.7%	8.5%	9.0%	9.8%	9.2%	9.7%	10.5%	11.1%	11.4%
FX Reserves (bln yuan)	3214	3236	3232	3201	3218	3222	3250	3222	3214	3188	3120	3128	3071
New Loan Creation (bln yuan)	2120	1083	1215	1663	826	1273	1132	3980	1234	3125	645	1884	2806

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

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

- China: Large stimulus measures are being 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) June activity data confirmed further normalization, as China eases mobility curbs; (3) Positive optionality from potential progress in US-China relationship over trade; (4) 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 looks cheap, especially taking into consideration higher 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 at below the 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 could be a game changer that introduces exposure to the "New Economy" in the Indonesia market, largely dominated by "Old Economy" exposure in the past decades; (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 \$104/bbl over the course of 2022; (2) USD-pegged currency offering shelter relative to strong USD; (3) Consensus earnings upgrades around the corner and strong local investor support; (4) low foreign investor positioning.
- Chile: We upgraded Chile to Overweight from Neutral in our EM equity model portfolio as: (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 (4) 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	35%	OW	-16.8%	-18.0%
TAIWAN (CHINA)	14%	N	-19.1%	-25.2%
INDIA	13%	UW	-4.3%	-10.9%
KOREA	11%	N	-19.3%	-27.0%
BRAZIL	5%	OW	-7.9%	-5.8%
SAUDI ARABIA	4%	OW	5.9%	5.8%
SOUTH AFRICA	4%	UW	-3.6%	-8.5%
MEXICO	2%	N	-11.2%	-11.4%
INDONESIA	2%	OW	3.4%	-1.8%
THAILAND	2%	N	-2.1%	-10.9%
MALAYSIA	1%	UW	-6.3%	-12.3%
PHILIPPINES	1%	N	-10.6%	-19.0%
POLAND	1%	N	-26.6%	-36.2%
CHILE	1%	OW	26.4%	16.4%
TURKEY	0%	N	25.7%	-6.0%
MSCI EM			-15.0%	-19.6%

Source: Datastream, J.P. Morgan

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

	EPS growth	
	22e	23e
CHINA	11%	15%
TAIWAN (CHINA)	9%	-3%
INDIA	16%	15%
KOREA	-2%	7%
BRAZIL	14%	-9%
SAUDI ARABIA	22%	8%
SOUTH AFRICA	8%	21%
MEXICO	15%	5%
INDONESIA	28%	6%
THAILAND	19%	13%
MALAYSIA	-7%	13%
PHILIPPINES	15%	21%
POLAND	-10%	-2%
CHILE	29%	17%
TURKEY	92%	-8%
MSCI EM	10%	8%

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	35%	-17%	-18%	11.1	11.2	0%	1.4	1.6	-16%	11%	15%
TAIWAN (CHINA)	14%	-19%	-25%	10.3	13.9	-26%	2.2	1.9	17%	9%	-3%
INDIA	13%	-4%	-11%	19.5	17.7	11%	3.5	3.0	16%	16%	15%
KOREA	11%	-19%	-27%	8.3	9.7	-15%	1.0	1.1	-7%	-2%	7%
BRAZIL	5%	-8%	-6%	5.7	10.9	-48%	1.5	1.6	-5%	14%	-9%
SAUDI ARABIA	4%	6%	6%	15.0	18.6	-19%	2.5	1.9	34%	22%	8%
SOUTH AFRICA	4%	-4%	-9%	8.4	13.6	-39%	1.8	2.3	-22%	8%	21%
MEXICO	2%	-11%	-11%	12.0	16.4	-27%	1.8	2.6	-29%	15%	5%
THAILAND	2%	-2%	-11%	16.7	14.3	17%	2.0	2.1	-3%	19%	13%
INDONESIA	2%	3%	-2%	13.2	14.8	-11%	2.4	2.9	-17%	28%	6%
MALAYSIA	1%	-6%	-12%	13.1	15.5	-15%	1.5	1.7	-13%	-7%	13%
PHILIPPINES	1%	-11%	-19%	15.0	17.5	-14%	1.7	2.6	-34%	15%	21%
POLAND	1%	-27%	-36%	7.3	11.9	-39%	1.0	1.3	-26%	-10%	-2%
CHILE	1%	26%	16%	8.0	15.1	-47%	1.6	1.7	-7%	29%	17%
TURKEY	0%	26%	-6%	3.6	8.0	-55%	1.5	1.3	14%	92%	-8%

Source: IBES, Datastream

EM Sector snapshot

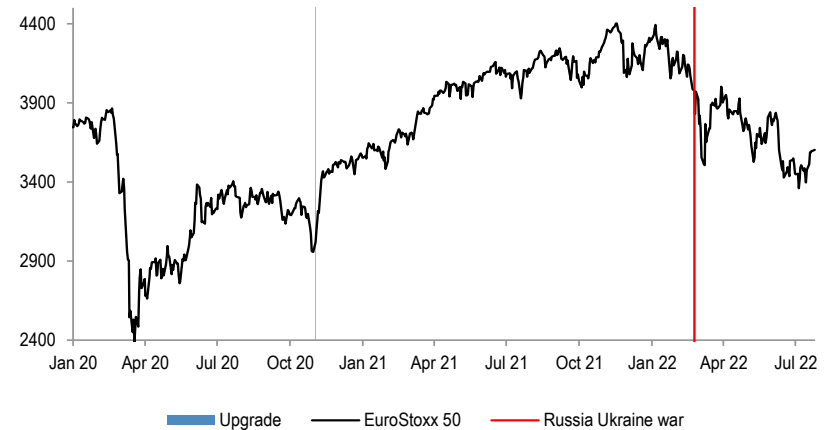
	YTD Perf, %		Weight in Index		12m Fwd P/E		EPS growth, %	
	YTD Total return, %		EM	vs MSCI World	Current	vs Median since '03	2022e	2023e
EM	-19.6%	-18.0%	100%	0%	11.0	-3%	10%	8%
Energy	-30.9%	-26.9%	5%	0%	6.6	-17%	48%	-10%
Materials	-22.3%	-20.0%	8%	4%	7.6	-27%	-9%	-3%
Industrials	-13.5%	-11.5%	6%	-4%	8.8	-30%	28%	-13%
Discretionary	-15.0%	-14.4%	15%	4%	18.9	54%	30%	32%
Staples	-12.1%	-11.2%	6%	-2%	21.0	7%	4%	16%
Healthcare	-19.6%	-19.1%	4%	-10%	30.2	53%	2%	25%
Financials	-11.8%	-9.2%	21%	8%	7.7	-16%	10%	11%
IT	-28.3%	-27.0%	19%	-2%	11.6	-11%	16%	6%
Telecoms	-23.2%	-22.6%	11%	3%	19.9	51%	-23%	21%
Utilities	-5.5%	-3.8%	3%	0%	14.8	32%	-18%	57%
Real Estate	-20.7%	-18.8%	2%	-1%	7.4	7%	8%	10%
Cyclicals	-22.2%	-20.8%	48%	2%	11.4	-6%	12%	4%
Defensives	-18.0%	-17.1%	24%	-9%	20.8	39%	-13%	26%

Source: IBES, Datastream

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

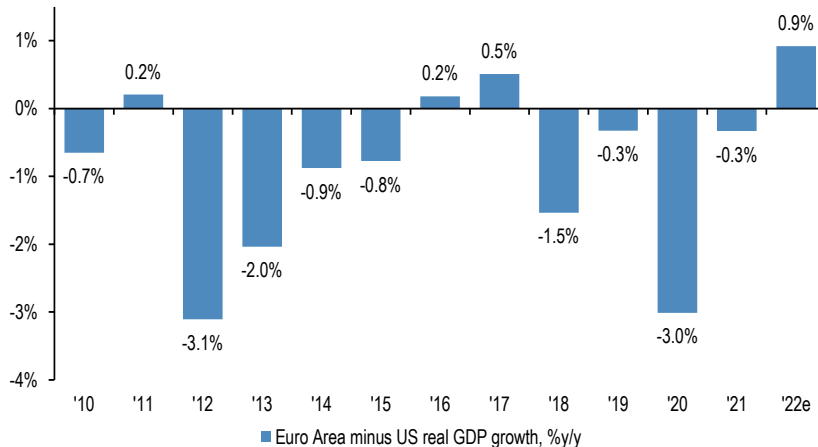
- Eurozone was among the best performing regions in 2021. We upgraded Eurozone in late 2020 and maintained an OW rating on the region through 2021. The current geopolitical uncertainty is very negative for the region, but its market impact is unlikely to last for very long.
- Eurozone has seen significant 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.

EuroStoxx50 performance



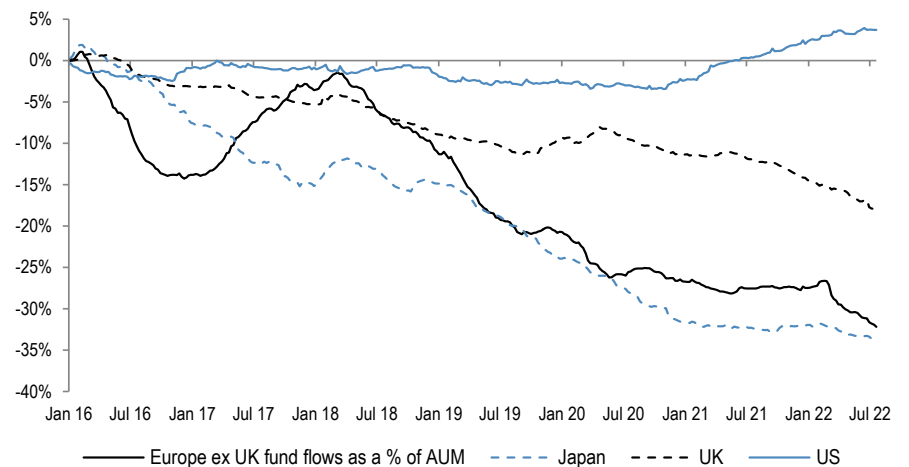
Source: Datastream

Euro Area minus US GDP projections



Source: J.P. Morgan

Cumulative fund flows into regional funds



Source: EPFR

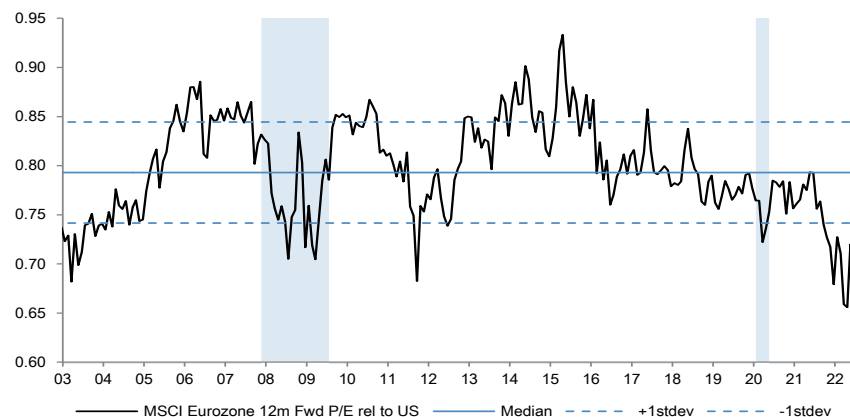
...Eurozone valuations relative to the US appear attractive

MSCI Eurozone median P/E



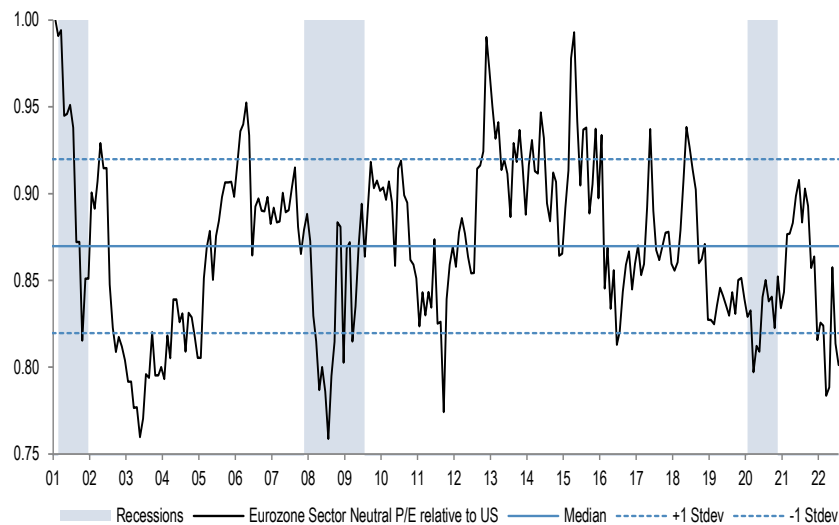
Source: IBES

MSCI Eurozone 12m Fwd PE relative to US



Source: IBES

MSCI Eurozone sector neutral P/E vs US



Source: IBES

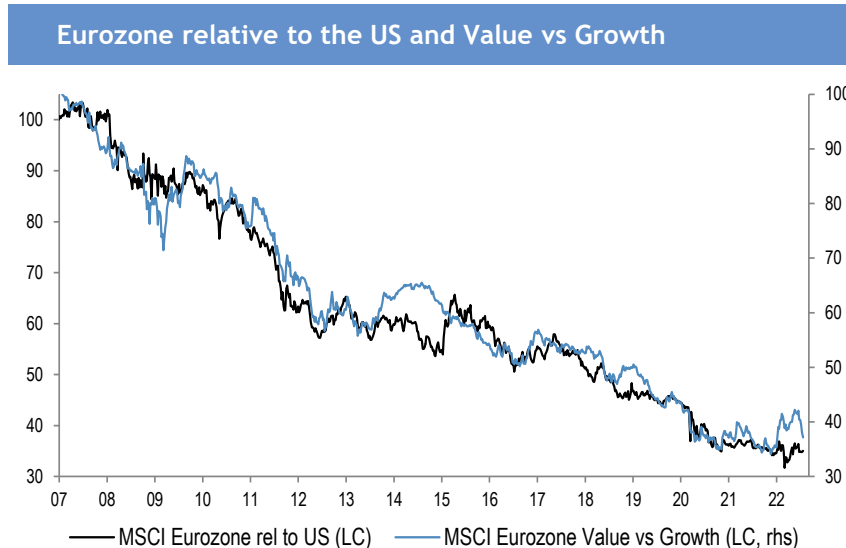
MSCI Eurozone vs US P/Book



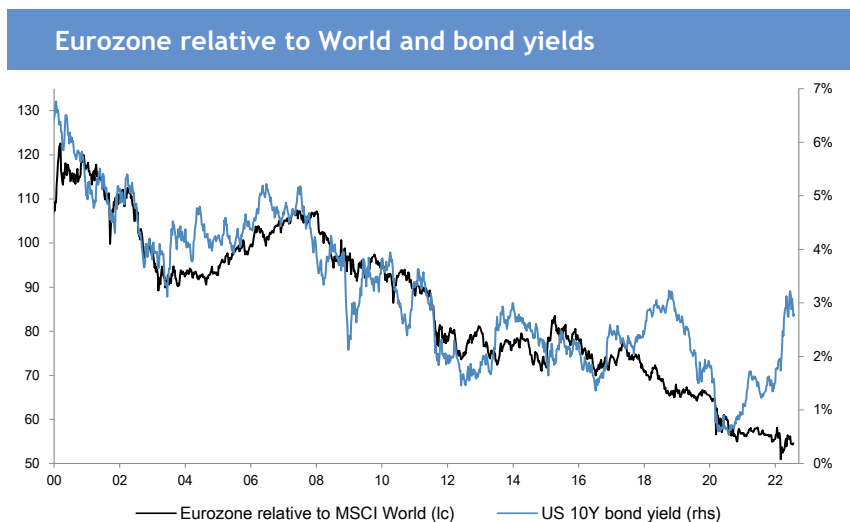
Source: Datastream

Eurozone relative performance is dependent on the direction of bond yields, and will likely do better in a reflationary backdrop

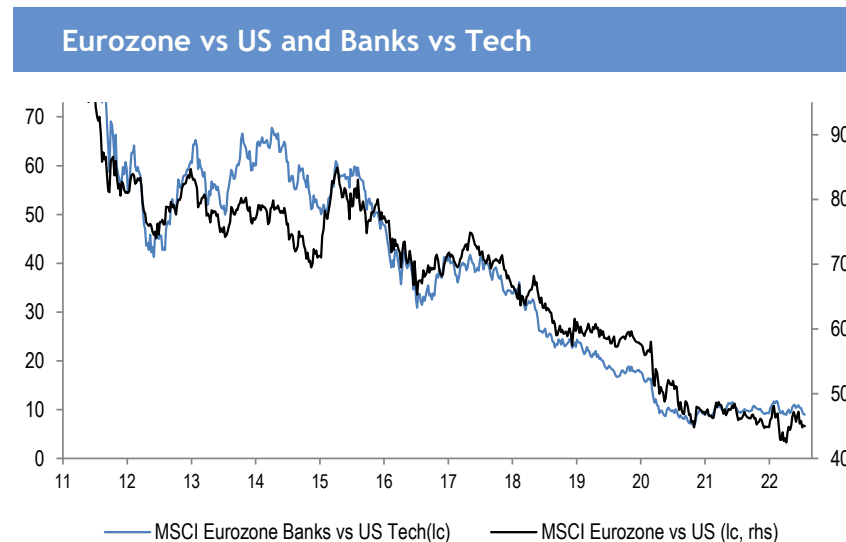
- An important consideration for our regional preferences is the direction of bond yields. Eurozone equities are strongly correlated to bond yields, and are a good regional hedge in the case of potentially rising yields. The US, on the other hand, is more weighted towards Growth/Quality stocks, which could come 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.



Source: Datastream



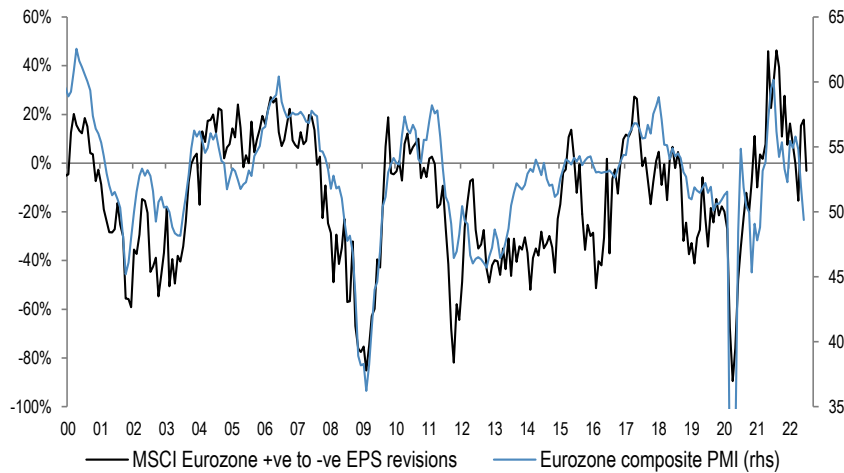
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Source: Datastream

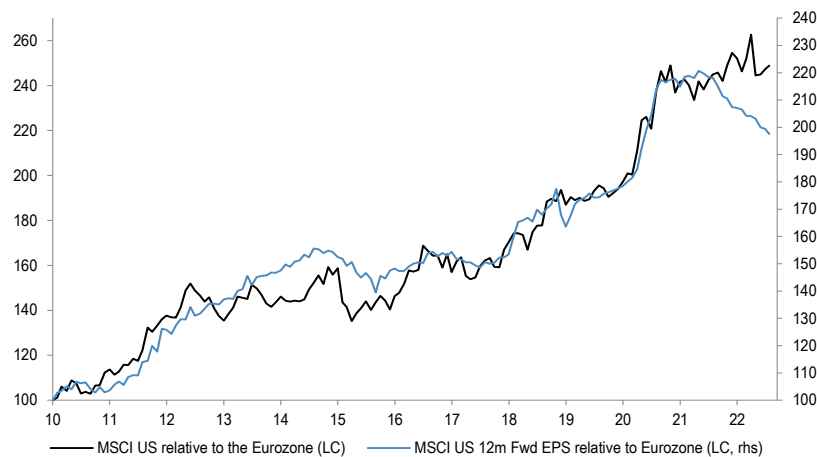
Even with the geopolitical shock, Eurozone is still likely to grow, which should support higher earnings

European +ve to -ve EPS revisions and composite PMI



Source: IBES, Markit

US EPS relative to Eurozone and relative performance



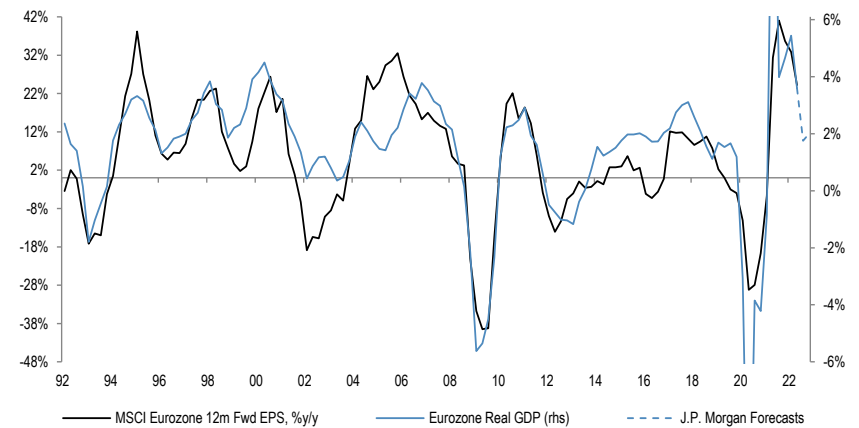
Source: Datastream

Regional consensus EPS growth expectations

	2022e	2023e
MSCI World	11.5%	6.9%
S&P 500	10.7%	8.5%
Stoxx 600	15.9%	3.6%
Euro Stoxx	13.1%	5.2%
FTSE 100	19.5%	-0.4%

Source: IBES

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...

- 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.

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

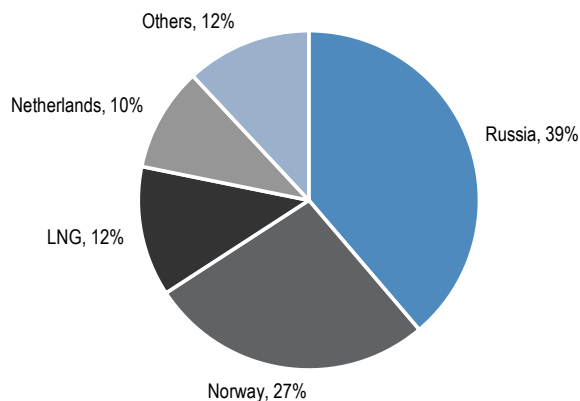
Name	Ticker	Sector	Revenue exposure to Russia + Ukraine
SYLVAMO	SLVM US	Materials	16.6%
KINROSS GOLD	KGC US	Materials	14.0%
ARCONIC	ARNC US	Materials	9.4%
PHILIP MORRIS INTERNATIONAL	PM US	Staples	8.0%
PEPSICO	PEP US	Staples	4.4%
MOHAWK INDUSTRIES	MHK US	Discretionary	4.3%
MCDONALD'S	MCD US	Discretionary	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](#)

...commodity dependence is key, and recent gas prices newsflow is challenging... still, we don't expect outright gas rationing

- 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)

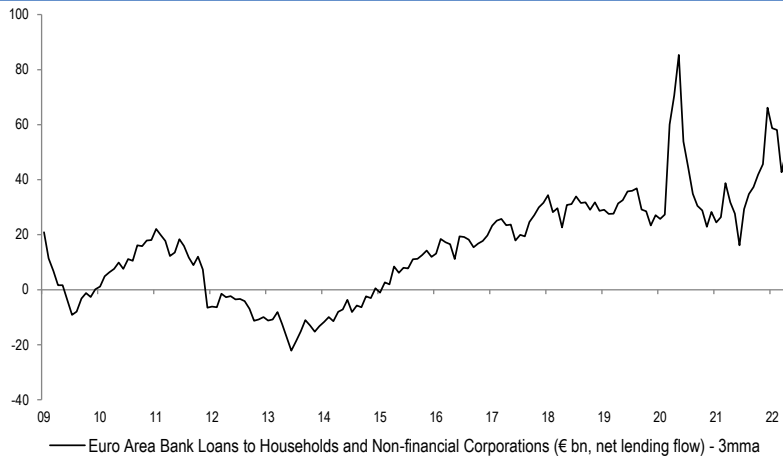
Russia's share in global commodity production (in percent)

	2020
Oil	12.1
Natural Gas	16.6
Coal	5.2
Copper	4.3
Aluminium	6.1
Nickel	6.1
Zinc	1.5
Gold	9.5
Silver	5.4
Platinum	14.1
Palladium	43.9
Wheat	11

Source: J.P. Morgan Commodities Research

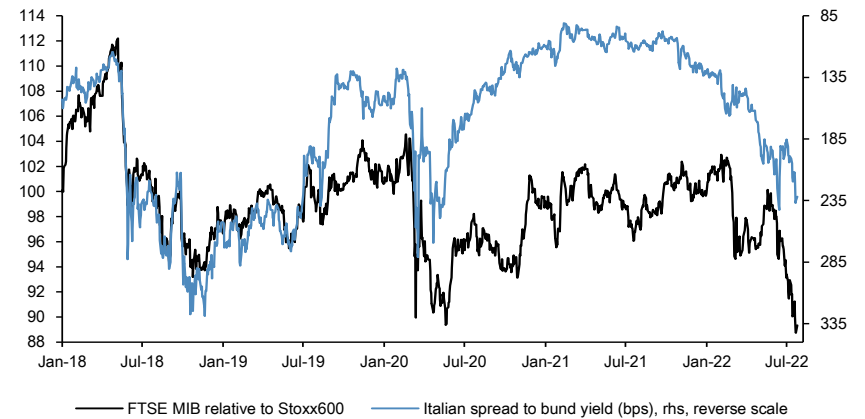
Peripheral spreads have widened, but there will be a backstop by ECB in case of further widening...

Eurozone bank loans to HH and nonfinancial corporates



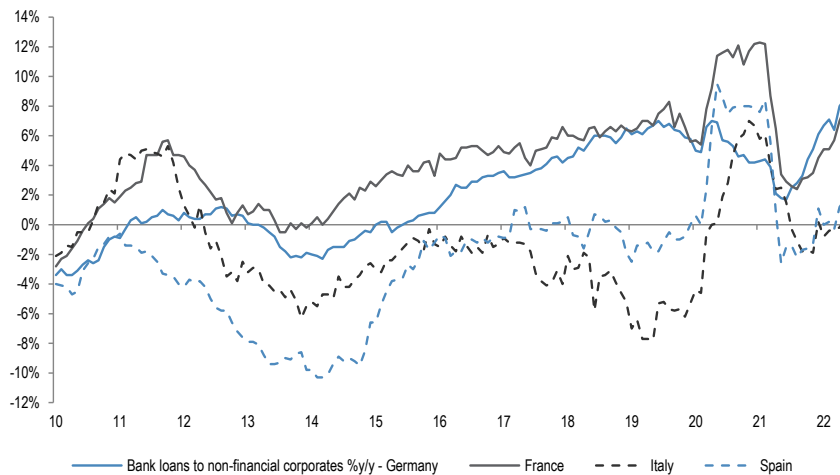
Source: ECB, J.P. Morgan

FTSEMIB relative and Italian 10Y spread to bunds



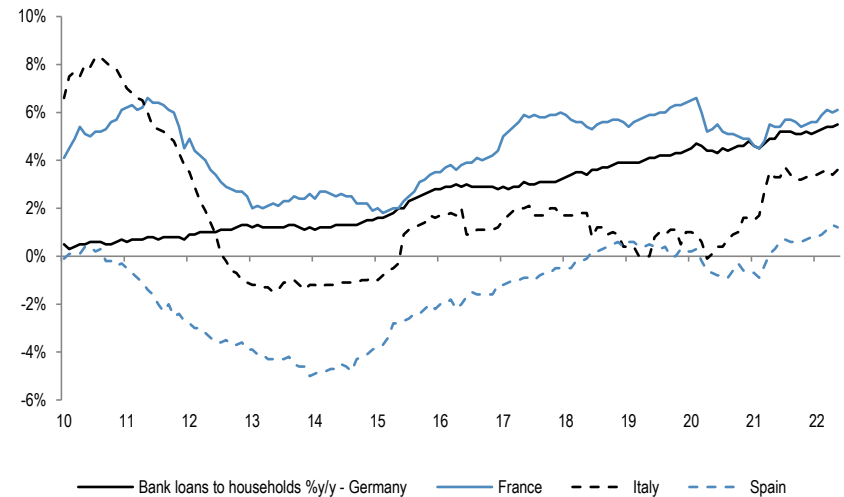
Source: Datastream

Euro area banks loans* to nonfinancial corporates



Source: ECB, *adjusted for securitisation

Euro area bank loans* to households



Source: ECB, *adjusted for securitisation

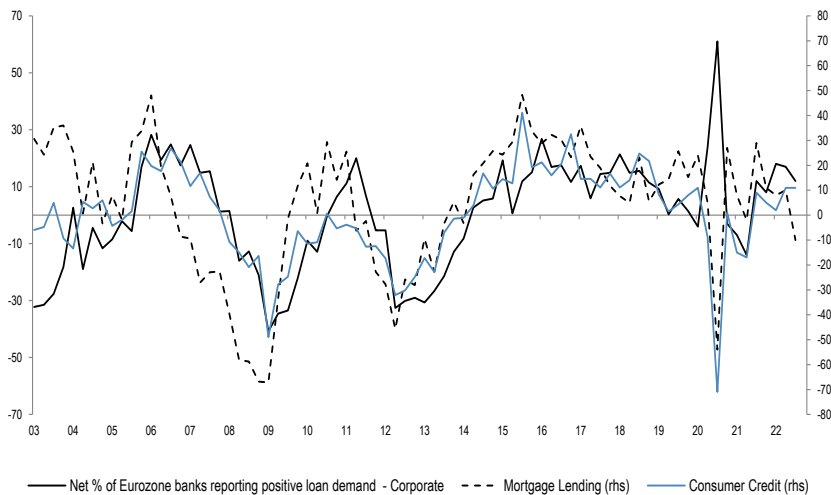
...loan demand is still positive for both corporates and consumers...

Eurozone private loan growth breakdown

May-22	Loan growth %yoy (€ bn)					
	Total private sector	Non-financial corporates	Households	Consumer credit	Lending for house purchase	Other lending
Euro area	5.7%	5.9%	4.6%	3.5%	5.3%	-0.2%
Belgium	7.1%	7.0%	8.0%	-0.6%	8.7%	5.1%
Germany	7.2%	8.5%	5.5%	2.4%	7.0%	0.5%
France	8.9%	7.9%	6.1%	4.5%	6.0%	1.9%
Netherlands	3.6%	0.2%	1.8%	-9.9%	4.5%	-13.8%
Ireland	10.3%	26.3%	-1.0%	2.8%	-6.6%	-9.9%
Greece	4.2%	8.2%	-1.6%	-6.7%	-16.6%	-11.3%
Spain	1.2%	1.7%	1.2%	5.0%	1.2%	-1.4%
Austria	6.9%	7.4%	6.6%	6.2%	7.9%	1.3%
Portugal	3.6%	3.0%	4.3%	5.0%	4.9%	0.0%
Finland	4.1%	4.3%	3.1%	3.3%	3.1%	2.9%
Italy	2.2%	0.4%	3.6%	3.9%	4.9%	-0.2%
Core	7.3%	6.9%	5.5%	3.3%	6.4%	0.7%
Periphery	2.4%	2.5%	2.2%	3.7%	1.6%	-1.1%

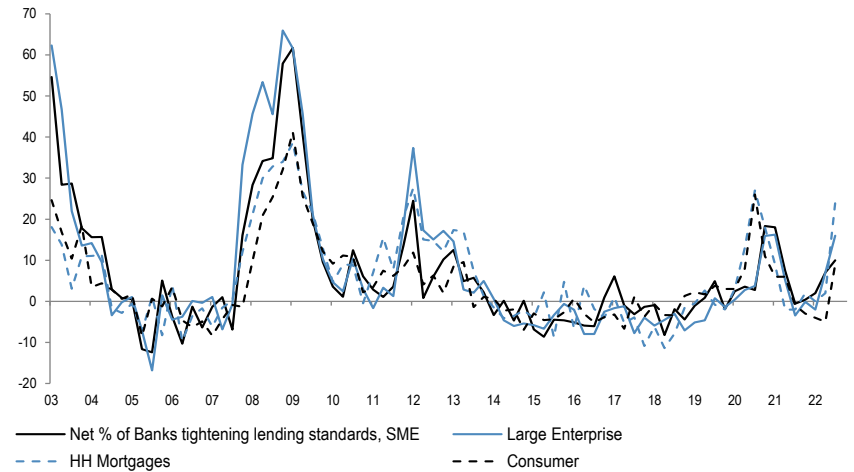
Source: ECB

Net % of Eurozone banks reporting positive loan demand



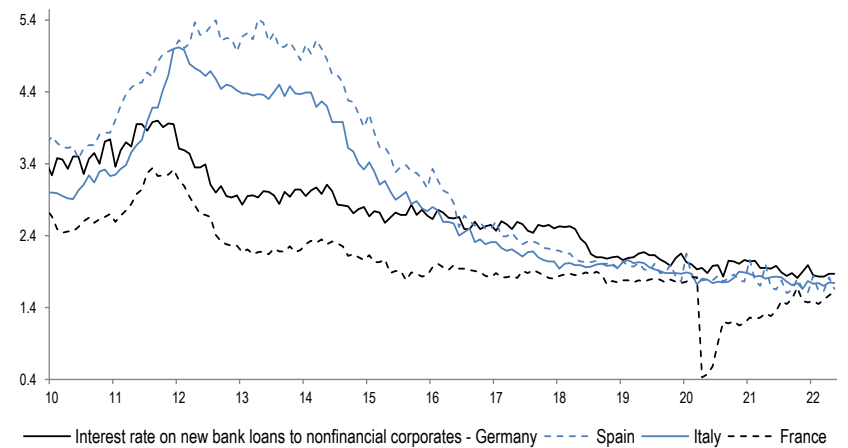
Source: ECB

Net % of Eurozone banks tightening lending standards



Source: ECB

Interest rate on new bank loans to nonfinancial corporates*



Source: ECB, J.P. Morgan, * Rates on Loans under €1 million and at variable rate

...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

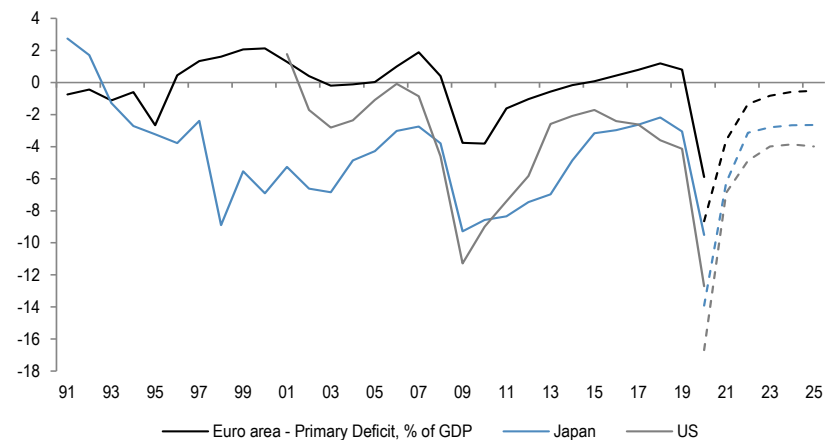
Source: IMF FISCAL MONITOR - October 2021

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

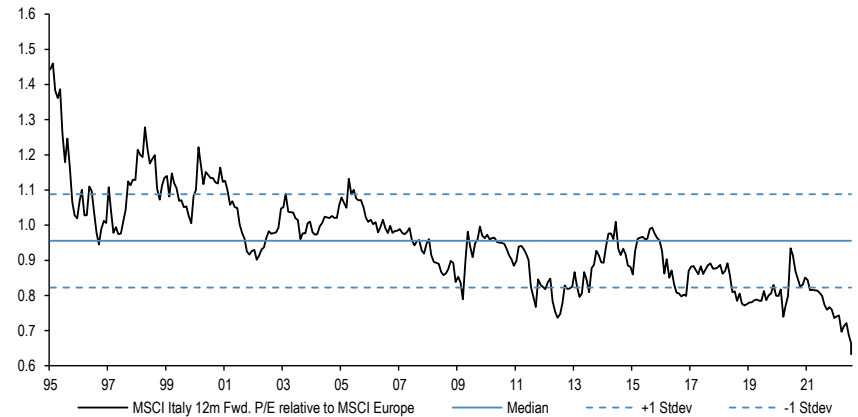


Source: IMF FISCAL MONITOR - October 2021
dotted lines show IMF forecasts

Periphery has underperformed and should do better if Banks outperform, once the geopolitical uncertainty clears...

- 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



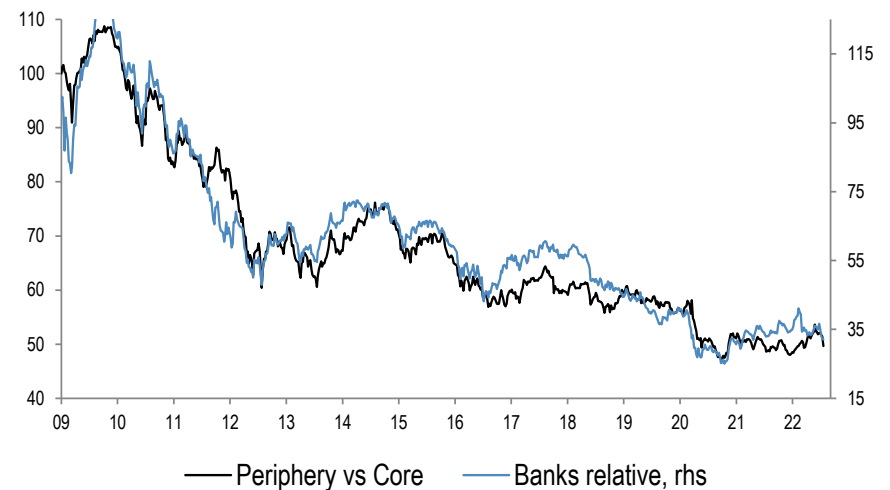
Source: IBES

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

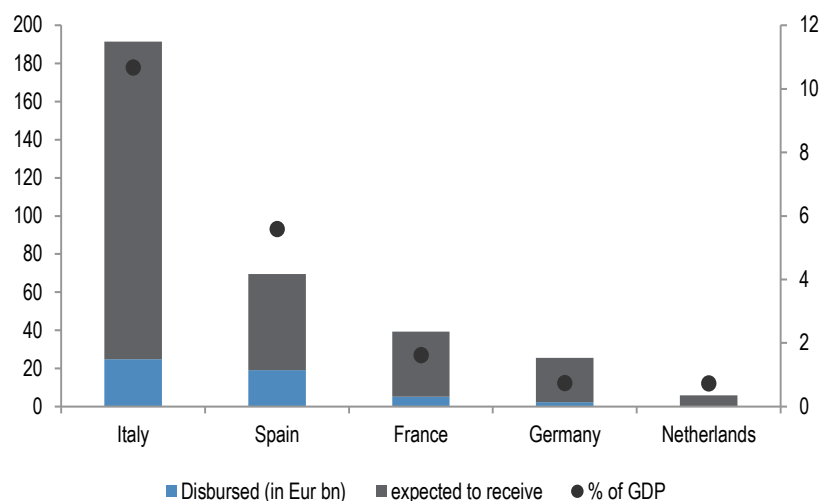
- Peripheral countries are the biggest beneficiaries of the EU recovery fund, in terms of stimulus as a share of GDP. In absolute terms, Italy is receiving the lion's share of the recovery fund, in terms of the value of both loans and grants announced so far.
- Italy and Spain are set to receive more 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

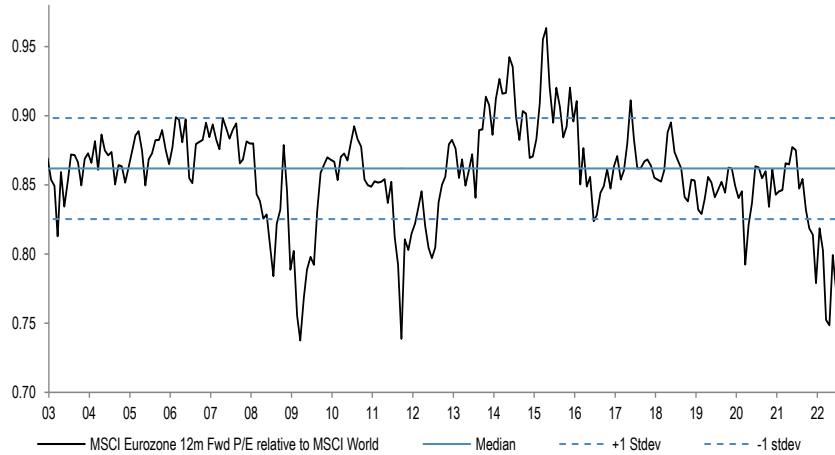
EU Recovery fund Grants breakdown by country



Source: J.P. Morgan; *includes grants under minor EU facilities

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

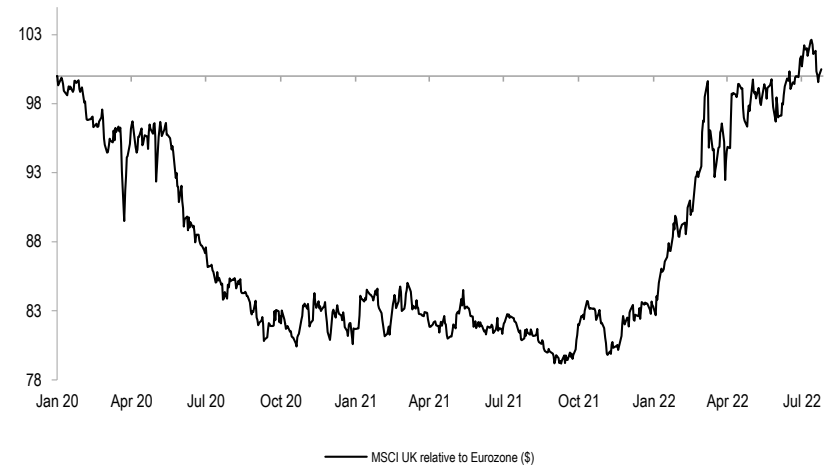
	YTD Performance, %	YTD Total Return, %	Weight in Index		12m Fwd P/E		EPS growth, %	
			Eurozone	vs MSCI World	Current	vs Median since '03	2022e	2023e
Eurozone	-16.8%	-14.6%	100%	0%	11.7	-3%	14%	5%
Energy	6.9%	10.9%	5%	0%	4.2	-56%	86%	-16%
Materials	-20.9%	-18.4%	7%	2%	8.9	-27%	-5%	-13%
Industrials	-18.8%	-17.1%	15%	5%	12.8	-3%	18%	16%
Discretionary	-20.1%	-18.0%	16%	5%	9.9	-19%	11%	8%
Staples	-10.0%	-8.5%	9%	1%	16.5	11%	8%	11%
Healthcare	-7.7%	-5.5%	8%	-6%	11.9	-17%	7%	8%
Financials	-19.7%	-15.8%	15%	1%	6.3	-36%	2%	10%
IT	-25.1%	-24.4%	12%	-9%	18.1	4%	9%	16%
Telecoms	-0.7%	1.6%	5%	-2%	13.2	14%	30%	10%
Utilities	-13.9%	-10.7%	7%	3%	10.6	-7%	9%	2%
Real Estate	-28.9%	-25.7%	1%	-2%	11.1	-28%	13%	2%
Cyclicals	-21.2%	-19.5%	38%	13%	12.0	-9%	9%	7%
Defensives	-8.8%	-6.6%	29%	-4%	12.8	-2%	11%	7%

Source: IBES, Datastream

3) OW UK – we upgraded to OW in November, taking advantage of FTSE100 having lagged global peers for six years

- 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 UK to Neutral.
- In November we have taken a step further, and raised UK to an OW in a European, and in a Global portfolio.

UK relative to Eurozone since Jan '20, common FX



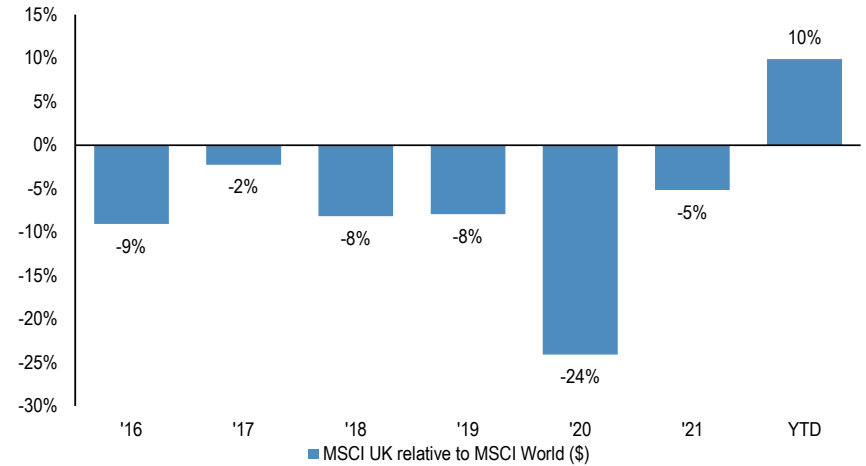
Source: Datastream

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 appears attractively valued

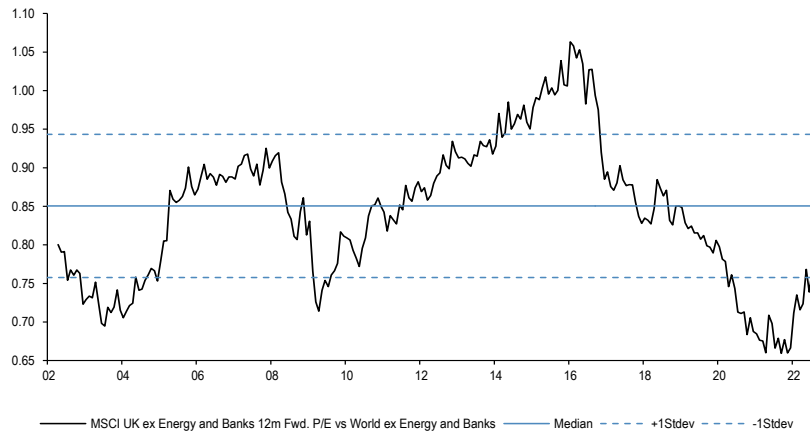
- The UK has de-rated strongly since the 2016 Brexit vote, and is trading near the lowest forward P/E level vs global peers in the last three decades. The UK appears extremely cheap even if one were to exclude Banks and Energy from the calculation, or adjust for sector bias.

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



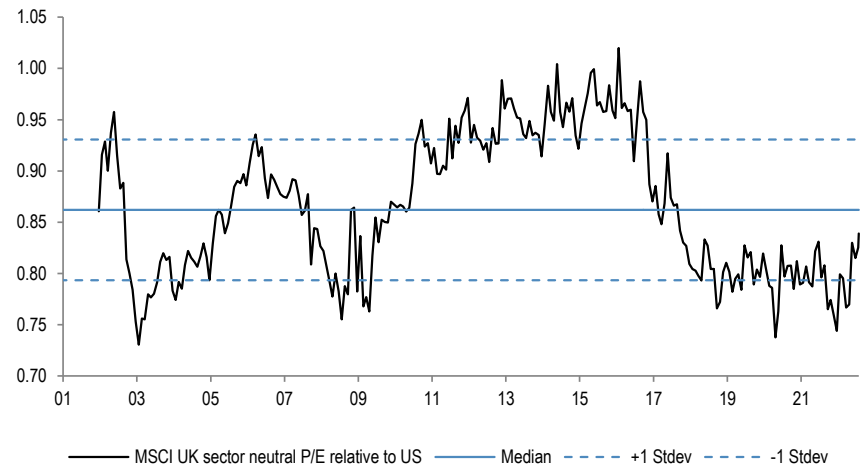
Source: Datastream

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



Source: Datastream

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

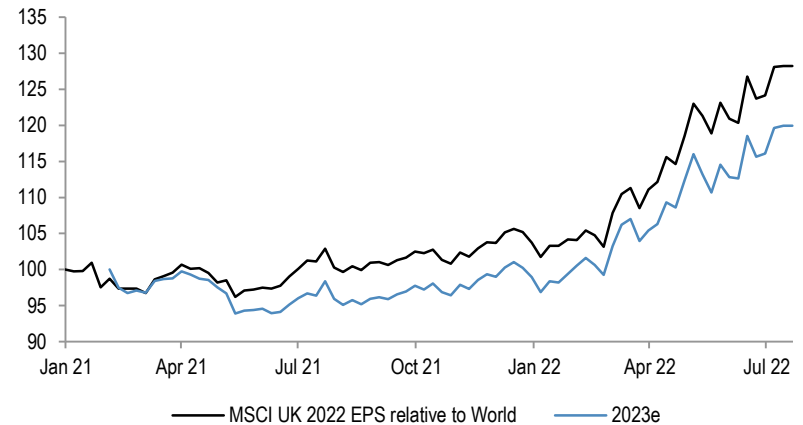


Source: Datastream

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

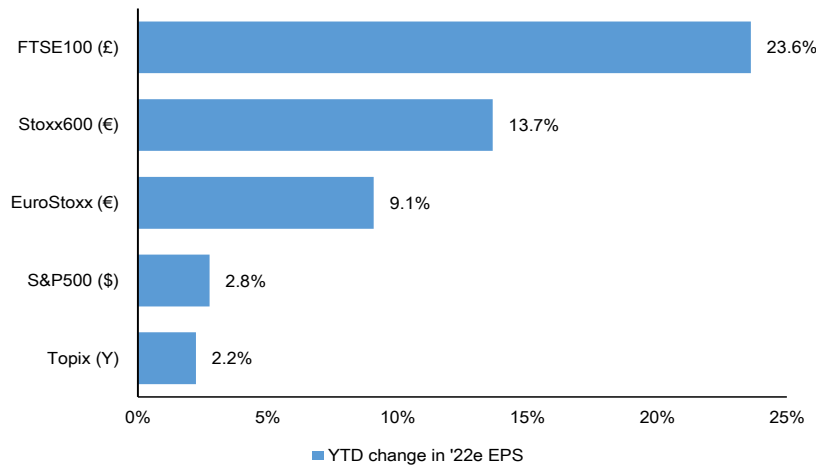
- We also note that earnings for the UK are holding up reasonably well relative to other markets.
- 2022 EPS for UK equities has been revised higher by 24% ytd, the most out of the major indices.
- Even excluding Energy, the UK is seeing the most upgrades to earnings this year.

MSCI UK 2022e EPS relative to World



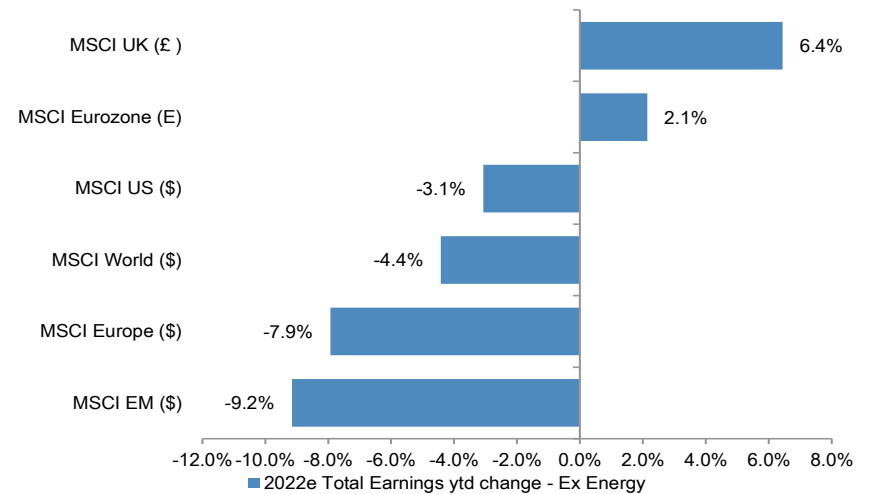
Source: IBES

YTD change in 2022e EPS



Source: IBES

YTD change in 2022e EPS - for ex Energy

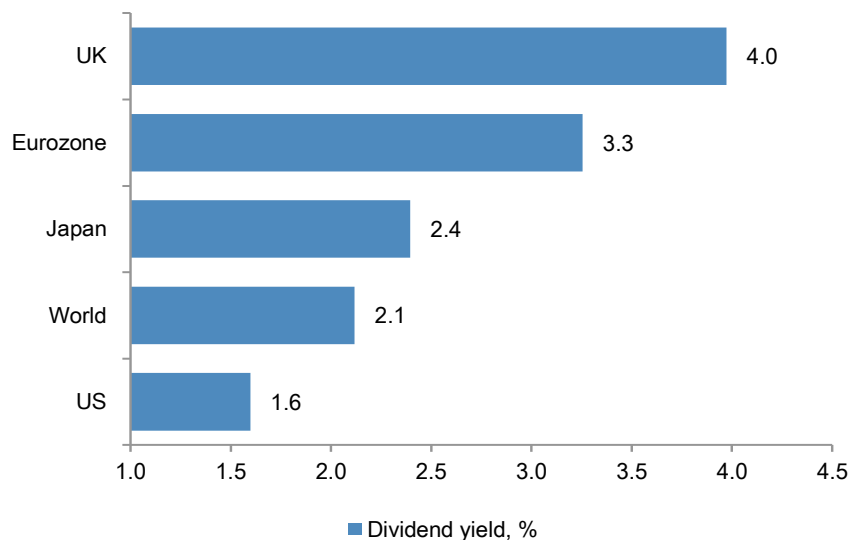


Source: Bloomberg Finance L.P.

...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.
- In terms of dividend yield–bond yield gap, the UK scores very well, compared to other key regions.

Dividend yield for key regional markets



Source: Bloomberg Finance L.P.

Dividend yield minus bond yield for key DM regions

	Dividend yield	10Y Bond yield	Dividend yield minus bond yield	Average since '00	Current vs Average (bp)
US	1.6%	2.8%	-1.2%	-1.3%	9
Japan	2.4%	0.1%	2.3%	0.8%	145
Eurozone	3.3%	2.2%	1.1%	0.4%	64
UK	4.0%	1.9%	2.0%	0.6%	142

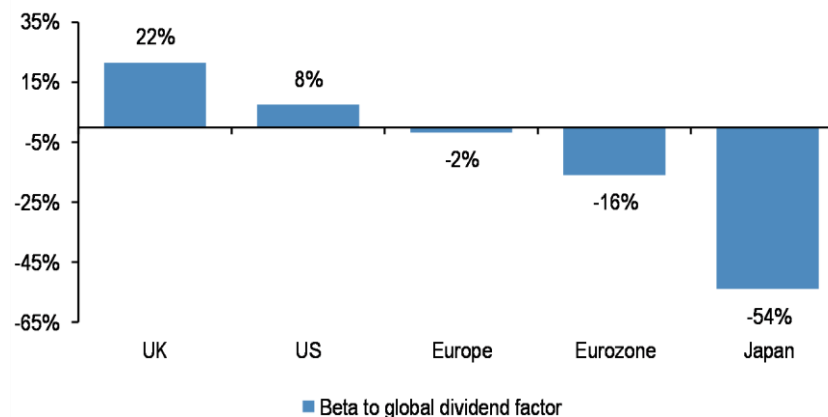
Source: Datastream

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

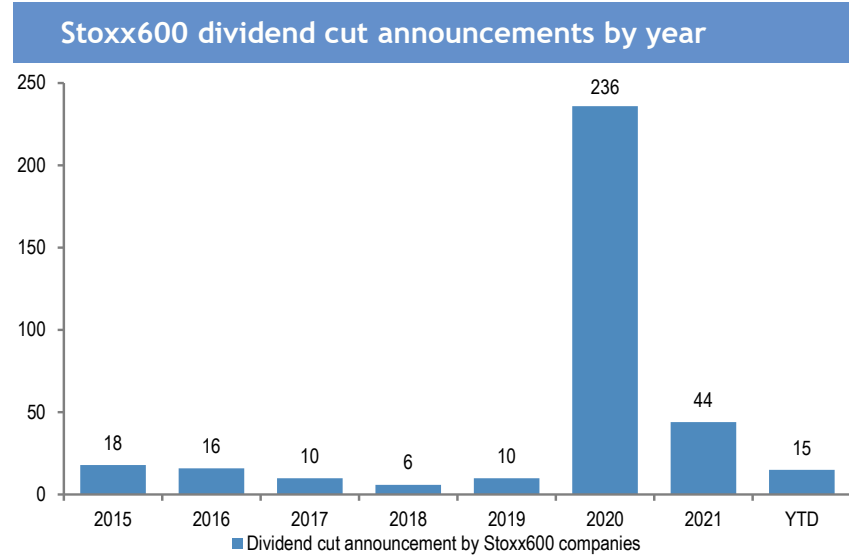
Beta to dividend factor



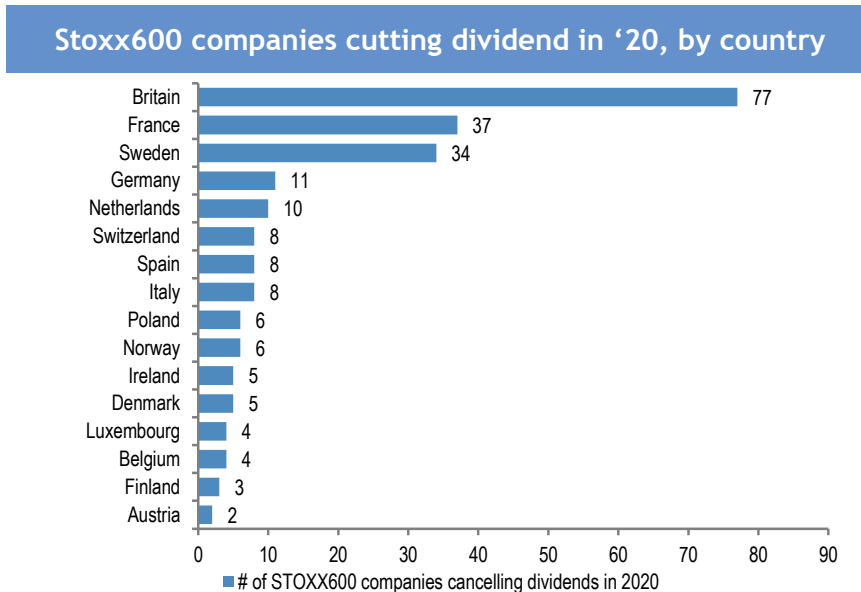
Source: Bloomberg Finance L.P.

...UK suffered disproportionately from dividend cuts in 2020

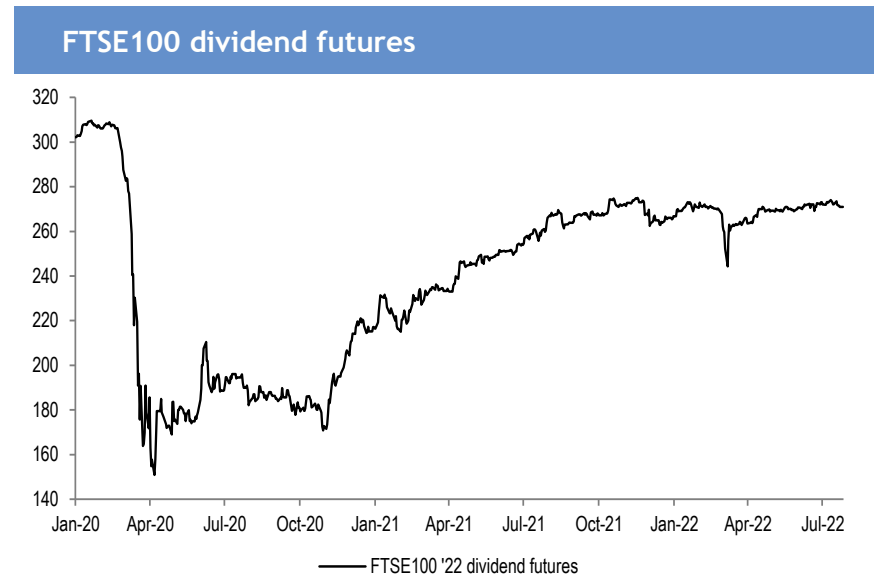
- The UK had suffered disproportionately vs other regions in 2020, enduring significant dividend cancellations. Dividend futures have been stabilising, and importantly the balance sheets of corporates behind them are stronger.



Source: Bloomberg Finance L.P.



Source: Bloomberg Finance L.P.

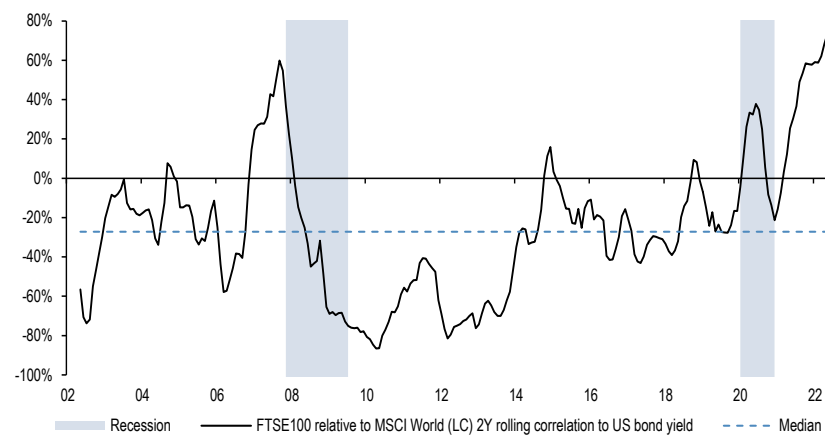


Source: Bloomberg Finance L.P.

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

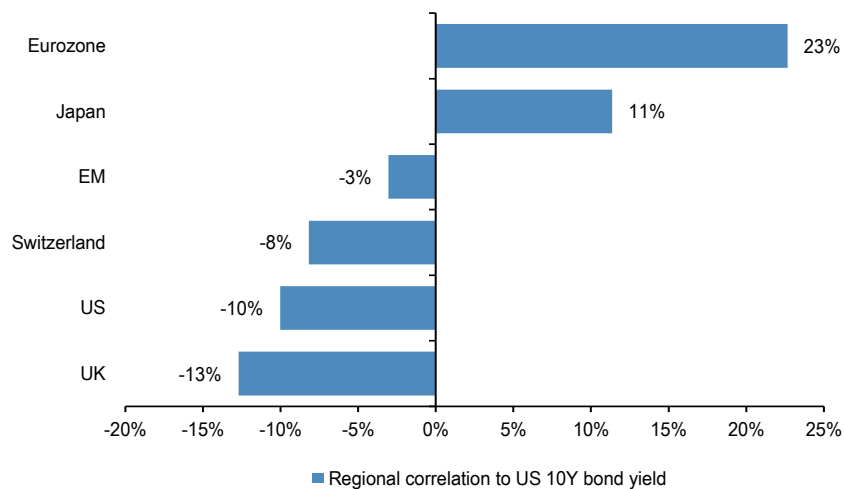
- Historically, UK equities exhibited a clear negative correlation to the bond yields direction.
- We note that this is changing, with UK equities not inversely correlated anymore, if one is considering the last few years only.
- The 2-year rolling correlation between UK relative performance and bond 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



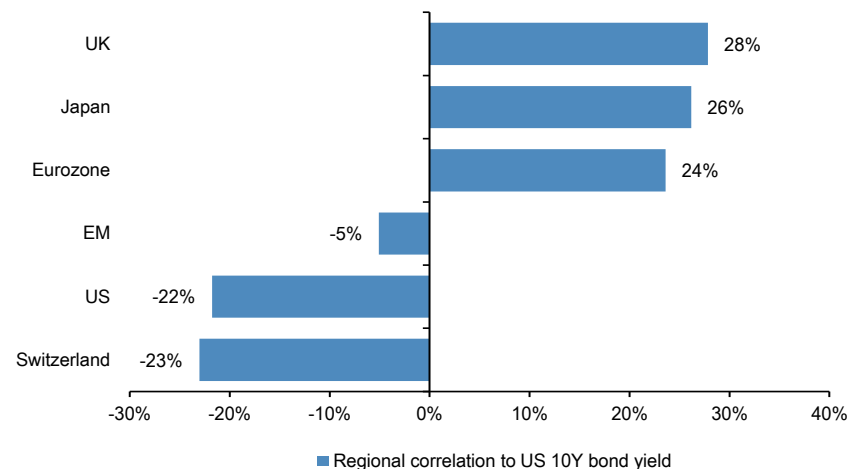
Source: Bloomberg Finance L.P.

Regional correlation to US 10Y bond yield - since 2000



Source: Bloomberg Finance L.P.

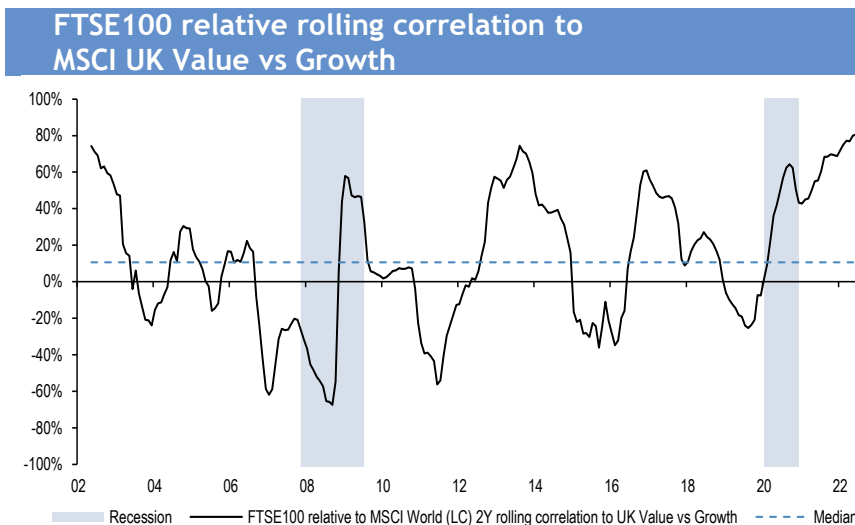
Regional correlation to US 10Y bond yield - since 2018



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.



Source: Bloomberg Finance L.P.

UK performance during Value rallies

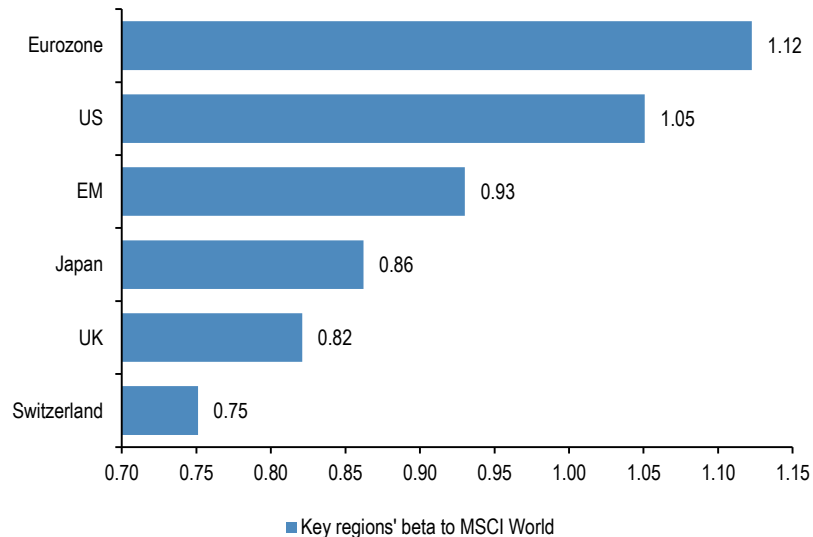
MSCI Europe Value vs Growth			MSCI UK vs Eurozone (1c)
Trough	Peak	% change	
Mar-09	Aug-09	25%	-9%
Apr-13	May-14	10%	-13%
Aug-16	Dec-16	17%	-4%
May-20	Jun-20	10%	-3%
Oct-20	Nov-20	14%	-1%
Average			-6%

Source: Bloomberg Finance L.P.

UK shows a below 1 beta to global equity direction

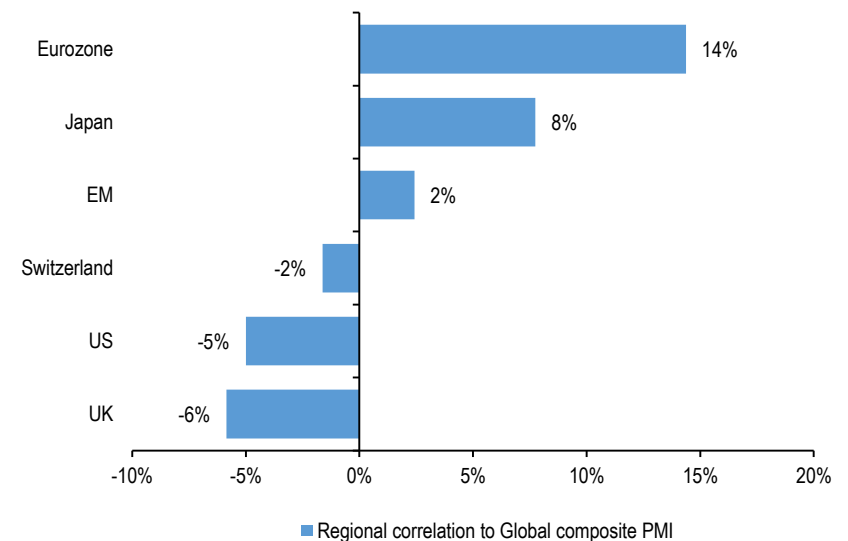
- UK equities still show a beta to global equities direction of less than one. Here, as the markets already doubled since last spring, and especially in the context of the heightened geopolitical uncertainty, the lower than 1 beta might be a positive going forward.
- UK is also less correlated to PMIs.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

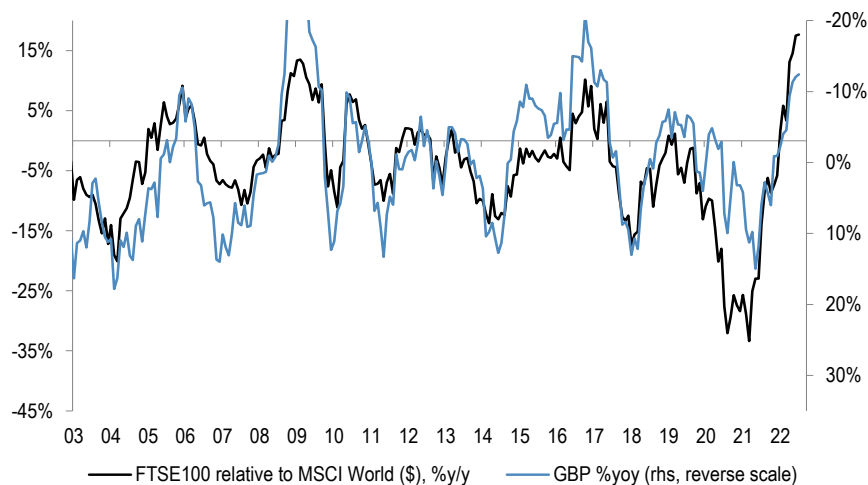


Source: Datastream, Markit

The GBP/UKX inverse correlation is strong

- 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

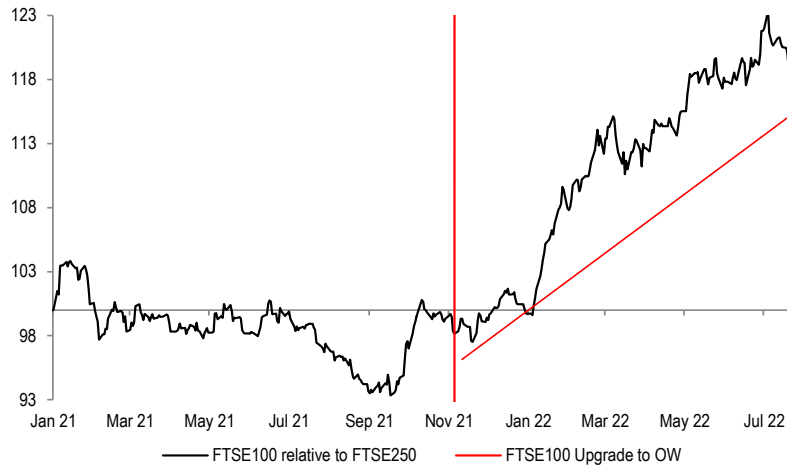
Foreign revenue exposure of FTSE100 and FTSE250

	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.

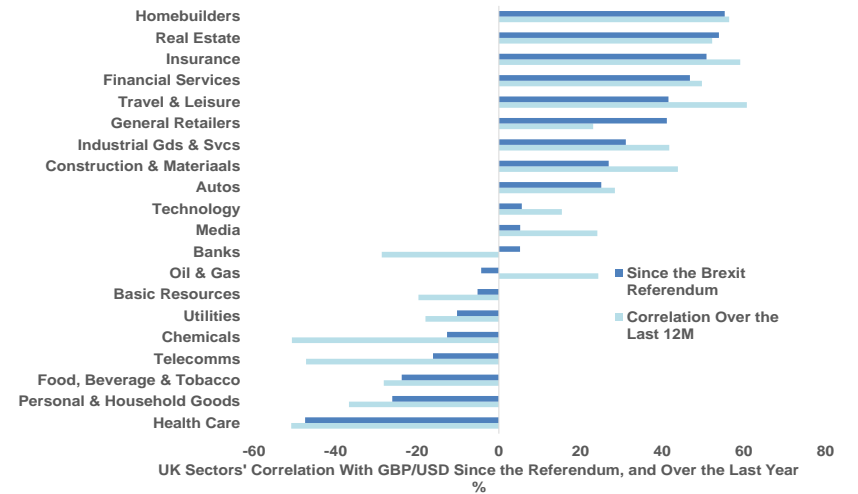
Exporters are likely to do well... we expect FTSE100 to do better going forward, and have reversed our long FTSE250 vs FTSE100 call in November

FTSE100 vs FTSE250



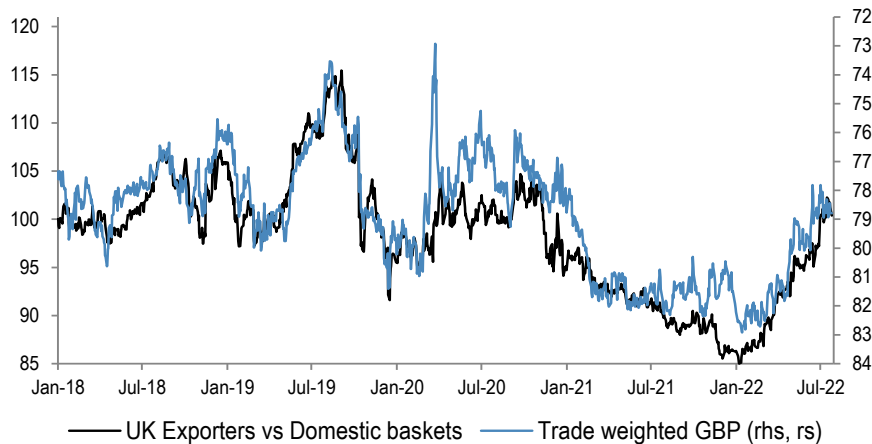
Source: Datastream

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

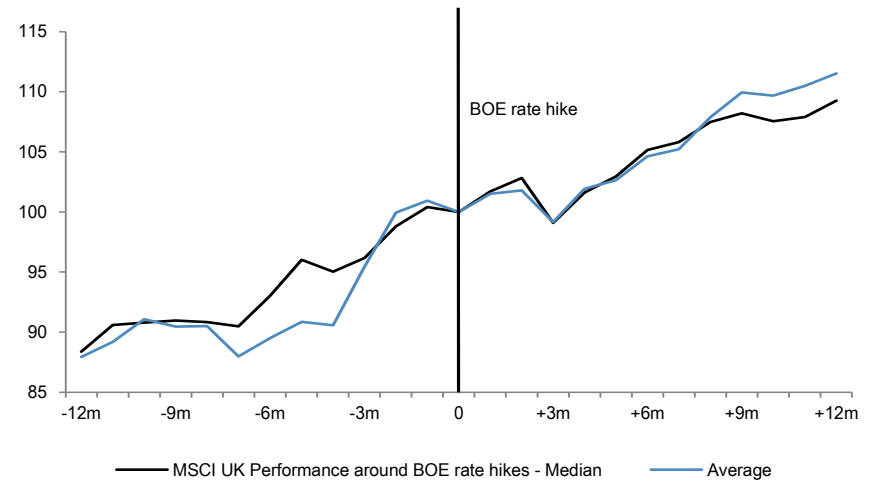
	Domestics weight	Exporters weight	Exporters - Domestic
INDUSTRIALS	9%	25%	16%
HEALTH CARE	0%	13%	13%
IT	0%	13%	13%
STAPLES	16%	17%	1%
ENERGY	0%	0%	0%
MATERIALS	0%	0%	0%
UTILITIES	3%	0%	-3%
COM. SERVICES	13%	8%	-4%
DISCRETIONARY	22%	13%	-9%
REAL ESTATE	9%	0%	-9%
FINANCIALS	28%	13%	-16%

Source: J.P. Morgan

We do not expect the BoE to turn more hawkish than what is already priced into the futures

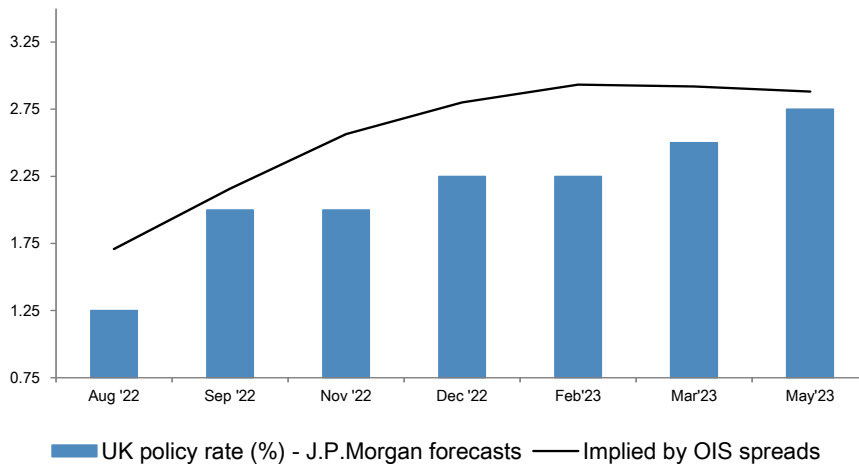
- BoE has already hiked policy rates by nearly 115 bp since December last year. Our economists believe that BOE will continue to adopt a relatively hawkish policy stance this year. We note that past BOE hikes haven't been a problem for the overall UK market direction.
- Notably, the futures market is already pricing in more tightening than what our economists are expecting.
- The UK labour market is tight, but some of the supply constraints are not getting worse. We note that staff availability has improved vs 2H last year.

UK performance around 1st BoE hike



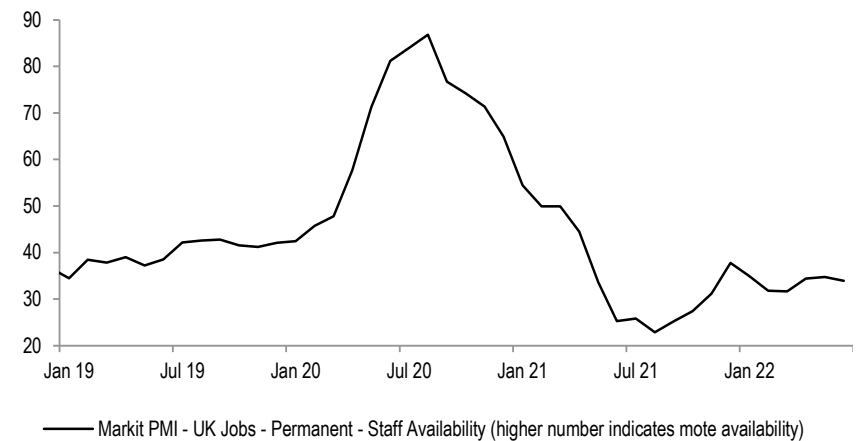
Source: Bloomberg Finance L.P.

Expectations for UK policy rate



Source: Bloomberg Finance L.P.

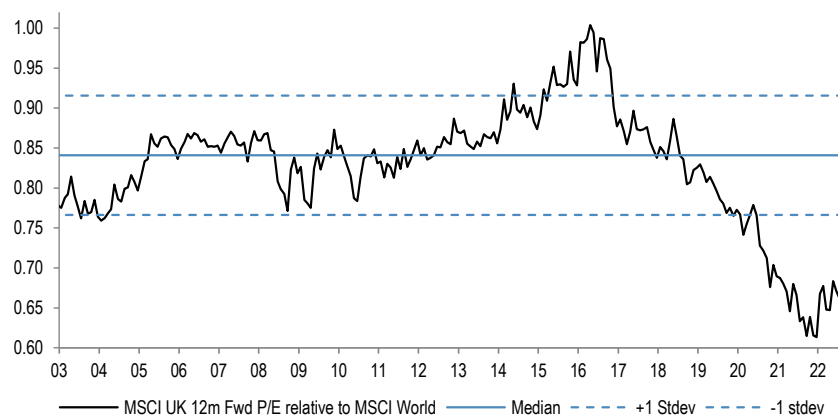
UK permanent jobs staff availability



Source: Markit

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

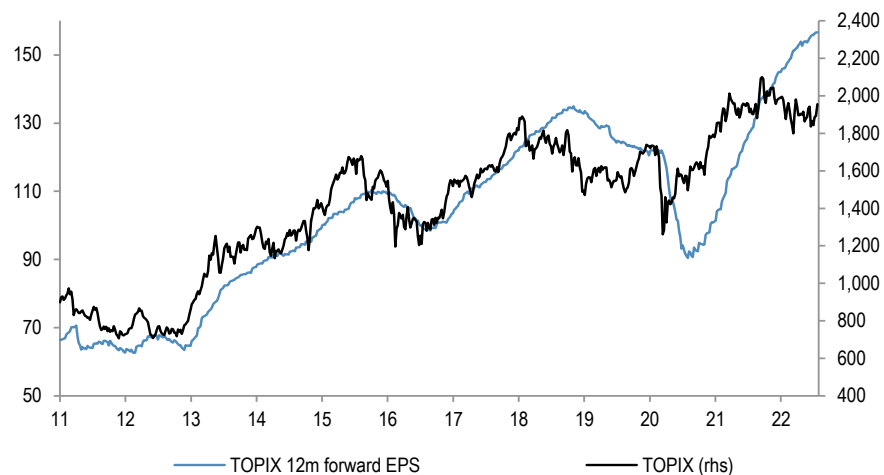
	YTD Perf, %	YTD Total Return, %	Weight in Index		12m Fwd P/E		EPS growth, %	
			UK	vs MSCI World	Current	vs Median since '06	2022e	2023e
UK	1%	4%	100%	0%	9.8	-18%	18.4%	-0.7%
Energy	24%	26%	13%	8%	4.8	-53%	99.5%	-13.1%
Materials	-3%	1%	9%	5%	5.9	-47%	11.6%	-23.9%
Industrials	-12%	-11%	10%	0%	18.0	42%	15.7%	10.8%
Discretionary	-13%	-10%	5%	-5%	13.4	3%	18.8%	8.7%
Staples	0%	2%	20%	12%	14.5	6%	5.2%	8.9%
Healthcare	16%	18%	15%	1%	15.9	27%	15.5%	13.4%
Financials	-2%	0%	17%	4%	8.2	-23%	-16.2%	16.2%
IT	-26%	-25%	1%	-20%	26.7	45%	8.1%	10.6%
Telecoms	5%	7%	4%	-3%	12.7	11%	6.4%	8.3%
Utilities	3%	6%	4%	1%	17.6	43%	2.6%	16.3%
Real Estate	-19%	-18%	1%	-2%	22.0	9%	6.0%	9.0%
Cyclicals	-9%	-7%	25%	-21%	10.0	-19%	13.4%	-11.7%
Defensives	6%	8%	43%	10%	14.9	17%	8.2%	10.8%

Source: IBES, Datastream

4) Neutral Japan – YCC is in place for now, but positives could be emerging in 2H...

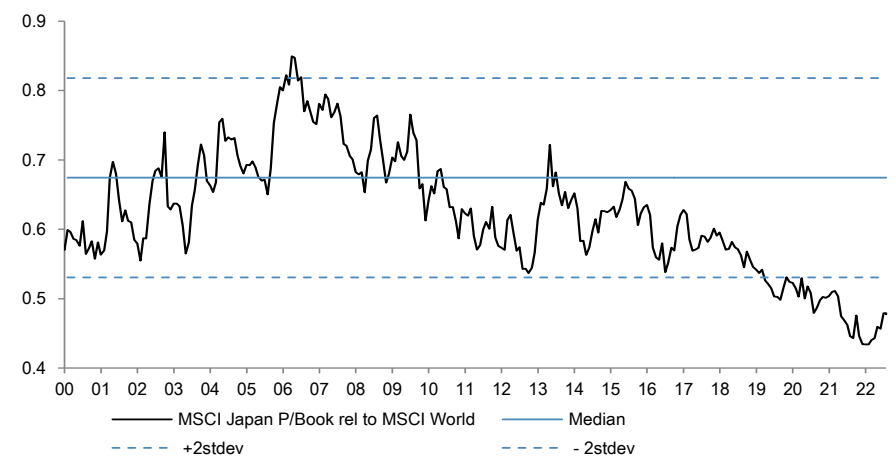
- Japan is a traditional play on the global cycle and Japanese equities continue to trade at record cheap valuations.
- We do not expect much of a move up in JGB yields in the short term, as YCC is in place, which is a constraint.

TOPIX and 12 month forward EPS



Source: IBES, Datastream, J.P. Morgan

MSCI Japan Price to Book relative

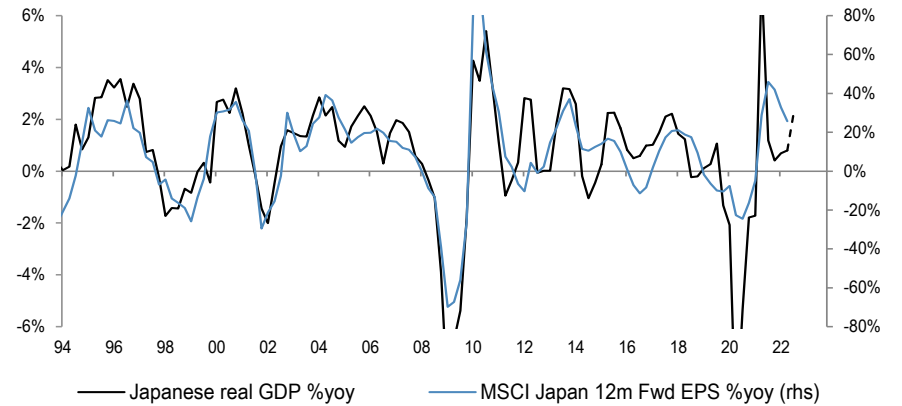


Source: IBES

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

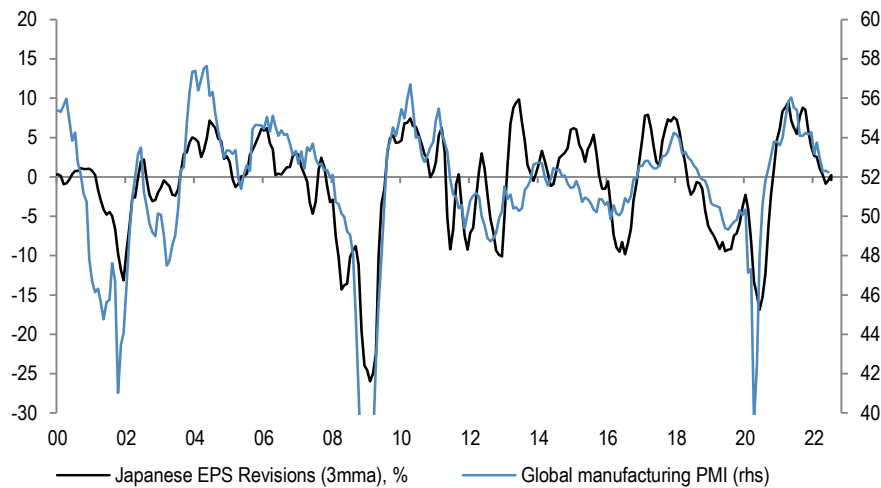
- Japanese EPS revisions are positively correlated to the Global manufacturing PMI, which is a risk.

Japanese 12m Fwd. EPS and GDP



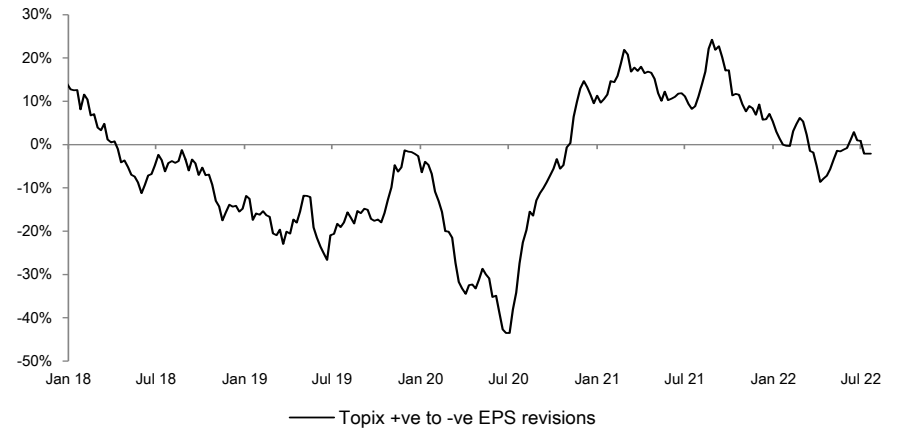
Source: J.P.Morgan, IBES

Japan EPS revisions and Global manufacturing PMI



Source: Datastream, J.P. Morgan

Topix +ve to -ve EPS revisions

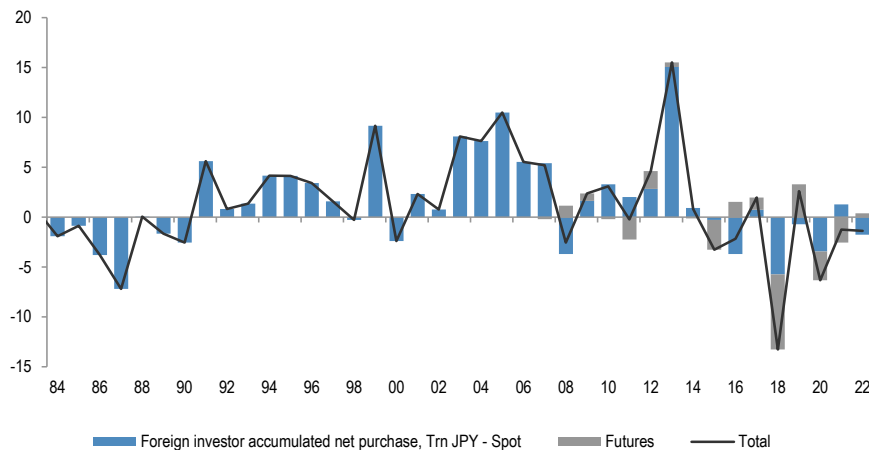


Source: DataStream

...Investor positioning is subdued...

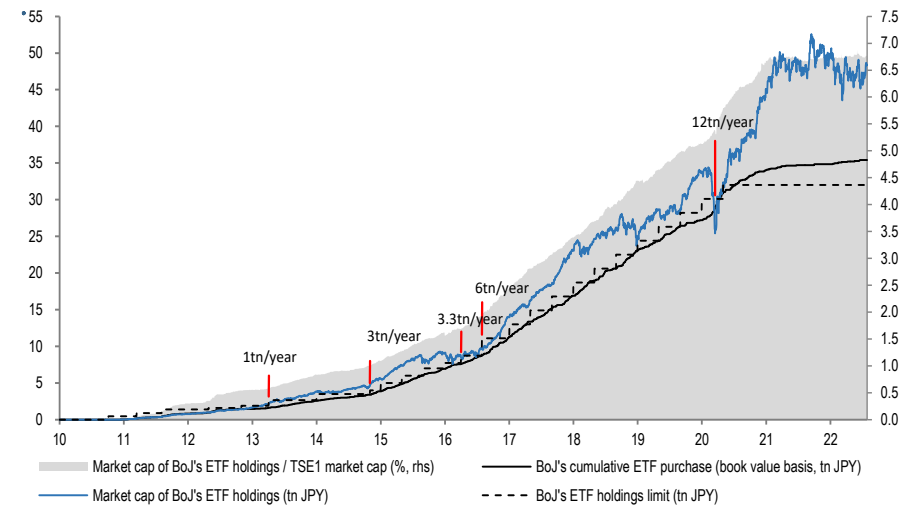
- Foreign investors sold over ¥6 trillion of Japanese equities in 2020. While this is less than the ¥13 trillion outflows from the region in 2018, we note that positioning in Japanese equities is net short in the average investor portfolio. A more positive earnings outlook could help reverse this trend.
- 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



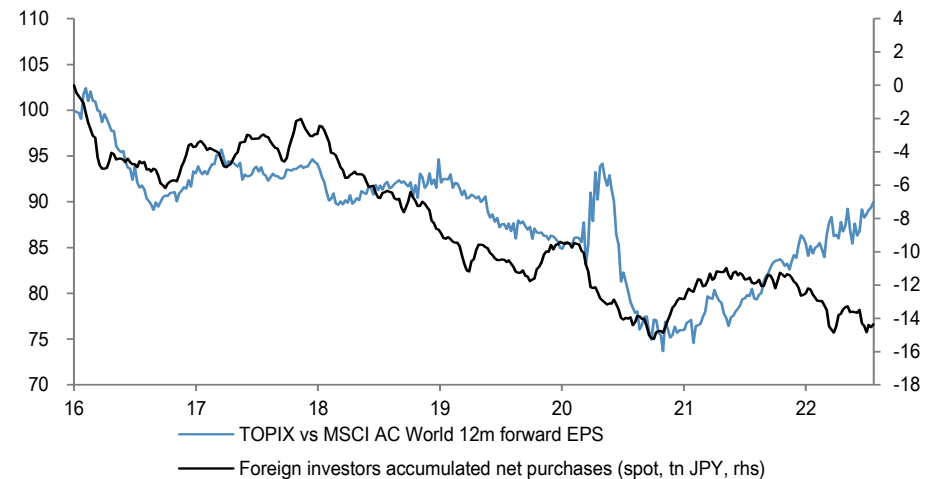
Source: Japan Exchange Group (JPX)

BoJ ETF ownership



Source: BoJ, J.P. Morgan

Foreign investors accumulated net spot purchases and TOPIX EPS relative

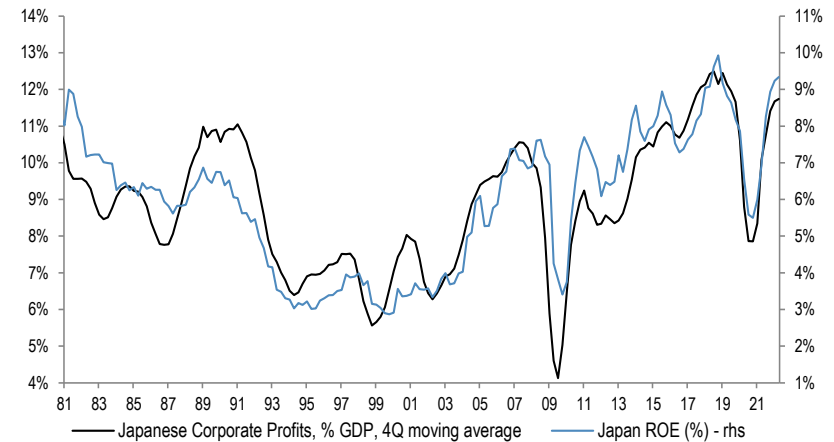


Source: Japan Exchange Group (JPX), IBES

...corporate balance sheets are net cash

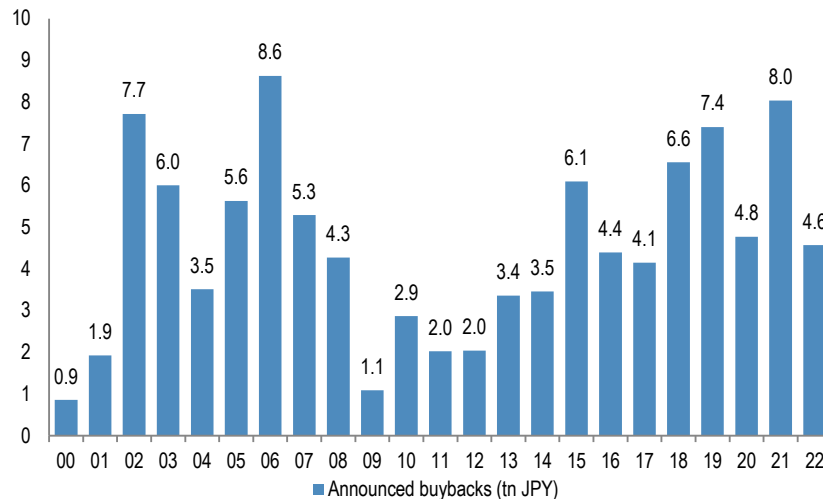
- Japanese corporate balance sheets are extremely robust, with almost 50% of corporates in the Topix1000 having more cash than debt.
- Corporates had significantly improved their profitability over the last few years, through capital discipline, efficiency gains and more shareholder-friendly policies.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

Japanese profit margins and RoE



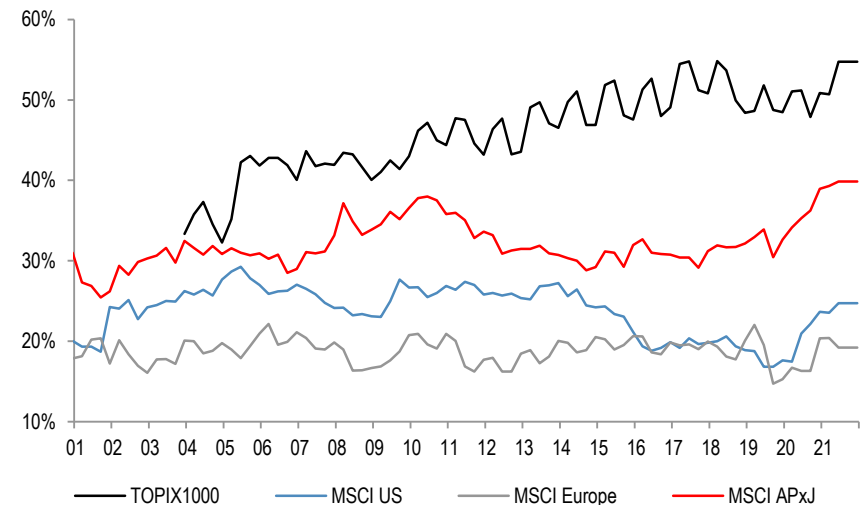
Source: ESRI, Bloomberg Finance L.P.

Announced buybacks - TOPIX universe



Source: QUICK

Net cash firm weightings



Source: Bloomberg Finance L.P.

Yen is expected to weaken further from here, which is typically a positive; However, it might not be seen as such for stocks this time around

- 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.

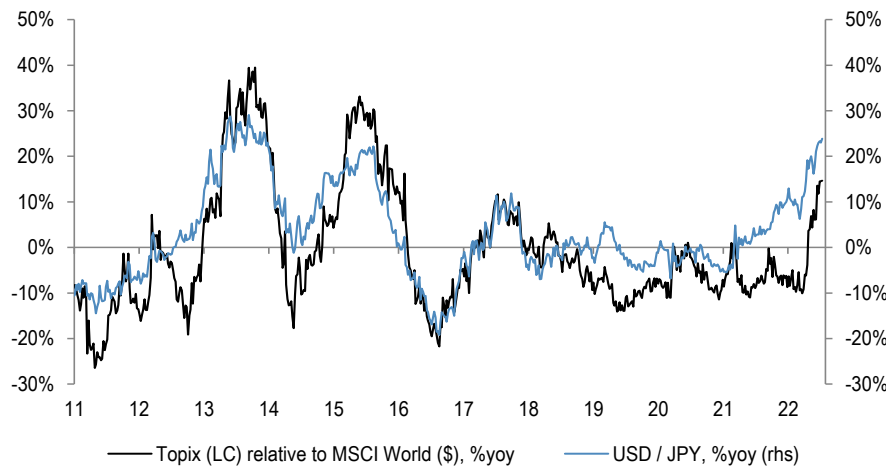
MSCI Japan relative performance (\$) and Yen

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

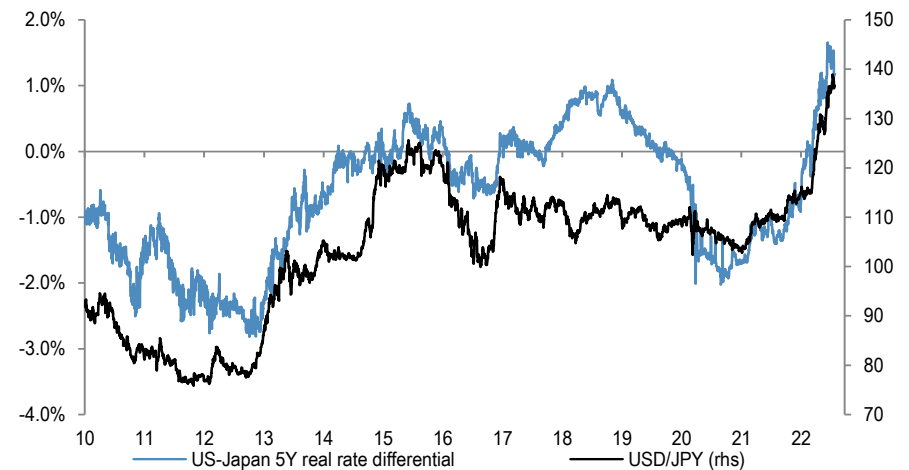
Source: Bloomberg Finance L.P.

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

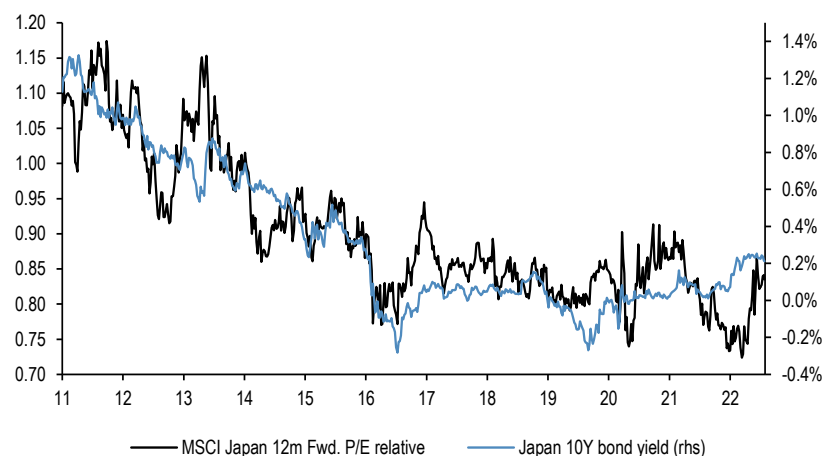
- Japan performs well when bond yields are moving higher.
- Here, our fixed income team expects no significant move up in JGB yields over the next 6-9 months.
- However, we note that a gap has opened up between the level of bond yields and Japanese equities.

JPM forecasts for Japan 10Y bond yield (%)

Current	Forecast for the end of			
	Sep 22	Dec 22	Mar 23	Jun 23
0.21	0.25	0.25	0.25	0.25

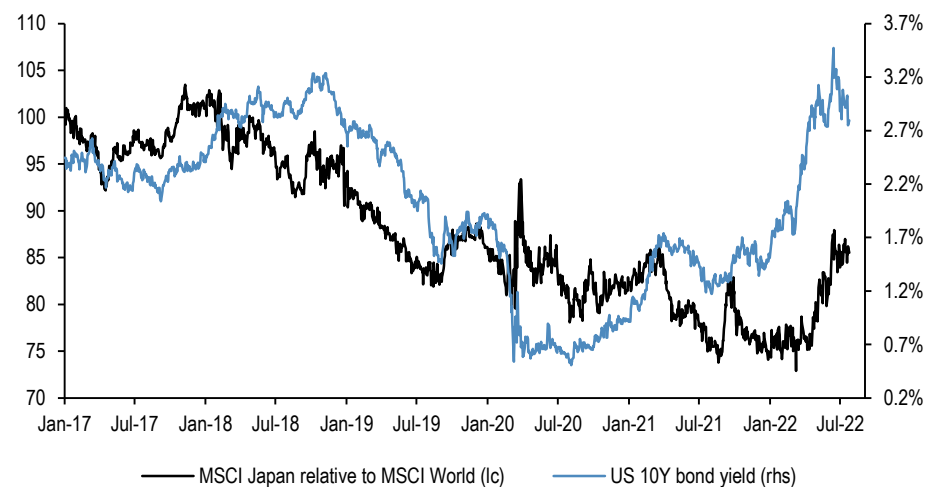
Source: Bloomberg Finance L.P., J.P. Morgan

MSCI Japan 12m forward P/E and bond yields



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

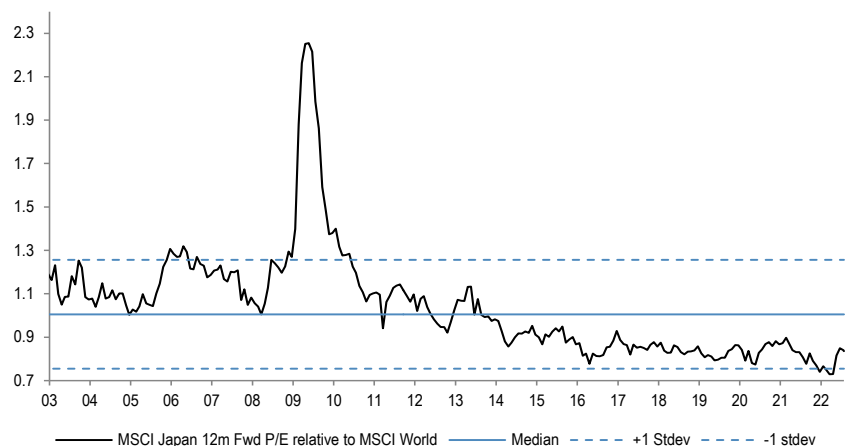
Japan relative and US 10Y bond yield



Source: Bloomberg Finance L.P.

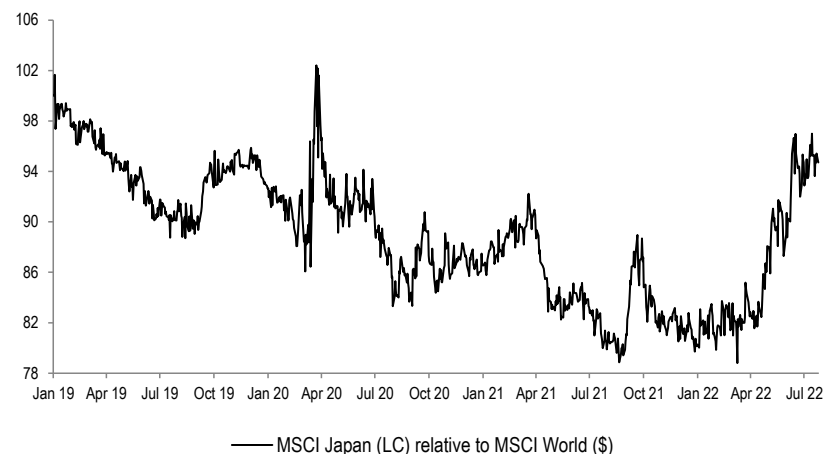
Japan snapshot

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	-3.2%	-1.9%	100%	0%	12.7	-10%	4%	8%
Energy	23.0%	26.1%	1%	-4%	5.6	-43%	-6%	0%
Materials	-9.1%	-7.4%	5%	0%	9.3	-30%	2%	8%
Industrials	-6.0%	-4.6%	22%	12%	10.8	-19%	-9%	6%
Discretionary	-4.7%	-3.7%	19%	8%	12.2	-6%	13%	8%
Staples	0.1%	1.2%	6%	-1%	21.1	1%	11%	10%
Healthcare	-0.7%	0.3%	10%	-5%	24.4	8%	9%	13%
Financials	8.9%	11.5%	11%	-3%	8.7	-25%	7%	8%
IT	-16.7%	-16.0%	13%	-8%	16.8	-2%	7%	9%
Telecoms	11.1%	12.8%	9%	1%	14.3	10%	7%	13%
Utilities	28.3%	30.2%	1%	-2%	12.0	-8%	98%	-1%
Real Estate	6.2%	7.9%	4%	1%	15.0	-7%	6%	6%
Cyclicals	-8.5%	-7.4%	59%	13%	12.2	-12%	1%	7%
Defensives	4.1%	5.4%	26%	-7%	18.9	9%	15%	11%

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...

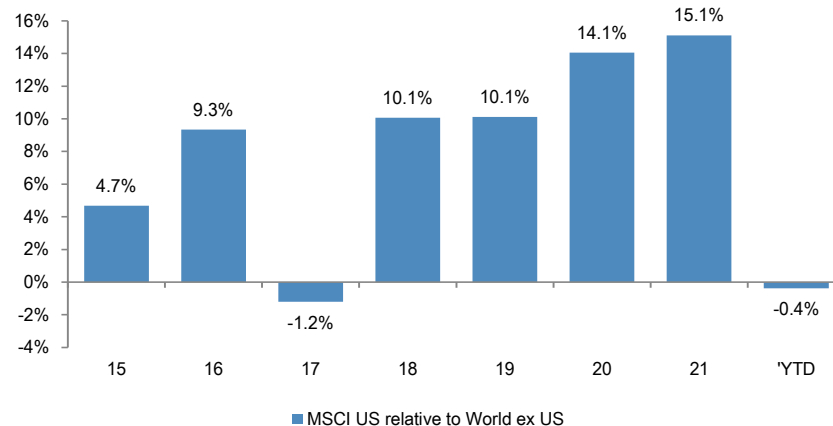
- US equities have been a big winner over the last few years.
- Relative valuations are a clear challenge, where the region is trading extremely expensive versus peers, on most measures.
- Strong US earnings delivery supported its outperformance, and we still expect robust US EPS growth this year. However,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

MSCI US 12m Fwd. P/E relative



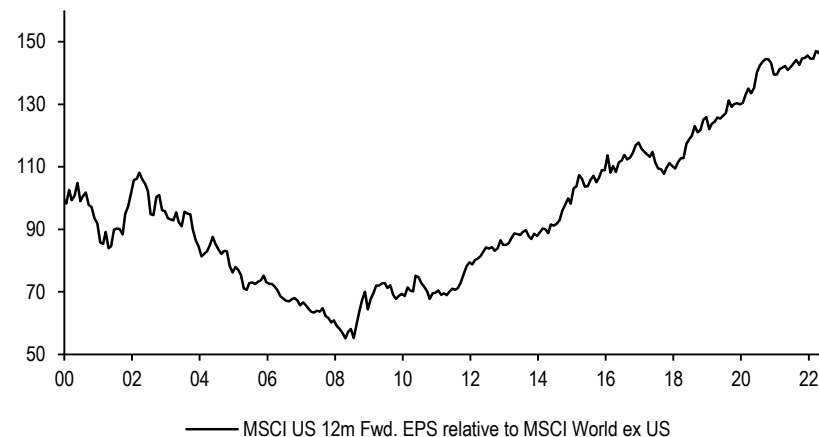
Source: IBES

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



Source: Datastream

MSCI US 12m Fwd. EPS relative

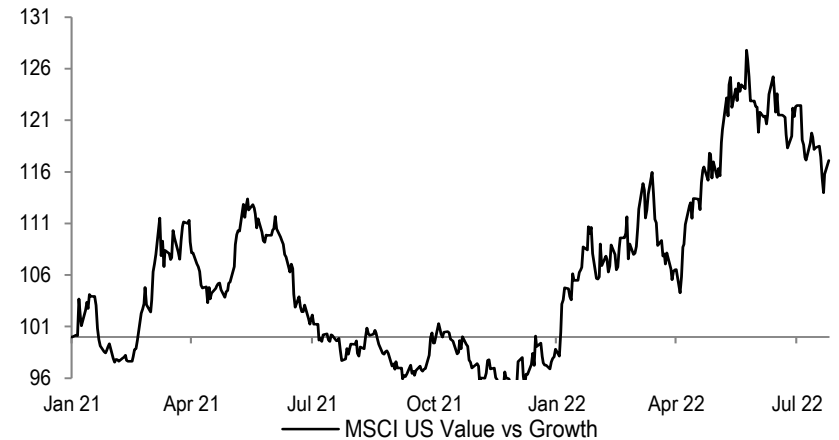


Source: IBES

...US equities exhibit a significant Growth tilt

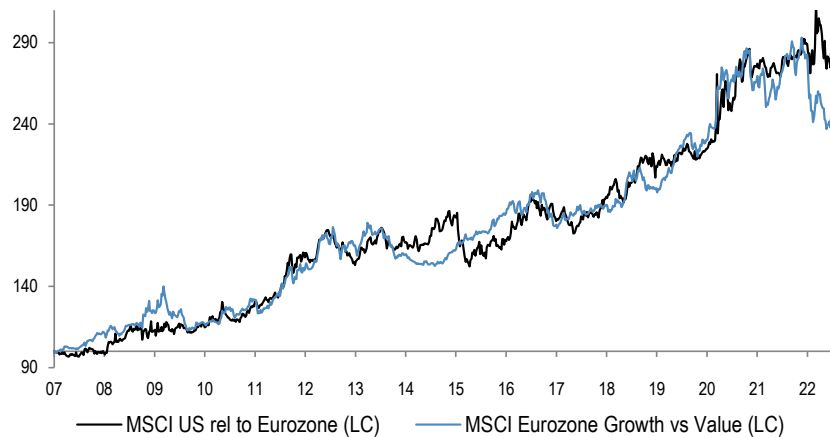
- US leadership over other regions has been consistent with Growth outperforming Value, and Tech outperforming Banks.
- The US could lag other regions if Value/Cyclicals lead performance from here.

US Value vs Growth



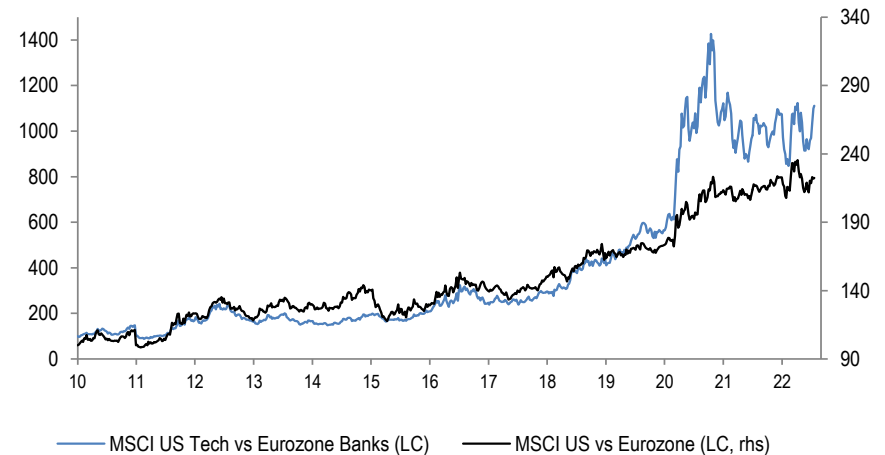
Source: J.P. Morgan

Growth vs Value and US vs Eurozone



Source: Bloomberg Finance L.P.

US vs Eurozone and Tech vs Banks



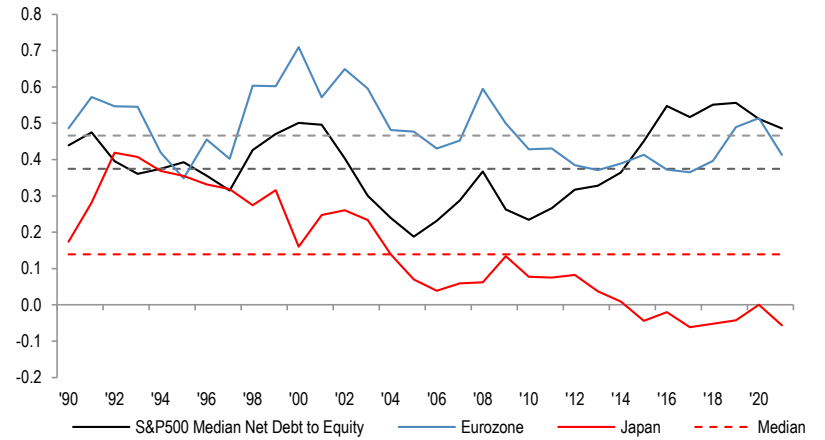
Source: Bloomberg Finance L.P.

J.P.Morgan

Government and corporate leverage is elevated

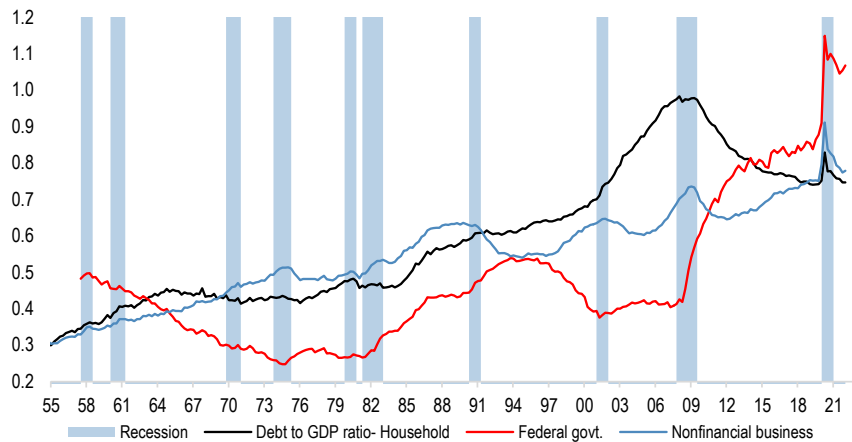
- US corporate and government leverage is elevated.

Median net debt to equity of US, Europe and Japan



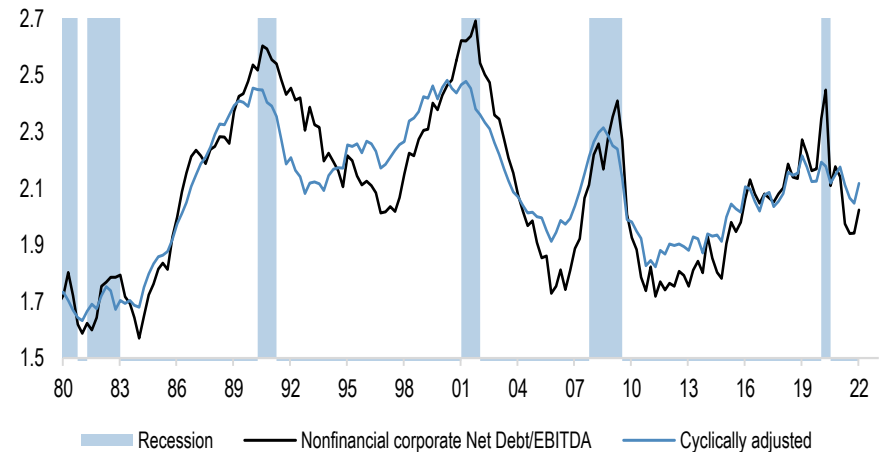
Source: Worldscope

US debt, share of GDP



Source: J.P. Morgan

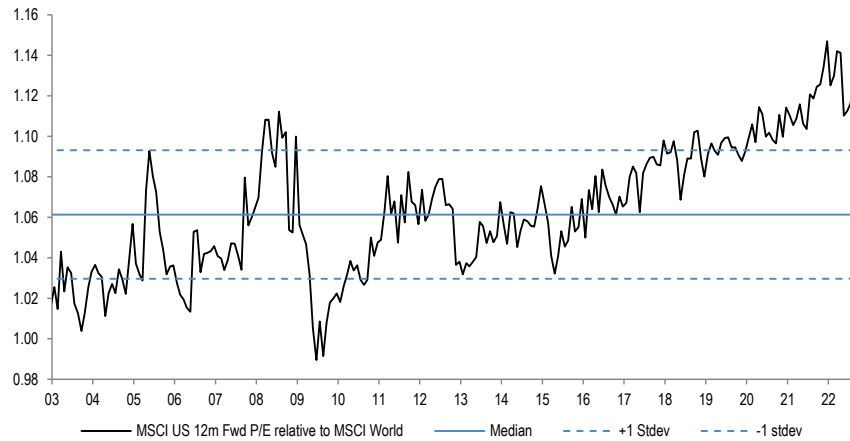
US nonfinancial corporate leverage



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	-18%	-17%	100%	0%	17.1	10%	9%	9%
Energy	33%	36%	4%	-1%	8.4	-36%	143%	-11%
Materials	-17%	-16%	3%	-2%	12.3	-19%	18%	-9%
Industrials	-15%	-14%	8%	-2%	17.4	8%	16%	19%
Discretionary	-26%	-26%	11%	0%	25.0	35%	10%	34%
Staples	-5%	-4%	7%	-1%	20.2	16%	4%	7%
Healthcare	-8%	-7%	15%	1%	16.6	5%	4%	3%
Financials	-17%	-16%	11%	-3%	11.6	-8%	-13%	14%
IT	-23%	-23%	27%	6%	21.1	28%	12%	10%
Telecoms	-31%	-30%	9%	1%	15.0	-3%	-6%	16%
Utilities	-2%	-1%	3%	0%	19.1	20%	7%	8%
Real Estate	-18%	-17%	3%	0%	36.8	-10%	-7%	2%
Cyclicals	-23%	-22%	21%	-4%	20.5	22%	13%	14%
Defensives	-14%	-13%	34%	1%	16.7	3%	1%	8%

Source: IBES, Datastream

6) UW Rest of the World

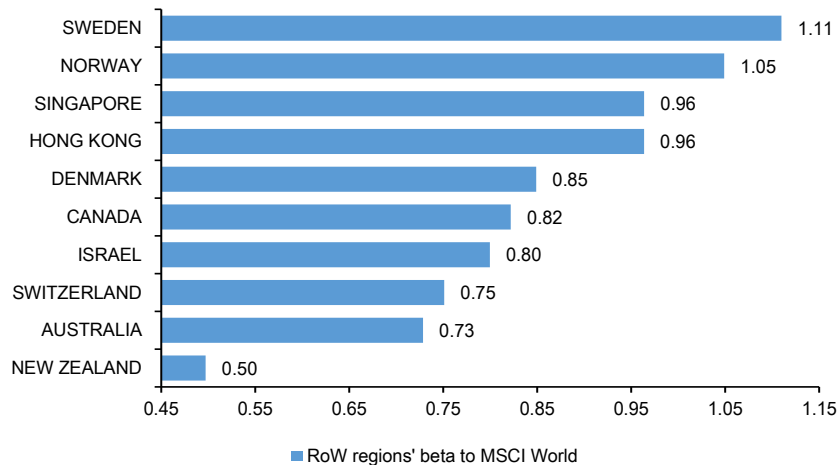
- We hold a generally cautious stance on some of the bigger components of RoW group.
- Switzerland has a clear Defensive tilt and could struggle this year in an environment of high yields. Australian and Canadian equities could struggle as well.
- HK equities continue to face regulatory pressures.

ROW sector composition and weights in MSCI World

	Weight in MSCI World	Cyclicals	Defensives
Canada	3.6%	31.2	8.8
Switzerland	3.0%	20.3	63.2
Australia	2.2%	35.7	18.1
Sweden	0.9%	57.3	8.9
Hong Kong	0.9%	18.1	11.5
Denmark	0.8%	25.5	69.8
Singapore	0.4%	12.8	2.8
Norway	0.2%	15.4	17.1
Israel	0.2%	54.6	8.0
New Zealand	0.0%	22.8	54.4
ROW	12.4%	29.4	26.3

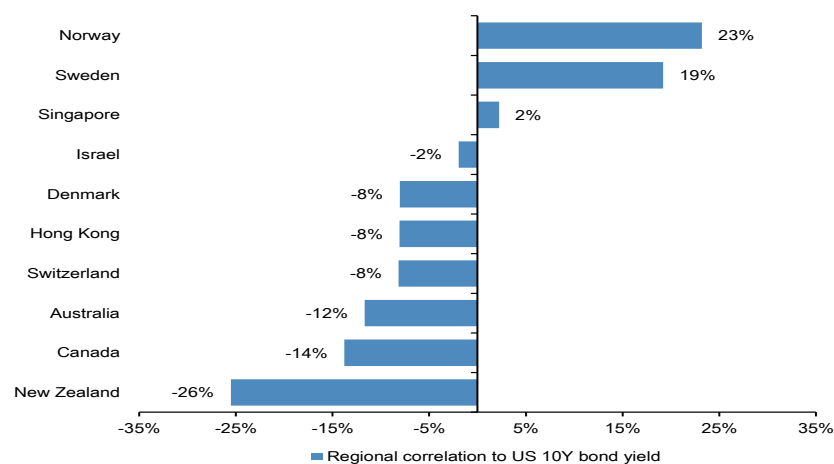
Source: Datastream

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	250	9%
FTSE 100	8150	11%

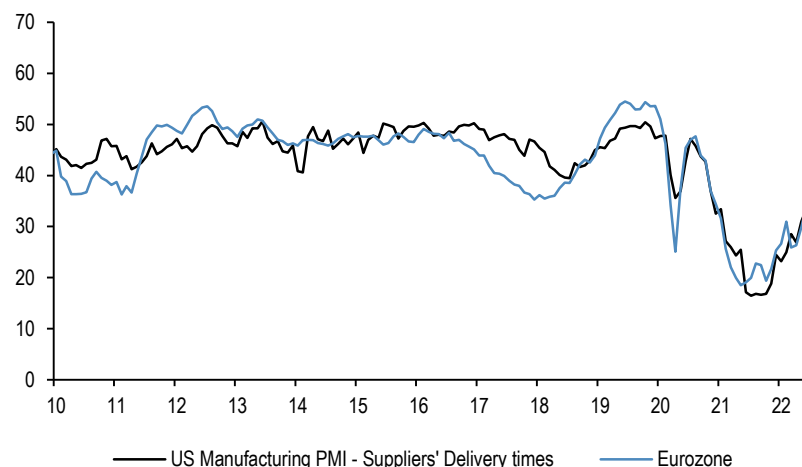
Source: J.P. Morgan, Datastream. *As of COB 27th July. 2022

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...

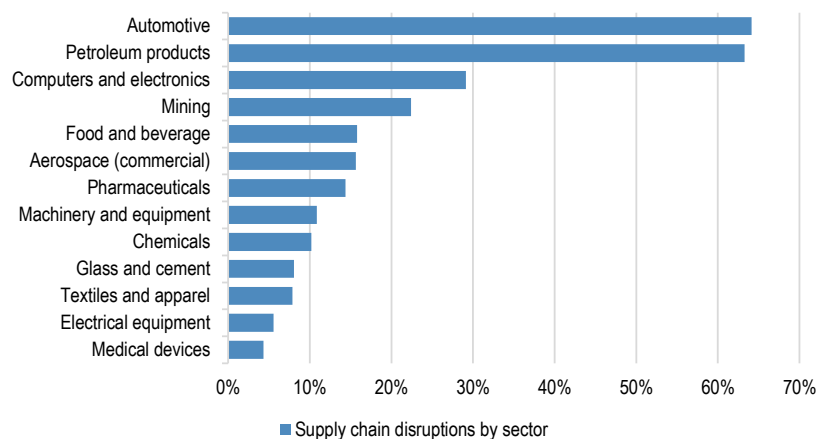
- Supply chain disruptions have been a significant drag on the global output in 2021. The impact is fairly broad-based. Manufacturing, Construction and Retail sectors have been most hit.
- We believe that supply for certain systemically important raw materials / components could remain below demand for the next 2-3 quarters, but it is unlikely to get worse.

US and Eurozone Manufacturing PMI - delivery time



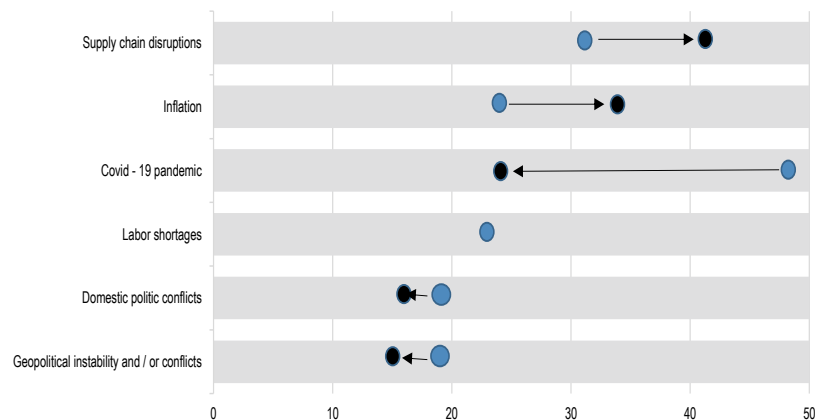
Source: Markit

Supply Chain Disruptions by Sector



Source: Statista

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

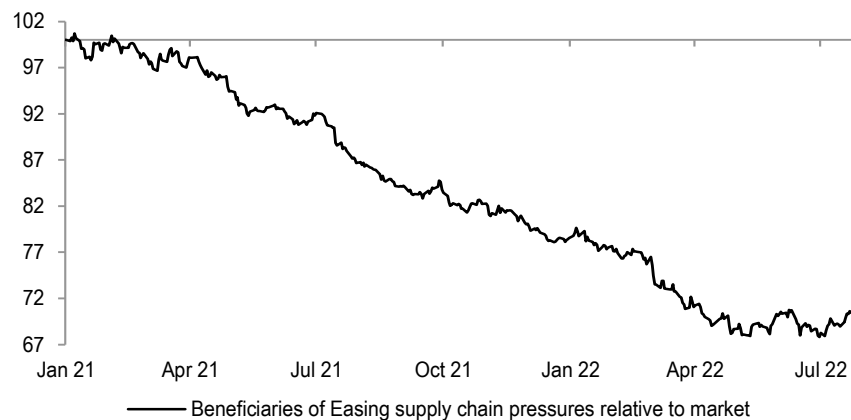


Source: McKinsey survey

...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 29 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 10% 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

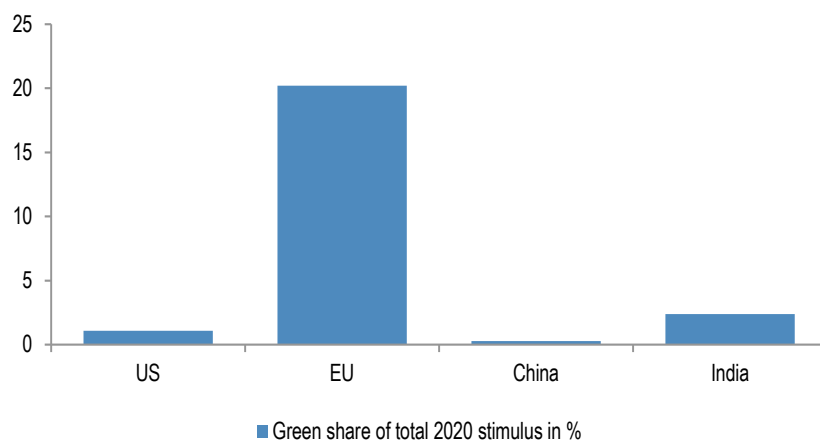
Name	Ticker	GICS Sector	YTD Perf
Fevertree Drinks PLC	FEVR LN	Staples	-59.0%
ASOS PLC	ASC LN	Discretionary	-52.1%
boohoo Group PLC	BOO LN	Discretionary	-44.0%
GN Store Nord AS	GN DC	Health Care	-40.7%
Koninklijke Philips NV	PHIA NA	Health Care	-39.0%
Elektro AB	EKTAB SS	Health Care	-38.3%
JD Sports Fashion PLC	JD/ LN	Discretionary	-36.6%
Puma SE	PUM GR	Discretionary	-34.7%
Electrolux AB	ELUXB SS	Discretionary	-34.3%
B&M European Value Retail SA	BME LN	Discretionary	-33.3%
adidas AG	ADS GR	Discretionary	-29.7%
Volkswagen AG	VOW GR	Discretionary	-27.8%
Alstom SA	ALO FP	Industrials	-26.3%
Siemens Healthineers AG	SHL GR	Health Care	-26.1%
Valeo	FR FP	Discretionary	-23.9%
H & M Hennes & Mauritz AB	HMB SS	Discretionary	-23.7%
J Sainsbury PLC	SBRY LN	Staples	-19.4%
Hexagon AB	HEXAB SS	IT	-19.2%
Remy Cointreau SA	RCO FP	Staples	-15.2%
Siemens Gamesa Renewable Energy	SGRE SM	Industrials	-15.0%
Vestas Wind Systems A/S	VWS DC	Industrials	-14.9%
Signify NV	LIGHT NA	Industrials	-13.2%
Renault SA	RNO FP	Discretionary	-12.0%
Bayerische Motoren Werke AG	BMW GR	Discretionary	-11.3%
Tesco PLC	TSCO LN	Staples	-9.1%
Unilever PLC	ULVR LN	Staples	-0.9%
Reckitt Benckiser Group PLC	RKT LN	Staples	0.0%
Informa PLC	INF LN	Comm. Svcs	13.6%
ConvaTec Group PLC	CTEC LN	Health Care	15.2%

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

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

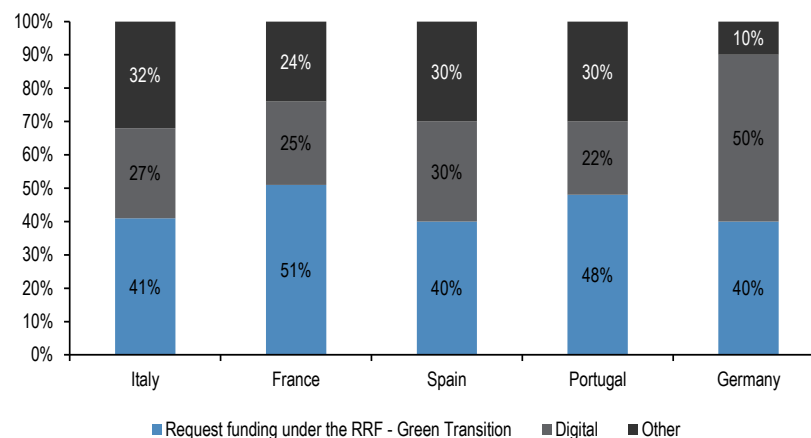
- European countries have been relatively more active in the “greening” of their infrastructure, compared to other regions. The focus is on decarbonization of industry, as well as of the infrastructure/buildings.
- This trend is only likely to accelerate in coming quarters, with 30% of the EU recovery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

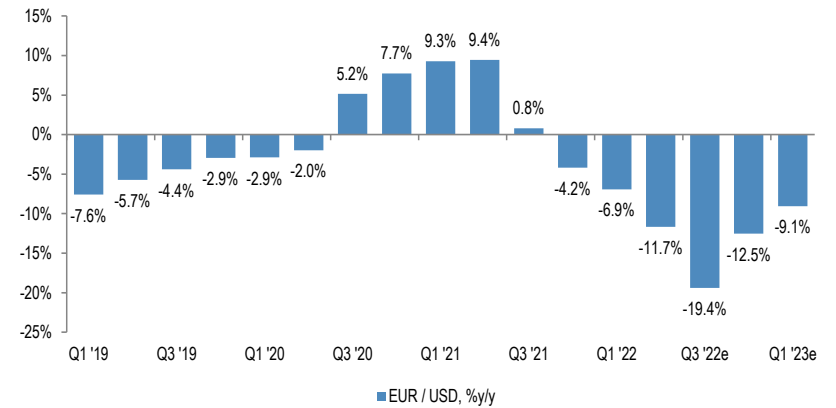
Name	Ticker	Sector
Cie de Saint-Gobain	SGO FP	Industrials
Rexel SA	RXL FP	Industrials
Schneider Electric SE	SU FP	Industrials
ABB Ltd	ABBN SW	Industrials
Siemens AG	SIE GR	Industrials
Wartsila OYJ Abp	WRT1V FH	Industrials
Vestas Wind Systems A/S	VWS DC	Industrials
Airbus SE	AIR FP	Industrials
ROCKWOOL A/S	ROCKB DC	Industrials
Signify NV	LIGHT NA	Industrials
ANDRITZ AG	ANDR AV	Industrials
Siemens Gamesa Renewable Energ	SGRE SM	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 Nazionale	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...

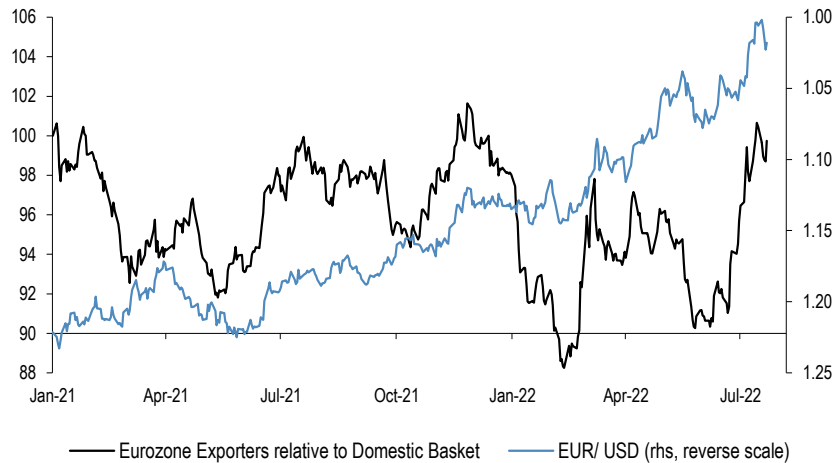
- The gap between Eurozone Exporters relative performance and EUR/USD remains.

EUR / USD y/y



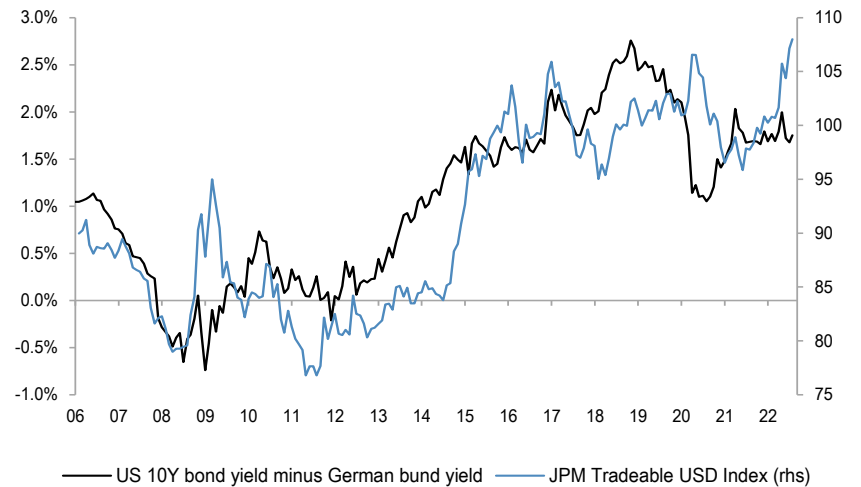
Source: Bloomberg Finance L.P., J.P.Morgan

Eurozone Exporters relative and EUR/USD



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

US minus German yield spread and USD

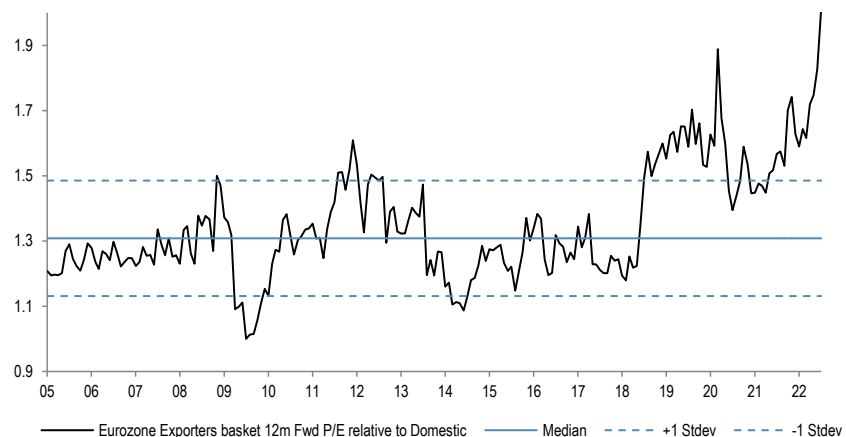


Source: Bloomberg Finance L.P.

...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

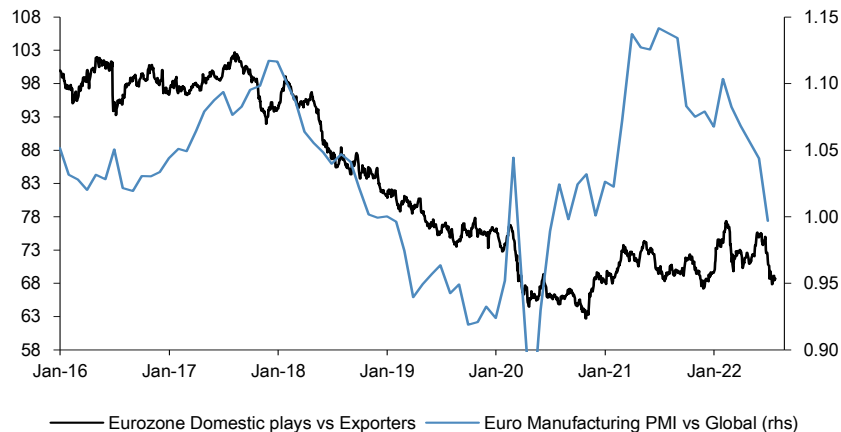
Name	Ticker	Sector	Ex-W.E. exposure
Swiss Re AG	SREN SW	Financials	87%
Fresenius Medical Care AG & Co	FME GR	Health Care	84%
Pernod Ricard SA	RI FP	Staples	80%
L'Oreal SA	OR FP	Staples	79%
Hannover Rueck SE	HNR1 GR	Financials	77%
Publicis Groupe SA	PUB FP	Com. Services	77%
Sanofi	SAN FP	Health Care	76%
Remy Cointreau SA	RCO FP	Staples	75%
HelloFresh SE	HFG GR	Staples	75%
Wolters Kluwer NV	WKL NA	Industrials	75%
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-Bureau Veritas SA	MUV2 GR	Financials	70%
Bureau Veritas SA	BVI FP	Industrials	70%
Sodexo SA	SW FP	Discretionary	70%
Bayer AG	BAYN GR	Health Care	70%
Airbus SE	AIR FP	Industrials	68%
CRH PLC	CRH ID	Materials	66%
Acerinox SA	ACX SM	Materials	62%
HeidelbergCement AG	HEI GR	Materials	61%
Volkswagen AG	VOW GR	Discretionary	60%
Davide Campari-Milano NV	CPR IM	Staples	60%
Koninklijke Ahold Delhaize NV	AD NA	Staples	60%
Iberdrola SA	IBE SM	Utilities	60%
Accor SA	AC FP	Discretionary	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%
Buzzi Unicem SpA	BZU IM	Materials	55%
Ubisoft Entertainment SA	UBI FP	Com. Services	55%
SAP SE	SAP GR	IT	44%
Ageas SA/NV	AGS BB	Financials	43%
Ferrovial SA	FER SM	Industrials	43%
ANDRITZ AG	ANDR AV	Industrials	34%
SCOR SE	SCR FP	Financials	33%
Dassault Systemes SE	DSY FP	IT	32%

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

b) Eurozone domestic exposure

- We believe that, as relative growth trends continue to firm up in Eurozone, domestic stocks will do better as well.
- The basket is heavily weighed in Financials.

Eurozone Domestic vs Exporters and Euro vs Global PMI



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

JPM Eurozone Domestic - JPDEEZDR

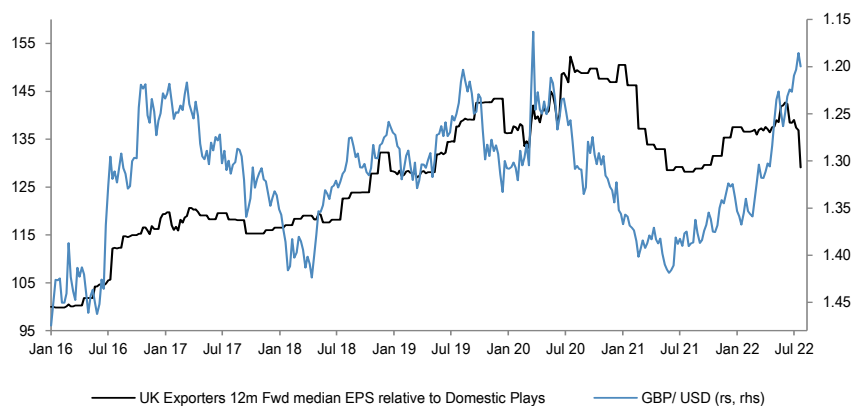
Name	Ticker	Sector	W.E. exposure
CaixaBank SA	CABK SM	Financials	100%
Gecina SA	GFC FP	Real Estate	100%
Merlin Properties Socimi SA	MRL SM	Real Estate	100%
Proximus SADP	PROX BB	Com. Services	100%
Koninklijke KPN NV	KPN NA	Com. Services	100%
ASR Nederland NV	ASRNL NA	Financials	100%
Commerzbank AG	CBK GY	Financials	96%
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	73%
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	EDEN 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%
Atos SE	ATO FP	IT	60%
Deutsche Post AG	DPW GR	Industrials	60%
Outokumpu Oyj	OUT1V FH	Materials	59%
Societe Generale SA	GLE FP	Financials	57%
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%
Alstom SA	ALO FP	Industrials	50%
Evonik Industries AG	EVK GR	Materials	48%
Capgemini SE	CAP FP	IT	48%
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%
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

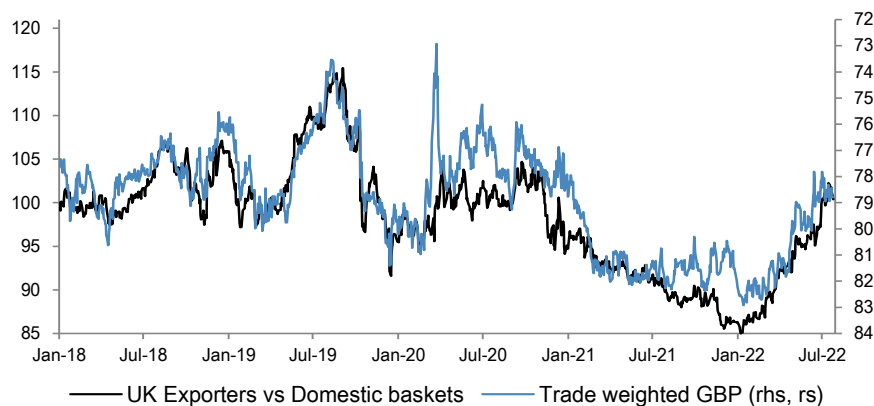
- UK exporters display a clear negative correlation with FX, and should be helped by a weaker GBP.

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

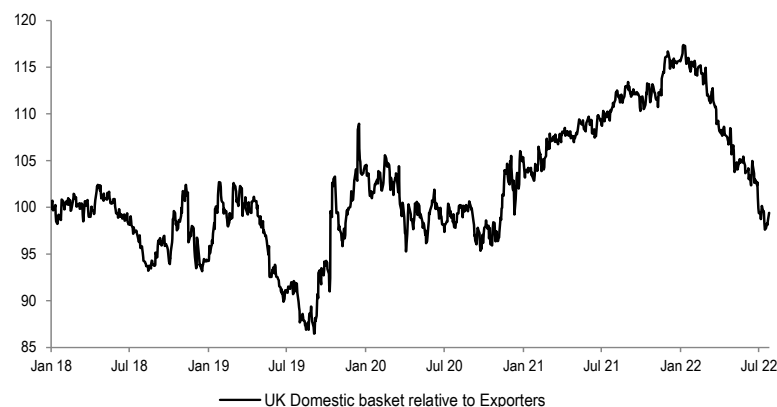
Name	Ticker	Sector	ex-UK exposure
Prudential PLC	PRU LN	Financials	100%
British American Tobacco PLC	BATS LN	Staples	99%
WPP PLC	WPP LN	Com. Services	96%
RELX PLC	REL LN	Industrials	96%
Spirax-Sarco Engineering PLC	SPX LN	Industrials	95%
Diageo PLC	DGE LN	Staples	95%
Unilever PLC	ULVR LN	Staples	95%
Smith & Nephew PLC	SN/ LN	Health Care	95%
GSK PLC	GSK LN	Health Care	95%
Standard Chartered PLC	STAN LN	Financials	94%
AVEVA Group PLC	AVV LN	IT	94%
Imperial Brands PLC	IMB LN	Staples	92%
ConvaTec Group PLC	CTEC LN	Health Care	92%
Pearson PLC	PERSON LN	Com. Services	91%
Melrose Industries PLC	MRO LN	Industrials	90%
Rolls-Royce Holdings PLC	RR/ LN	Industrials	90%
Rentokil Initial PLC	RTO LN	Industrials	90%
Bunzl PLC	BNZL LN	Industrials	88%
Halma PLC	HLMA LN	IT	84%
HSBC Holdings PLC	HSBA LN	Financials	67%
JD Sports Fashion PLC	JD/ LN	Discretionary	59%
ASOS PLC	ASC LN	Discretionary	58%
Sage Group PLC/The	SGE LN	IT	47%
boohoo Group PLC	BOO LN	Discretionary	39%

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

d) Within UK, take profits in domestic plays... switch to exporters

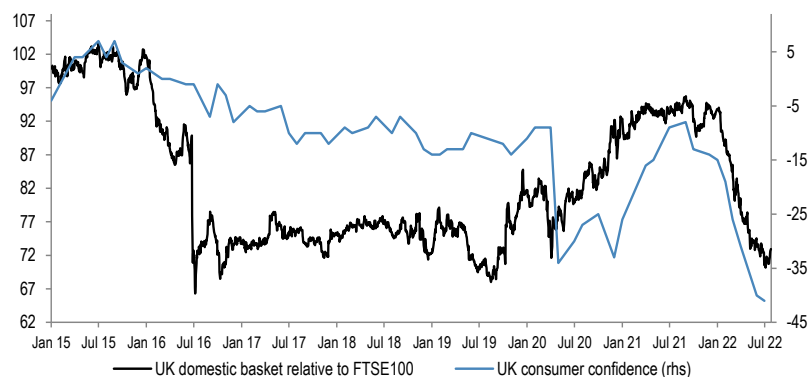
- Domestic stocks benefit from the domestic reopening. However, they have already had a strong run, and are starting to turn.

UK Domestic basket relative to Exporters



Source: Datastream

UK Domestic basket relative and confidence



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

JPM UK Domestic - JPDEUKDM

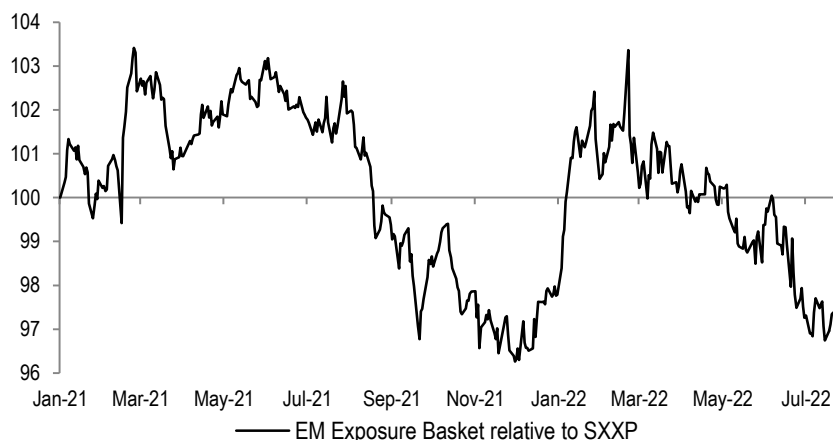
Name	Ticker	Sector	UK exposure
Barratt Developments PLC	BDEV LN	Discretionary	100%
Berkeley Group Holdings PLC	BKG LN	Discretionary	100%
Persimmon PLC	PSN LN	Discretionary	100%
J Sainsbury PLC	SBRY LN	Staples	100%
British Land Co PLC/The	BLND LN	Real Estate	100%
Land Securities Group PLC	LAND LN	Real Estate	100%
Derwent London PLC	DLN 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%
Phoenix Group Holdings PLC	PHNX 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%
Legal & General Group PLC	LGEN LN	Financials	95%
NatWest Group PLC	NWG LN	Financials	95%
B&M European Value Retail SA	BME LN	Discretionary	92%
Marks & Spencer Group PLC	MKS LN	Staples	91%
Tesco PLC	TSCO LN	Staples	90%
Centrica PLC	CNA LN	Utilities	90%
Next PLC	NXT LN	Discretionary	84%
Beazley PLC	BEZ LN	Financials	81%
Ocado Group PLC	OCDO LN	Staples	80%
Aviva PLC	AV/ LN	Financials	80%
Admiral Group PLC	ADM LN	Financials	75%
ITV PLC	ITV LN	Com. Services	71%
Royal Mail PLC	RMG LN	Industrials	70%
Barclays PLC	BARC LN	Financials	51%
Fevtree Drinks PLC	FEVR LN	Staples	50%
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

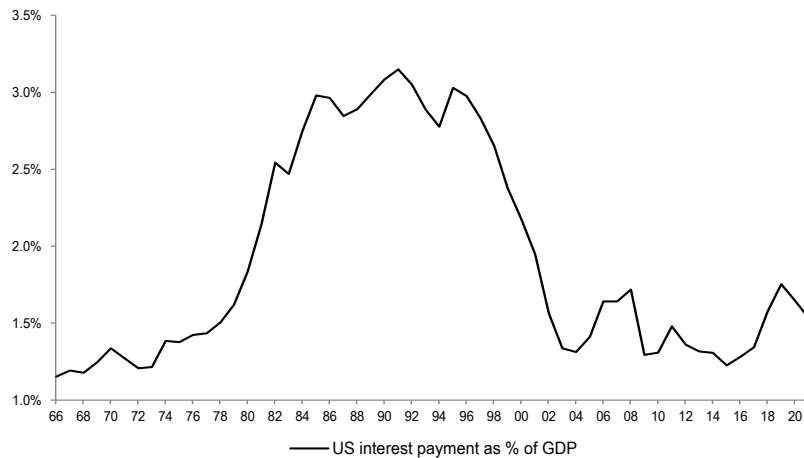
Name	Ticker	Sector	EM exposure
Prudential PLC	PRU LN	Financials	100%
Standard Chartered PLC	STAN LN	Financials	87%
Banco Bilbao Vizcaya Argentari	BBVA SM	Financials	70%
Anglo American PLC	AAL LN	Materials	68%
Coca-Cola HBC AG	CCH LN	Staples	65%
HSBC Holdings PLC	HSBA LN	Financials	62%
Anheuser-Busch InBev SA/NV	ABI BB	Staples	62%
Pernod Ricard SA	RI FP	Staples	60%
Unilever PLC	ULVR LN	Staples	58%
Wartsila OYJ Abp	WRT1V FH	Industrials	58%
Rio Tinto PLC	RIO LN	Materials	58%
Holcim AG	HOLN SW	Materials	55%
MTU Aero Engines AG	MTX GR	Industrials	55%
Carlsberg AS	CARLB DC	Staples	50%
Heineken NV	HEIA NA	Staples	50%
Spirax-Sarco Engineering PLC	SPX LN	Industrials	50%
SGS SA	SGSN SW	Industrials	50%
Accor SA	AC FP	Discretionary	50%
Glencore PLC	GLEN LN	Materials	47%
Epiroc AB	EPIA SS	Industrials	46%
ABB Ltd	ABBN SW	Industrials	45%
Atlas Copco AB	ATCOA SS	Industrials	45%
Schneider Electric SE	SU FP	Industrials	45%
Airbus SE	AIR FP	Industrials	45%
Banco Santander SA	SAN SM	Financials	44%
Akzo Nobel NV	AKZA NA	Materials	43%
Givaudan SA	GIVN SW	Materials	42%
Nokia Oyj	NOKIA FH	IT	42%
Remy Cointreau SA	RCO FP	Staples	40%
Bureau Veritas SA	BVI FP	Industrials	40%
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%
Signify NV	LIGHT NA	Industrials	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%
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	27%
Legrand SA	LR FP	Industrials	27%
Halma PLC	HLMA LN	IT	26%
InterContinental Hotels Group	IHG LN	Discretionary	25%
Sodexo SA	SW FP	Discretionary	25%
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%
Vestas Wind Systems A/S	VVW 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

5) Fiscal support is likely to lead to increased infrastructure spending

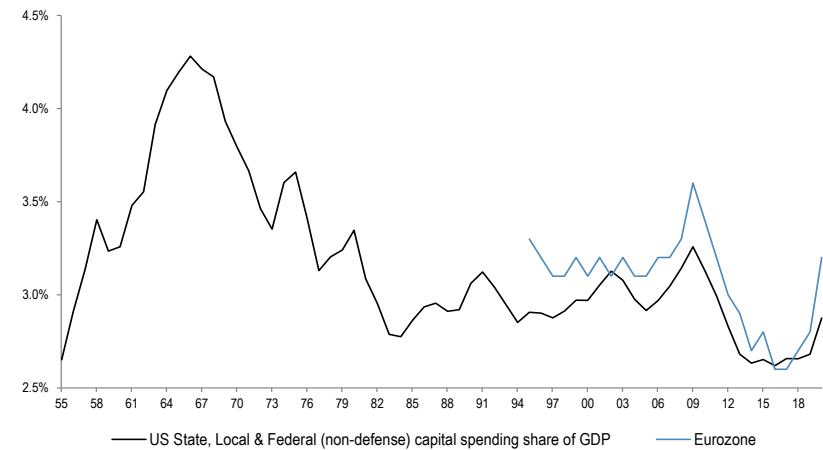
- The infrastructure bill announced in the US could be significant in magnitude, and a more targeted way of supporting the economy.
- Growth multipliers for infrastructure spending are usually high.

US Federal interest payments as a % of GDP



Source: Federal Reserve

US & Eurozone govt capital spending share of GDP

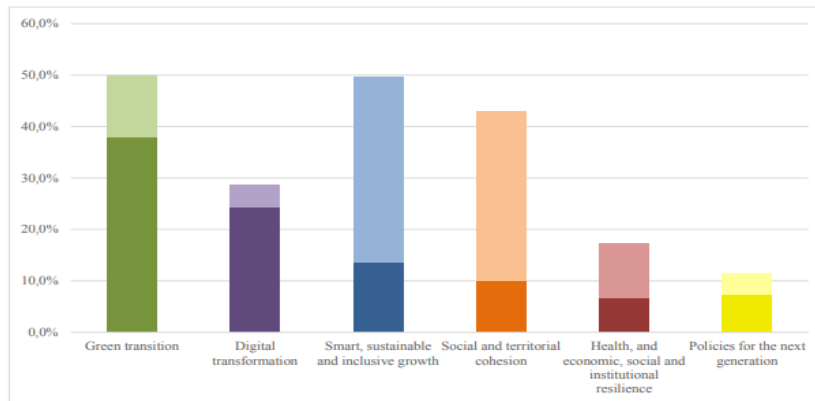


Source: BEA, Eurostat, J.P. Morgan

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 Gamesa Renewable Energy	SGRE SM	Industrials
Siemens AG	SIE GR	Industrials
Schneider Electric SE	SU FP	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 29 European names that are specifically exposed to increasing US infrastructure spend.

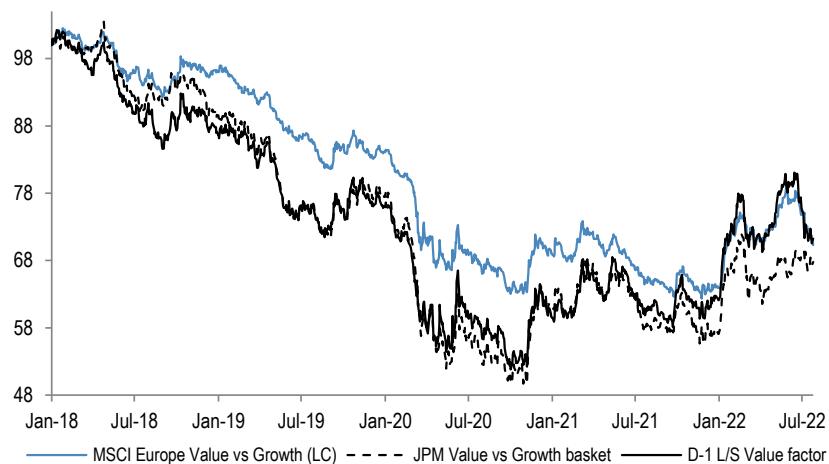
JPM European beneficiaries of US Infra. Plan - JPDUSINF

Name	Ticker	Sector	US revenue exposure
Deutsche Telekom AG	DTE GR	Com. Services	58%
CRH PLC	CRH ID	Materials	56%
Buzzi Unicem SpA	BZU IM	Materials	46%
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%
Air Liquide SA	AI FP	Materials	31%
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%
Prysmian SpA	PRY IM	Industrials	30%
Siemens AG	SIE GR	Industrials	27%
Holcim AG	HOLN SW	Materials	25%
HeidelbergCement AG	HEI GR	Materials	25%
Elekta AB	EKTAB SS	Health Care	25%
Schneider Electric SE	SU FP	Industrials	25%
ABB Ltd	ABBN SW	Industrials	25%
Iberdrola SA	IBE SM	Utilities	24%
Volvo AB	VOLVB SS	Industrials	27%
Signify NV	LIGHT NA	Industrials	22%
Epiroc AB	EPIA SS	Industrials	21%
ArcelorMittal SA	MT NA	Materials	20%
Siemens Gamesa Renewable Energ	SGRE SM	Industrials	18%
Alstom SA	ALO FP	Industrials	16%
Infineon Technologies AG	IFX GR	IT	13%
STMicroelectronics NV	STM FP	IT	11%
Ferrovial SA	FER SM	Industrials	7%

Source: J.P. Morgan

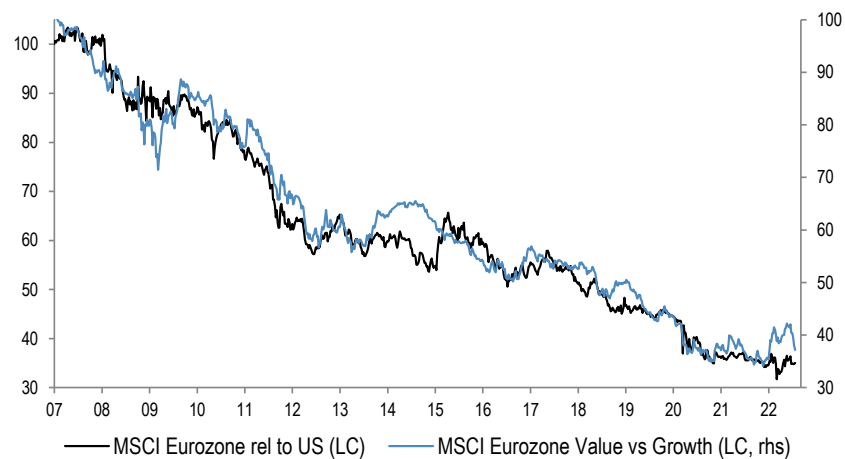
6) Value vs Growth: Style leadership is closely linked to the direction of bond yields...

Value style performance vs Growth



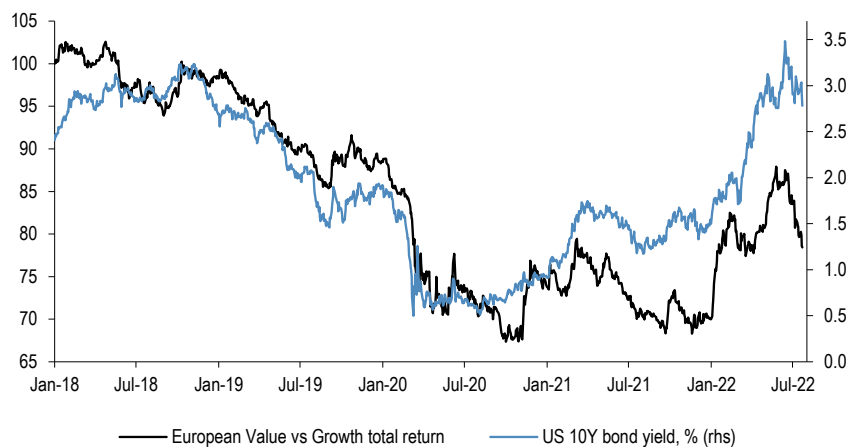
Source: Bloomberg Finance L.P., J.P. Morgan

Eurozone vs US and Value vs Growth



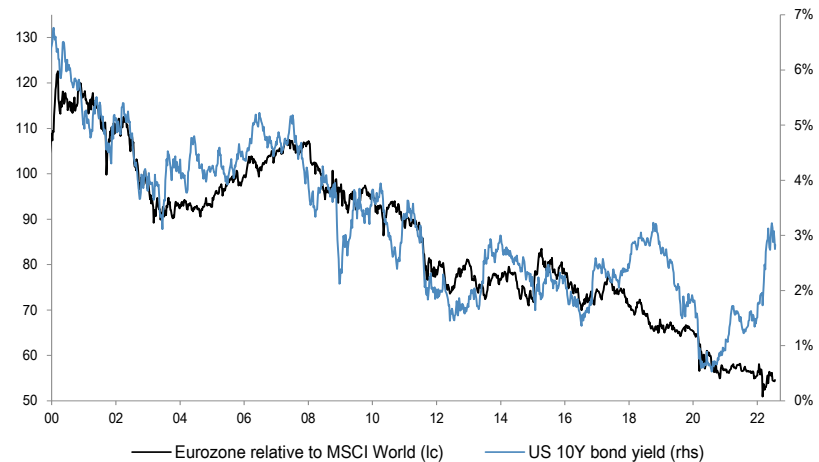
Source: Datastream

MSCI Europe Value vs Growth and US bond yields



Source: Datastream

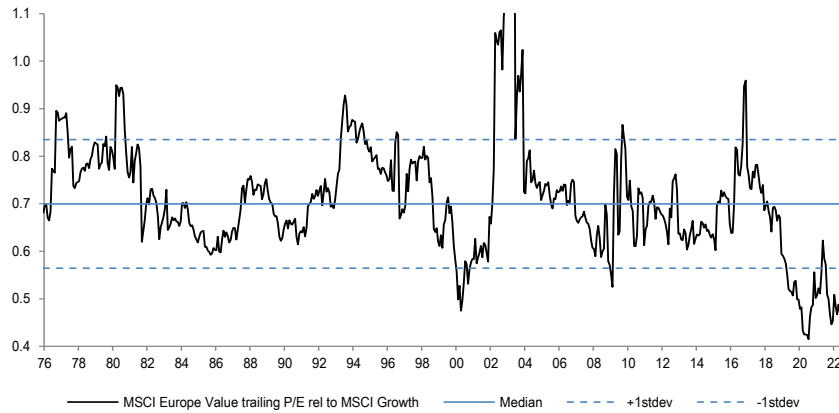
Eurozone relative to World and US 10Y bond yield



Source: Datastream

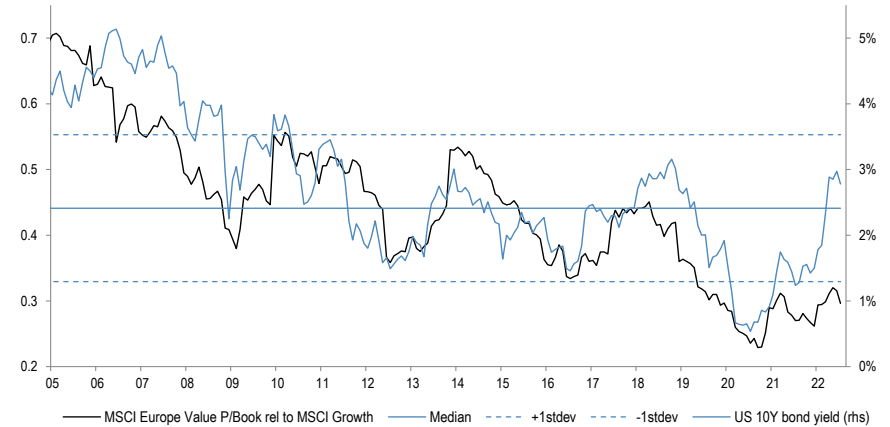
...Value valuations appear attractive; the gap could start closing with bond yields

European Value vs Growth trailing P/E



Source: Datastream

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



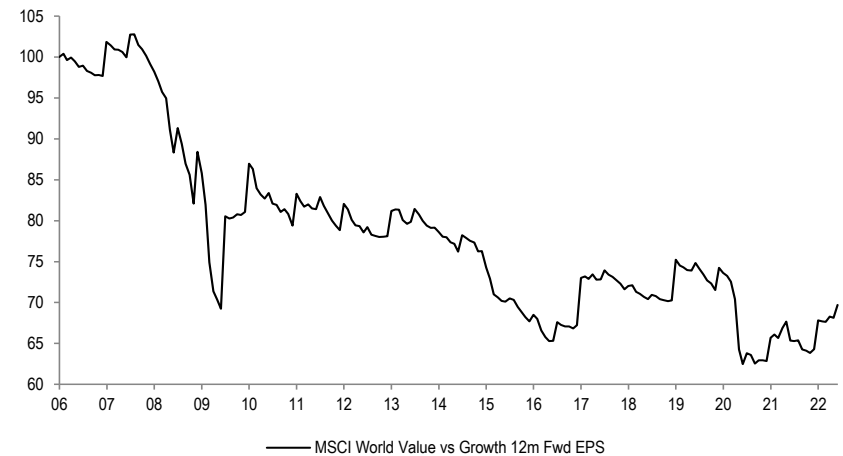
Source: Datastream

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
RAIFFEISEN BANK INTL.	RBI AV	FINANCIALS	0.3
JUST EAT TAKEAWAY.COM	TKWY NA	DISCRETIONARY	0.3
RENAULT	RNO FP	DISCRETIONARY	0.3
STANDARD CHARTERED	STAN LN	FINANCIALS	0.3
SOCIETE GENERALE	GLE FP	FINANCIALS	0.3
CREDIT SUISSE GROUP	CSGN SW	FINANCIALS	0.3
DEUTSCHE BANK (XET)	DBK GR	FINANCIALS	0.4
ORPEA	ORP FP	HEALTH CARE	0.4
COMMERZBANK (XET)	CBK GR	FINANCIALS	0.4
CHOC.LINDT &SPRUENGLI PAR	LISN SW	STAPLES	0.4
UNIBAIL RODAMCO WE STAPLED UNITS	URW NA	REAL ESTATE	0.4
PORSCHE AML.HLDG. (XET) PREF.	PAH3 GR	DISCRETIONARY	0.5
VODAFONE GROUP	VOD LN	COM. SERVICES	0.5
EDF	EDF FP	UTILITIES	0.5
VOESTALPINE	VOE AV	MATERIALS	0.6
VIVENDI	VIV FP	COM. SERVICES	0.6
SAINSBURY J	SBRY LN	STAPLES	0.6
BMW PREF. (XET)	BMW GR	DISCRETIONARY	0.7
SMITH & NEPHEW	SN/ LN	HEALTH CARE	0.7
HEIDELBERGCEMENT (XET)	HEI GR	MATERIALS	0.7
MELROSE INDUSTRIES	MRO LN	INDUSTRIALS	0.8
FRESENIUS (XET)	FRE GR	HEALTH CARE	0.8
ENGIE	ENGI FP	UTILITIES	0.8
COVESTRO (XET)	1COV GR	MATERIALS	0.9
SINCH	SINCH SS	IT	0.9
REPSOL YPF	REP SM	ENERGY	0.9
ENI	ENI IM	ENERGY	0.9
BP	BP/ LN	ENERGY	0.9
TESCO	TSCO LN	STAPLES	1.0
ALSTOM	ALO FP	INDUSTRIALS	1.0
KION GROUP (XET)	KGX GR	INDUSTRIALS	1.0
FRESENIUS MED.CARE (XET)	FME GR	HEALTH CARE	1.0
A P MOLLER MAERSK B	MAERSKB DC	INDUSTRIALS	1.1
SAINT GOBAIN	SGO FP	INDUSTRIALS	1.1
WORLDLINE	WLN FP	IT	1.2
PHILIPS ELTN.KONINKLIJKE	PHIA NA	HEALTH CARE	1.2
BRITISH AMERICAN TOBACCO	BATS LN	STAPLES	1.2
CARREFOUR	CA FP	STAPLES	1.3
AVEVA GROUP	AVV LN	IT	1.4
SANOFI	SAN FP	HEALTH CARE	1.8

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

JPM European Growth - JPDEGROW

Name	Ticker	Sector	Price/ Book
UNILEVER (UK)	ULVR LN	STAPLES	30.0
NOVO NORDISK 'B'	NOVOB DC	HEALTH CARE	24.5
ADYEN	ADYEN NA	IT	22.5
COLOPLAST B	COLOB DC	HEALTH CARE	20.0
FERRARI (MIL)	RACE IM	DISCRETIONARY	19.5
ASML HOLDING	ASML NA	IT	15.8
SGS 'N'	SGSN SW	INDUSTRIALS	14.5
TEMENOS N	TEMN SW	IT	13.1
RELX	REL LN	INDUSTRIALS	12.7
DIAGEO	DGE LN	STAPLES	12.0
HERMES INTL.	RMS FP	DISCRETIONARY	11.3
VAT GROUP	VACN SW	INDUSTRIALS	11.1
RATIONAL (XET)	RAA GR	INDUSTRIALS	10.3
ROCHE HOLDING	ROG SW	HEALTH CARE	10.0
NOVOZYMES B	NZYMB DC	MATERIALS	9.6
EMS-CHEMIE 'N'	EMSN SW	MATERIALS	9.1
KUEHNE UND NAGEL INTERNATIONAL	KNIN SW	INDUSTRIALS	8.2
DEMANT	DEMANT DC	HEALTH CARE	8.0
NEXT	NXT LN	DISCRETIONARY	7.8
PARTNERS GROUP HOLDING	PGHN SW	FINANCIALS	7.8
SONOVA N	SOON SW	HEALTH CARE	7.4
GIVAUDAN 'N'	GIVN SW	MATERIALS	7.4
DAVIDE CAMPARI MILANO	CPR IM	STAPLES	7.2
L'OREAL	OR FP	STAPLES	7.2
ORION B	ORNBV FH	HEALTH CARE	7.2
HARGREAVES LANSDOWN	HL/ LN	FINANCIALS	6.3
PANDORA	PNDORA DC	DISCRETIONARY	6.3
RECKITT BENCKISER GROUP	RKT LN	STAPLES	5.9
ST.JAMES'S PLACE ORD	STJ LN	FINANCIALS	5.5
SEVERN TRENT	SVT LN	UTILITIES	5.4
KPN KON	KPN NA	COM. SERVICES	5.1
NESTE	NESTE FH	ENERGY	4.9
ADMIRAL GROUP	ADM LN	FINANCIALS	4.7
ORSTED	ORSTED DC	UTILITIES	4.6
FINECOBANK SPA	FBK IM	FINANCIALS	4.1
DEUTSCHE BOERSE (XET)	DB1 GR	FINANCIALS	4.0
EQUINOR	EQNR NO	ENERGY	3.1
UBISOFT ENTERTAINMENT CAT A	UBI FP	COM. SERVICES	2.9
TENARIS	TEN IM	ENERGY	1.4
SWISS PRIME SITE	SPSN SW	REAL ESTATE	1.0

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%
PORSCHE AML.HLDG. (XET) PREF.	PAH3 GR	DISCRETIONARY	23%
STELLANTIS	STLA IM	DISCRETIONARY	23%
INTESA SANPAOLO	ISP IM	FINANCIALS	22%
UBS GROUP	UBSG SW	FINANCIALS	22%
RAIFFEISEN BANK INTL.	RBI AV	FINANCIALS	21%
FAURECIA	EO FP	DISCRETIONARY	21%
AVIVA	AVI 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%

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

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%
SWISS PRIME SITE	SPSN SW	REAL ESTATE	-35%
NESTLE 'N'	NESN SW	STAPLES	-34%
VONOVIA (XET)	VNA GR	REAL ESTATE	-32%
UNITED UTILITIES GROUP	UU/ LN	UTILITIES	-30%
GSK	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%
COLRUYT	COLR BB	STAPLES	-22%
BUNZL	BNZL LN	INDUSTRIALS	-22%
DANONE	BN FP	STAPLES	-22%
ESSILORLUXOTTICA	EL FP	DISCRETIONARY	-21%
KONINKLIJKE AHOLD DELHAIZE	AD NA	STAPLES	-21%
FASTIGHETS BALDER B	BALDB SS	REAL ESTATE	-20%
ORPEA	ORP FP	HEALTH CARE	-20%
PROXIMUS	PROX BB	COM. SERVICES	-20%
BACHEM HOLDING	BANB SW	HEALTH CARE	-20%
DAVIDE CAMPARI MILANO	CPR IM	STAPLES	-19%

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%
REPSOL YPF	REP SM	ENERGY	54%
SAINT GOBAIN	SGO FP	INDUSTRIALS	52%
RICHEMONT N	CFR SW	DISCRETIONARY	52%
PORSCHE AML.HLDG. (XET) PEF.	PAH3 GR	DISCRETIONARY	51%
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%
CNP ASSURANCES DEAD - DELIST.20/06/22	CNP FP	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%
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%
NATWEST GROUP	NWG LN	FINANCIALS	39%
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	AV/ LN	FINANCIALS	38%
AIRBUS	AIR FP	INDUSTRIALS	38%
ALFA LAVAL	ALFA SS	INDUSTRIALS	36%
RAIFFEISEN BANK INTL.	RBI AV	FINANCIALS	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%

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)	COLOB DC	REAL ESTATE	-53%
COLOPLAST B	UU/ LN	HEALTH CARE	-53%
UNITED UTILITIES GROUP	SY1 GR	UTILITIES	-52%
SYMRISE (XET)	ENX FP	MATERIALS	-51%
EURONEXT	NESN SW	FINANCIALS	-50%
NESTLE 'N'	HNR1 GR	STAPLES	-50%
HANNOVER RUECK (XET)	LUNDB SS	FINANCIALS	-50%
LUNDBERGFORETAGEN B	SVT LN	FINANCIALS	-50%
SEVERN TRENT	NOVN SW	UTILITIES	-50%
NOVARTIS 'R'	FME GR	HEALTH CARE	-49%
FRESENIUS MED.CARE (XET)	ENG SM	HEALTH CARE	-49%
ENAGAS	GIVN SW	UTILITIES	-49%
GIVAUDAN 'N'	COLR BB	MATERIALS	-48%
COLRUYT	BIM FP	STAPLES	-48%
BIOMERIEUX	CHR DC	HEALTH CARE	-48%
CHRISTIAN HANSEN HOLDING	LSEG LN	MATERIALS	-48%
LONDON STOCK EXCHANGE GROUP	REE SM	FINANCIALS	-47%
RED ELECTRICA	REL LN	UTILITIES	-47%
RELX	SN/ LN	INDUSTRIALS	-46%
SMITH & NEPHEW	KNEBV FH	HEALTH CARE	-46%
KONE 'B'	SAN FP	INDUSTRIALS	-46%
SANOFI	PROX BB	HEALTH CARE	-45%
PROXIMUS	O2D GR	COM. SERVICES	-45%
TELEFONICA DTL. (XET) HLDG.	AD NA	COM. SERVICES	-45%
KONINKLIJKE AHOLD DELHAIZE	GMAB DC	STAPLES	-45%
GENMAB	UCB BB	HEALTH CARE	-45%
UCB	AI FP	HEALTH CARE	-44%
L AIR LQE.SC.ANYME. POUR L ETUDE			
ET L EPXTN.	FER SM	MATERIALS	-43%
FERROVIAL	GJF NO	INDUSTRIALS	-43%
GJENSIDIGE FORSIKRING	AUTO LN	FINANCIALS	-43%
AUTO TRADER GROUP	BEI GR	COM. SERVICES	-43%

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

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	
TENARIS	TEN IM	Energy	12%	17%	22%	40%	23%
ENI	ENI IM	Energy	15%	6%	11%	35%	17%
REPSOL YPF	REP SM	Energy	11%	2%	17%	34%	16%
TOTALENERGIES	TTE FP	Energy	7%	9%	11%	32%	15%
OMV	OMV AV	Energy	8%	11%	5%	29%	13%
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%
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%
EXOR ORD	EXO IM	Financials	12%	18%	19%	17%	16%
DNB BANK	DNB NO	Financials	13%	20%	8%	24%	16%
EURAZEO	RF FP	Financials	19%	11%	17%	17%	16%
CREDIT SUISSE GROUP	CSGN SW	Financials	17%	18%	14%	14%	16%
NATWEST GROUP	NWG LN	Financials	11%	27%	16%	8%	15%
CNH INDUSTRIAL	CNHI US	Industrials	20%	19%	20%	29%	22%
SAINT GOBAIN	SGO FP	Industrials	12%	13%	20%	20%	16%
SANDVIK	SAND SS	Industrials	14%	14%	10%	17%	14%
AERCAP HOLDINGS N V	AER US	Industrials	9%	10%	14%	20%	13%
RANDSTAD	RAND NA	Industrials	13%	15%	13%	9%	13%
ABB LTD N	ABBN SW	Industrials	8%	11%	8%	22%	12%
SCHNEIDER ELECTRIC	SU FP	Industrials	8%	18%	15%	6%	12%
VOLVO A	VOLVB SS	Industrials	11%	14%	8%	13%	12%
ARCELORMITTAL	MT NA	Materials	19%	18%	21%	39%	24%
GLENCORE	GLEN LN	Materials	12%	21%	21%	32%	22%
ANGLO AMERICAN	AAL LN	Materials	12%	12%	11%	37%	18%
VOESTALPINE	VOE AV	Materials	16%	13%	14%	22%	16%
ANTOFAGASTA	ANTO LN	Materials	14%	8%	9%	32%	16%
NORSK HYDRO	NHY NO	Materials	8%	9%	15%	30%	16%
BOLIDEN ORD SHS	BOL SS	Materials	9%	7%	14%	30%	15%
ARKEMA	AKE FP	Materials	12%	13%	17%	16%	14%
BASF (XET)	BAS GR	Materials	15%	10%	9%	23%	14%
HEIDELBERGCEMENT (XET)	HEI GR	Materials	18%	8%	13%	17%	14%
RIO TINTO	RIO LN	Materials	19%	-6%	7%	33%	13%
COVESTRO (XET)	1COV GR	Materials	13%	8%	12%	19%	13%
STORA ENSO R	STERV FH	Materials	11%	14%	18%	6%	12%

JPM Rising inflation losers - JPDEINFL

Name	Ticker	Sector	Correlation to				Average correlation
			Yield Curve	US Inflation forwards	EUR Inflation Forwards	S&P GSCI	
SWISSCOM 'R'	SCMN SW	Comm Svcs	-18%	-20%	-15%	-35%	-22%
INFRASTRUTTURE							
WIRELESS ITALIANE SPA							
NPV	INW IM	Comm Svcs	-19%	-21%	-15%	-19%	-18%
PROXIMUS	PROX BB	Comm Svcs	-6%	-12%	-13%	-25%	-14%
VODAFONE GROUP	VOD LN	Comm Svcs	-11%	-10%	-18%	-13%	-13%
ESSILORLUXOTTICA	EL FP	Discretionary	-12%	-14%	-11%	-19%	-14%
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	-20%	-20%	-20%	-31%	-23%
COLRUYT	COLR BB	Staples	-6%	-21%	-21%	-29%	-19%
DIAGEO	DGE LN	Staples	-16%	-17%	-17%	-26%	-19%
DANONE	BN FP	Staples	-13%	-21%	-16%	-27%	-19%
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%
IMPERIAL BRANDS	IMB LN	Staples	-17%	-10%	-18%	-18%	-16%
L'OREAL	OR FP	Staples	-12%	-17%	-7%	-24%	-15%
CHOCOLADEFABRIKEN							
LINDT & SPRUENGLI	LISN SW	Staples	-8%	-18%	-12%	-18%	-14%
BRITISH AMERICAN TOBACCO	BATS LN	Staples	-15%	-10%	-16%	-16%	-14%
KONINKLIJKE AHOLD							
DELHAIZE	AD NA	Staples	-12%	-12%	-3%	-27%	-13%
GSK	GSK LN	Health Care	-21%	-15%	-17%	-35%	-22%
NOVARTIS 'R'	NOVN SW	Health Care	-15%	-17%	-21%	-26%	-20%
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%
COLOPLAST B	COLOB DC	Health Care	-16%	-12%	-17%	-21%	-16%
QIAGEN (XET)	QGEN US	Health Care	-11%	-14%	-13%	-27%	-16%
DIASORIN	DIA IM	Health Care	-8%	-20%	-16%	-21%	-16%
FRESENIUS MED.CARE (XET)	FME GR	Health Care	-12%	-15%	-10%	-25%	-15%
BIOMERIEUX	BIM FP	Health Care	-12%	-10%	-15%	-23%	-15%
BACHEM HOLDING	BANB SW	Health Care	-15%	-9%	-11%	-18%	-13%
VONOVIA (XET)	VNA GR	Real Estate	-24%	-19%	-15%	-15%	-18%
LEG IMMOBILIEN (XET)	LEG GR	Real Estate	-26%	-18%	-15%	-15%	-18%
SWISS PRIME SITE	SPSN SW	Real Estate	-18%	-15%	-17%	-23%	-18%
ELIA GROUP	ELI BB	Utilities	-19%	-18%	-16%	-28%	-20%
TERNA RETE ELETTRICA NAZTRN IM		Utilities	-14%	-23%	-14%	-22%	-18%
UNITED UTILITIES GROUP	UU/ LN	Utilities	-23%	-13%	-15%	-23%	-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%
SSE	SSE LN	Utilities	-14%	-11%	-12%	-14%	-13%

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

e) Valuation buying and selling opportunities

JPM Valuation Buying Opp- JP20BOPP

Company	JPM Rating.	Price perf since Jan'2020	Mkt. Rel. P/E chg vs. Jan 20	JPM vs Cons.
Anglo American	N	113%	-15%	1%
ArcelorMittal SA	OW	90%	-50%	72%
BASF SE	OW	-6%	-25%	3%
Beazley PLC	OW	-9%	-18%	12%
Burberry Group	N	-21%	-19%	2%
Coca-Cola HBC AG	N	-27%	-6%	3%
Covestro AG	N	21%	-25%	4%
DCC PLC	OW	-8%	-17%	5%
Deutsche Bank AG	OW	50%	-60%	10%
Engie SA	OW	-3%	-19%	16%
Eni SpA	OW	21%	-30%	10%
Fluidra SA	OW	100%	-15%	8%
Glencore PLC	OW	143%	-43%	7%
Grifols SA	N	-38%	-7%	5%
Hannover Rueck	OW	-8%	-17%	2%
HeidelbergCement	N	-8%	-15%	5%
Hikma Pharma.	N	-15%	-28%	6%
Inditex	OW	-19%	-8%	7%
Infineon	N	41%	-14%	7%
Intertek Group PLC	OW	-20%	-6%	2%
Johnson Matthey	N	-25%	-9%	2%
K+S AG	OW	128%	-54%	16%
Kering SA	N	-7%	-8%	2%
Lundin Energy AB	N	72%	-19%	9%
Marks & Spencer	N	-32%	-10%	9%
Norsk Hydro ASA	N	155%	-39%	7%
Phoenix Group	OW	2%	-35%	8%
Puma SE	OW	7%	-13%	1%
Repsol SA	OW	33%	-15%	3%
Rio Tinto PLC	N	70%	-23%	2%
SAP SE	N	-18%	-5%	4%
Sartorius Stedim	OW	118%	-8%	5%
Shell PLC	OW	21%	-27%	25%
Solvay SA	OW	3%	-13%	5%
Swiss Re AG	N	-10%	-12%	3%
Temenos AG	OW	-42%	-32%	2%
Uniper SE	OW	-17%	-18%	4%
Victrex PLC	OW	-23%	-6%	7%
Vodafone Group	OW	0%	-13%	2%
Volvo AB	N	37%	-5%	2%
Yara International	N	70%	-31%	35%

JPM Valuation Selling Opp- JP20SOPP

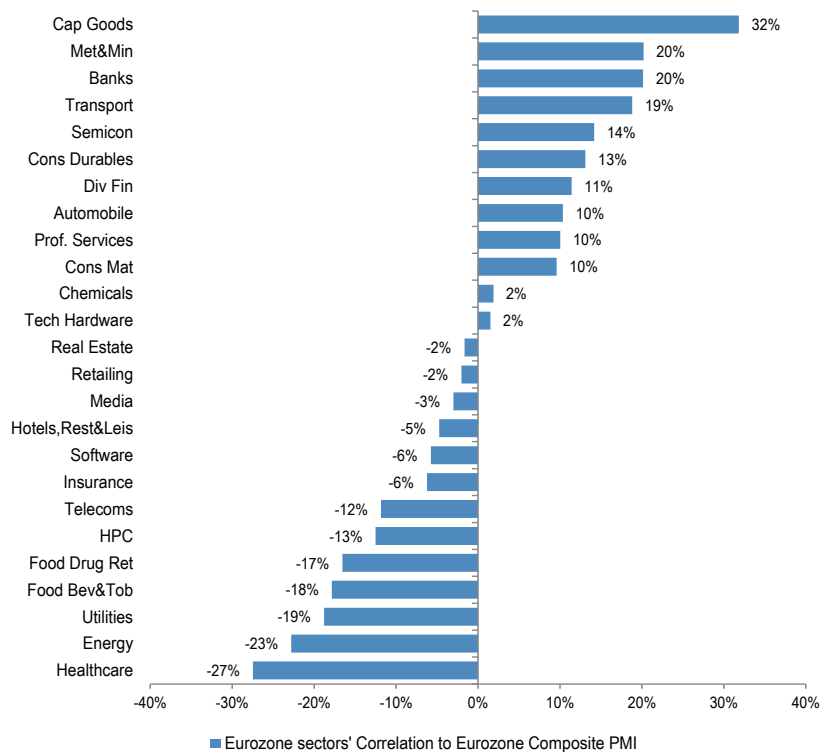
Company	JPM Rating.	Price perf since Jan'2020	Mkt. Rel. P/E chg vs. Jan 20	JPM vs Cons.
ABB Ltd	N	42%	6%	-3%
ABN AMRO Bank	UW	-25%	24%	-6%
Alcon Inc	N	33%	19%	-1%
Alfa Laval AB	UW	15%	19%	-11%
AB Inbev	UW	-28%	10%	-2%
Bank of Ireland Group PLC	N	34%	17%	-6%
Beiersdorf AG	N	-3%	12%	-9%
Chr Hansen	N	-3%	19%	-4%
Michelin	N	20%	13%	-11%
Clariant AG	N	11%	14%	-3%
Commerzbank AG	N	50%	19%	-6%
Credit Suisse	UW	-44%	15%	-6%
Croda International	UW	34%	20%	-21%
DNB Bank ASA	N	34%	18%	-6%
Essity AB	UW	-7%	11%	-2%
Ferrovial SA	N	-3%	88%	-2%
Fresenius Medical	UW	-16%	8%	-3%
Givaudan SA	N	21%	21%	-3%
GSK PLC	N	11%	7%	-4%
Henkel	N	-28%	8%	-4%
IMCD NV	N	91%	19%	-1%
M&G PLC	N	22%	30%	-11%
Orsted AS	N	16%	18%	-6%
Pennon Group PLC	N	7%	95%	-15%
Roche Holding AG	N	12%	14%	-4%
Rolls-Royce	UW	-61%	19%	-31%
Sage Group	N	-7%	10%	-2%
Schindler	N	-19%	8%	-3%
Signify NV	N	47%	12%	-3%
SEB	UW	44%	16%	-6%
SOITEC	N	85%	34%	-1%
SSE PLC	N	39%	24%	-5%
Unilever PLC	UW	-8%	7%	-3%
Wartsila OYJ Abp	UW	-11%	21%	-13%

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

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

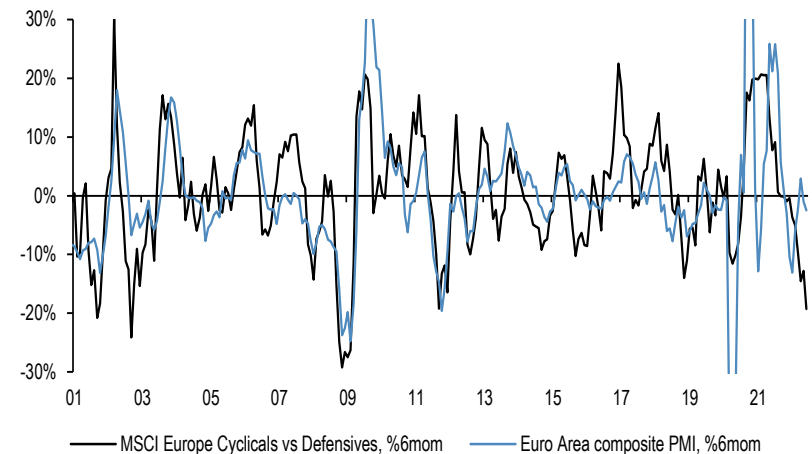
- Cyclical vs Defensives relative performance is strongly linked to PMI direction.
- At a sector level, Industrials & Financials display the highest positive correlation to PMIs.

European sectors correlation to Eurozone composite PMI



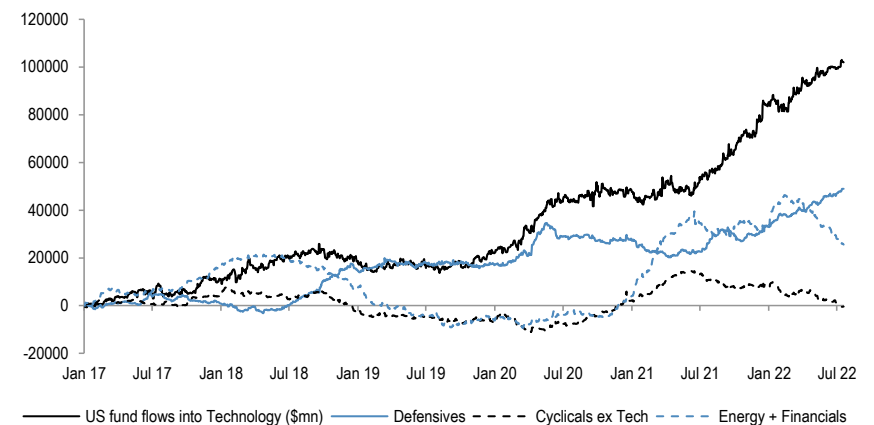
Source: Markit, Datastream

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
ARCELORMITTAL	MT NA	MATERIALS
ARKEMA	AKE FP	MATERIALS
COVESTRO (XET)	1COV GR	MATERIALS
JOHNSON MATTHEY	JMAT LN	MATERIALS
SVENSKA CELLULOSA AKTIEBOLAGET		
SCA B	SCAB SS	MATERIALS
SIKA	SIKA SW	MATERIALS
MONDI	MNDI LN	MATERIALS
SOLVAY	SOLB BB	MATERIALS
GEBERIT 'R'	GEBN SW	INDUSTRIALS
HUSQVARNA B	HUSQB SS	INDUSTRIALS
AERCAP HOLDINGS N V	AER US	INDUSTRIALS
A P MOLLER MAERSK A	MAERSKB DC	INDUSTRIALS
IMCD GROUP	IMCD NA	INDUSTRIALS
KION GROUP (XET)	KGX GR	INDUSTRIALS
BAE SYSTEMS	BA/ LN	INDUSTRIALS
BRENNTAG (XET)	BNR GR	INDUSTRIALS
BUNZL	BNZL LN	INDUSTRIALS
DAIMLER TRUCK (XET) HOLDING E	DTG GR	INDUSTRIALS
DEUTSCHE POST (XET)	DPW GR	INDUSTRIALS
DSV	DSV DC	INDUSTRIALS
EPIROC A	EPIA SS	INDUSTRIALS
KONE 'B'	KNEBV FH	INDUSTRIALS
EXPERIAN	EXPN LN	INDUSTRIALS
NEXT	NXT LN	DISCRETIONARY
DELIVERY HERO (XET)	DERH GR	DISCRETIONARY
ELECTROLUX B	ELUXB SS	DISCRETIONARY
PANDORA	PNDORA DC	DISCRETIONARY
STELLANTIS	STLA US	DISCRETIONARY
PUMA (XET)	PUM GR	DISCRETIONARY
HENNES & MAURITZ B	HMB SS	DISCRETIONARY
INDITEX	ITX SM	DISCRETIONARY
JUST EAT TAKEAWAY.COM	TKWY NA	DISCRETIONARY
SODEXO	SW FP	DISCRETIONARY
MERCEDES-BENZ GROUP(XET) N	MBG GR	DISCRETIONARY
ADYEN	ADYEN NA	IT
AVEVA GROUP	AVV LN	IT
BECHTLE (XET)	BC8 GR	IT
CAPGEMINI	CAP FP	IT
HALMA	HLMA LN	IT
HEXAGON B	HEXAB SS	IT

JPM European Defensive - JPDEDEF

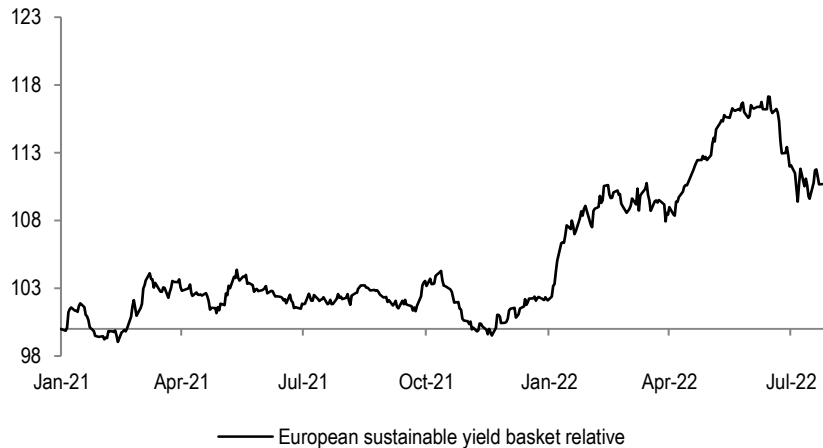
Name	Ticker	Sector
ANHEUSER-BUSCH INBEV	ABI BB	STAPLES
BEIERSDORF (XET)	BEI GR	STAPLES
CARLSBERG B	CARLB DC	STAPLES
CARREFOUR	CA FP	STAPLES
COCA COLA EUROPACIFIC PARTNERS	CCEP US	STAPLES
COCA-COLA HBC	CCH LN	STAPLES
DANONE	BN FP	STAPLES
DIAGEO	DGE LN	STAPLES
HEINEKEN HOLDING	HEIO NA	STAPLES
HEINEKEN	HEIA NA	STAPLES
HENKEL (XET)	HEN3 GR	STAPLES
JERONIMO MARTINS	JMT PL	STAPLES
AMBU B	AMBUB DC	HEALTH CARE
GETINGE B	GETIB SS	HEALTH CARE
BAYER (XET)	BAYN GR	HEALTH CARE
COLOPLAST B	COLOB DC	HEALTH CARE
DEMANT	DEMANT DC	HEALTH CARE
FRESENIUS (XET)	FRE GR	HEALTH CARE
BT GROUP	BT/A LN	COM. SERVICES
DEUTSCHE TELEKOM (XET)	DTE GR	COM. SERVICES
VIVENDI	VIV FP	COM. SERVICES
KPN KON	KPN NA	COM. SERVICES
VODAFONE GROUP	VOD LN	COM. SERVICES
ELISA	ELISA FH	COM. SERVICES
PROXIMUS	PROX BB	COM. SERVICES
SCOUT24 (XET)	G24 GR	COM. SERVICES
TELEFONICA	TEF SM	COM. SERVICES
TELE2 B	TEL2B SS	COM. SERVICES
TELIA COMPANY	TELIA SS	COM. SERVICES
UNITED INTERNET (XET)	UTDI GR	COM. SERVICES
EDP ENERGIAS DE PORTUGAL	EDP PL	UTILITIES
ELIA GROUP	ELI BB	UTILITIES
ENAGAS	ENG SM	UTILITIES
ENDESA	ELE SM	UTILITIES
ENEL	ENEL IM	UTILITIES
IBERDROLA	IBE SM	UTILITIES
ORSTED	ORSTED DC	UTILITIES
SNAM	SRG IM	UTILITIES
SSE	SSE LN	UTILITIES
TERNA RETE ELETTRICA NAZ	TRN IM	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

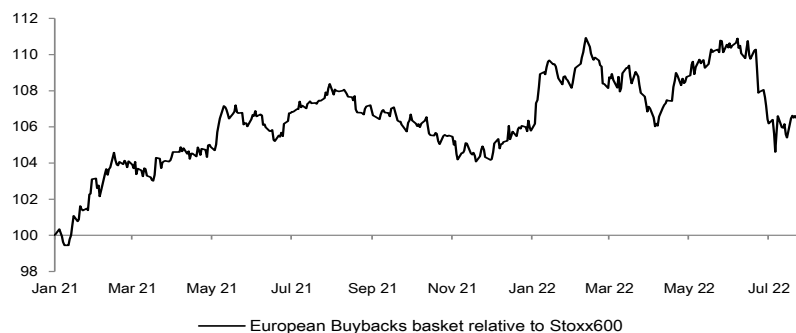
Name	Ticker	Sector	DY
AP Moller - Maersk A/S	MAERSKB DC	Industrials	22.6%
K+S AG	SDF GR	Materials	13.0%
OCI NV	OCI NA	Materials	12.4%
Covestro AG	1COV GR	Materials	9.9%
Barratt Developments PLC	BDEV LN	Discretionary	9.7%
Glencore PLC	GLEN LN	Materials	9.0%
Banco Bilbao Vizcaya Argentari	BBVA SM	Financials	8.9%
abrdn plc	ABDN LN	Financials	8.9%
Norsk Hydro ASA	NHY NO	Materials	8.7%
Credit Agricole SA	ACA FP	Financials	8.7%
Engie SA	ENGI FP	Utilities	8.6%
Aviva PLC	AV/ LN	Financials	8.5%
M&G PLC	MNG LN	Financials	8.5%
Proximus SADP	PROX BB	Com. Services	8.3%
BASF SE	BAS GR	Materials	8.1%
Imperial Brands PLC	IMB LN	Staples	7.9%
Volvo AB	VOLVB SS	Industrials	7.9%
Bayerische Motoren Werke AG	BMW GR	Discretionary	7.6%
Eni SpA	ENI IM	Energy	7.5%
Danske Bank A/S	DANSKE DC	Financials	7.4%
Fortum Oyj	FORTUM FH	Utilities	7.1%
Swedbank AB	SWEDA SS	Financials	7.1%
Nordea Bank Abp	NDA SS	Financials	7.0%
Intesa Sanpaolo SpA	ISP IM	Financials	6.9%
Svenska Handelsbanken AB	SHBA SS	Financials	6.8%
British American Tobacco PLC	BATS LN	Staples	6.8%
Randstad NV	RAND NA	Industrials	6.6%
Telefonica SA	TEF SM	Com. Services	6.3%
Porsche Automobil Holding SE	PAH3 GR	Discretionary	6.2%
Vodafone Group PLC	VOD LN	Com. Services	6.1%
J Sainsbury PLC	SBRY LN	Staples	6.1%
Orpea SA	ORP FP	Health Care	6.0%
Berkeley Group Holdings PLC	BKG LN	Discretionary	6.0%
Julius Baer Group Ltd	BAER SW	Financials	5.9%
Skandinaviska Enskilda Banken	SEBA SS	Financials	5.9%
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%
Volkswagen AG	VOW GR	Discretionary	5.4%
Industria de Diseno Textil SA	ITX SM	Discretionary	5.2%

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

8b) European Buybacks basket

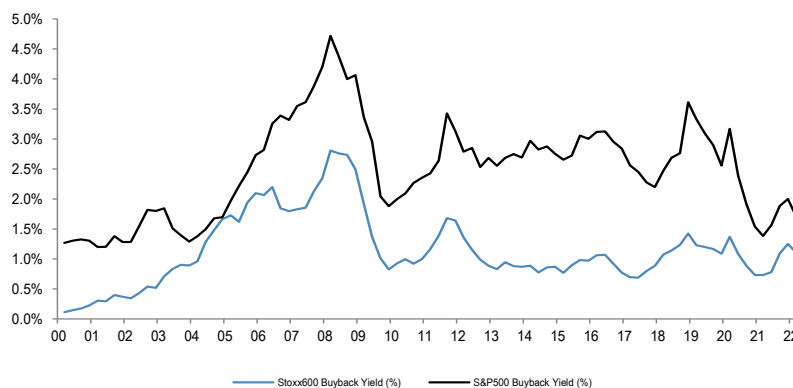
- We believe stocks engaging in buybacks will be rewarded by the market.
- We compile a list of stocks that are currently doing a buyback/are expected to do one in 2022.

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

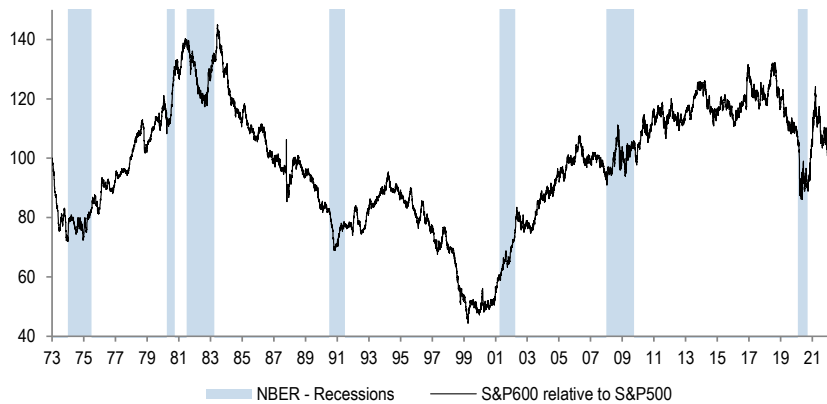
Name	Ticker	Sector	Buyback yield
Aviva PLC	AV/ LN	Financials	29.1%
Quilter PLC	QLT LN	Financials	17.9%
ArcelorMittal SA	MT NA	Materials	17.0%
Telia Co AB	TELIA SS	Com. Services	14.1%
BAWAG Group AG	BG AV	Financials	10.1%
DSV A/S	DSV DC	Industrials	10.0%
WPP PLC	WPP LN	Com. Services	9.0%
Rexel SA	RXL FP	Industrials	9.0%
Intesa Sanpaolo SpA	ISP IM	Financials	8.6%
Scout24 SE	G24 GR	Com. Services	8.0%
Jyske Bank A/S	JYSK DC	Financials	7.9%
Pennon Group PLC	PNN LN	Utilities	7.7%
BP PLC	BP/ LN	Energy	7.6%
NN Group NV	NN NA	Financials	7.6%
Melrose Industries PLC	MRO LN	Industrials	7.0%
Shell PLC	SHEL LN	Energy	6.8%
UBS Group AG	UBSG SW	Financials	6.4%
Pandora A/S	PNDORA DC	Discretionary	6.0%
Pearson PLC	PSON LN	Com. Services	6.0%
Societe Generale SA	GLE FP	Financials	5.9%
Repsol SA	REP SM	Energy	5.8%
Nordea Bank Abp	NDA SS	Financials	5.2%
Acerinox SA	ACX SM	Materials	5.0%
Vivendi SE	VIV FP	Com. Services	5.0%
Hikma Pharmaceuticals PLC	HIK LN	Health Care	5.0%
AP Moller - Maersk A/S	MAERSKA DC	Industrials	5.0%
Lloyds Banking Group PLC	LLOY LN	Financials	4.3%
Equinor ASA	EQNR NO	Energy	4.1%
APERAM SA	APAM NA	Materials	4.0%
Berkeley Group Holdings PLC	BKG LN	Discretionary	4.0%
Kingfisher PLC	KGF LN	Discretionary	4.0%
Vinci SA	DG FP	Industrials	4.0%
Tesco PLC	TSCO LN	Staples	4.0%
TotalEnergies SE	TTE FP	Energy	3.9%
Novo Nordisk A/S	NOVOB DC	Health Care	3.8%
Barclays PLC	BARC LN	Financials	3.5%
Thales SA	HO FP	Industrials	3.5%
Julius Baer Group Ltd	BAER SW	Financials	3.4%
Eni SpA	ENI IM	Energy	3.4%
Nestle SA	NESN SW	Staples	3.3%
Muenchener Rueckversicherungs-	MUV2 GR	Financials	3.2%
Banco Santander SA	SAN SM	Financials	3.1%
Henkel AG & Co KGaA	HEN3 GR	Staples	3.1%
Royal Mail PLC	RMG LN	Industrials	3.0%
Carlsberg AS	CARLB DC	Staples	3.0%
Buzzi Unicem SpA	BZU IM	Materials	3.0%
Next PLC	NXT LN	Discretionary	3.0%
ING Groep NV	INGA NA	Financials	2.9%
Demant A/S	DEMANT DC	Health Care	2.9%
Sonova Holding AG	SOON SW	Health Care	2.6%

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

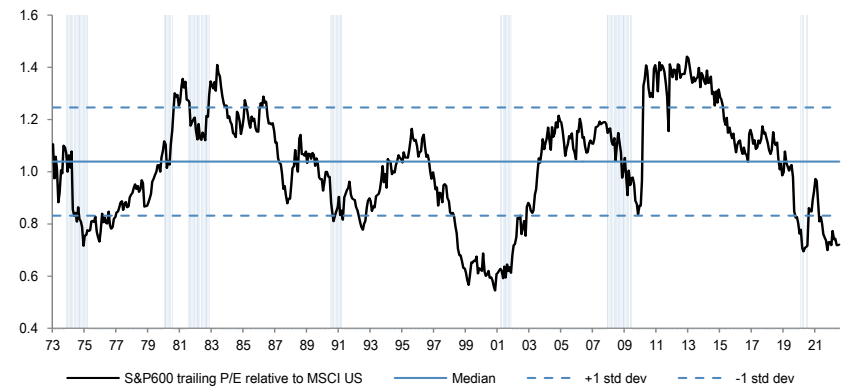
9) US small cap valuations still look cheap...

- 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



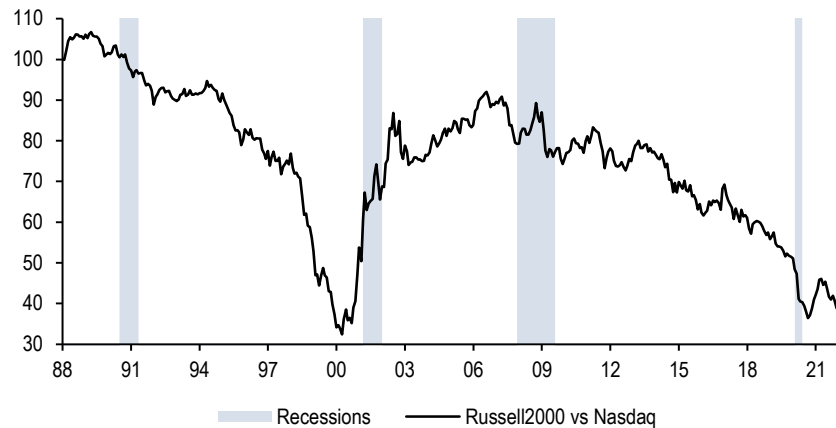
S&P600 small caps trailing P/E relative to MSCI US



Source: Datastream, shaded bars denote recession

Source: Datastream

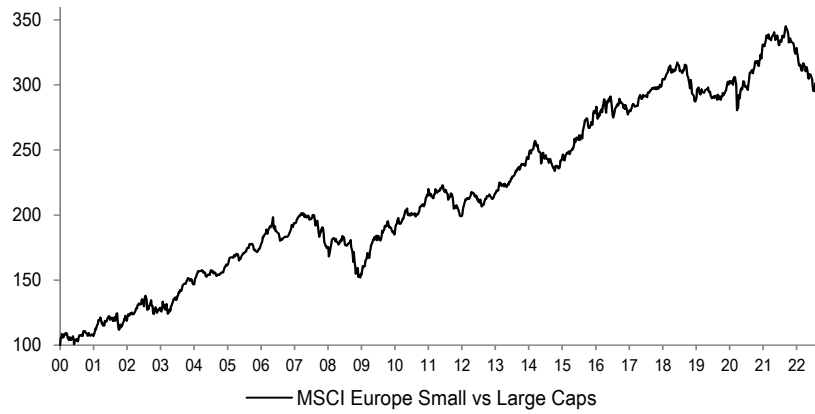
Russell2000 relative to Nasdaq



Source: Datastream

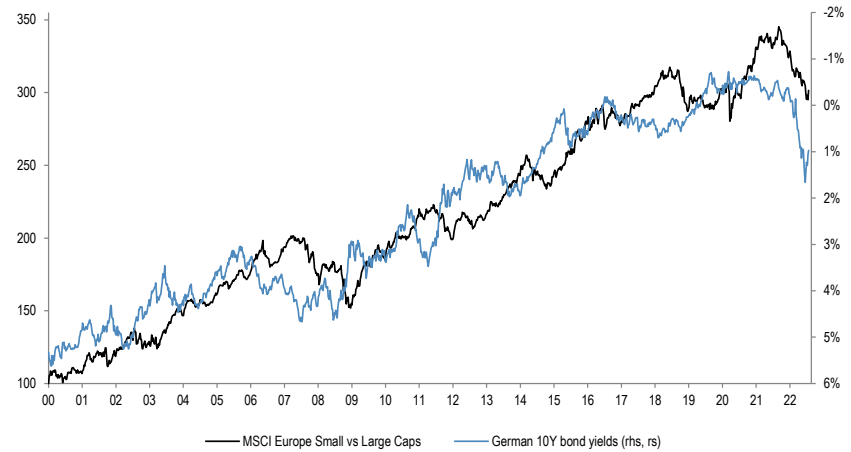
...Eurozone small caps appear more expensive, however

Europe small vs large caps



Source: Datastream

Europe small vs large caps vs German 10Y bond yields



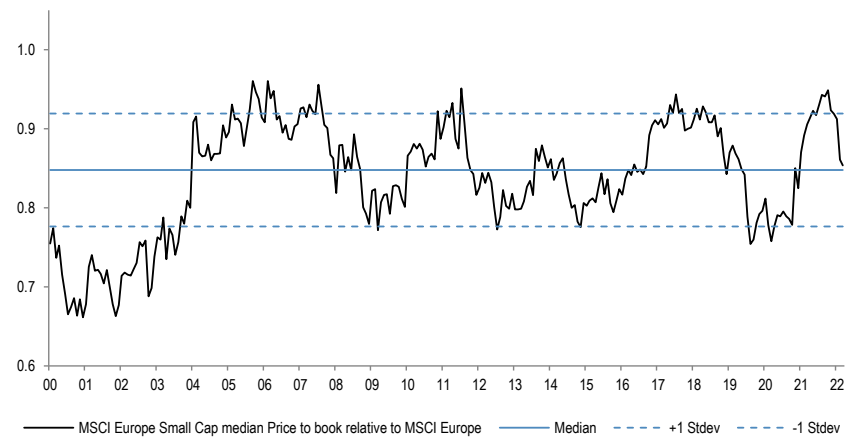
Source: Datastream

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
	Chemicals				N
	Construction Materials				N
	Metals & Mining				OW
Industrials		15.1%	14.0%	-1.1%	N
	Capital Goods ex Aerospace & Defence				N
	Aerospace & Defence*				OW
	Transport				OW
	Business Services				N
Consumer Discretionary		10.5%	12.0%	1.5%	N
	Automobile				OW
	Consumer Durables				N
	Hotels, Restaurants, Leisure				OW
	Speciality Retail				OW
	Internet Retail				N
Consumer Staples		12.5%	10.0%	-2.5%	UW
	Food & Drug Retailing				UW
	Beverages				UW
	Food & Tobacco				UW
	Household Products				UW
Healthcare		14.5%	12.0%	-2.5%	UW
Financials		15.8%	18.0%	2.2%	OW
	Banks				OW
	Insurance				OW
Real Estate		1.3%	0.0%	-1.3%	UW
Information Technology		8.8%	8.0%	-0.8%	N
	Software and Services				UW
	Technology Hardware				N
	Semicon & Semicon Equip				N
Communication Services		4.9%	6.0%	1.1%	OW
	Telecommunication Services				OW
	Media				N
Utilities		4.2%	5.0%	0.8%	N

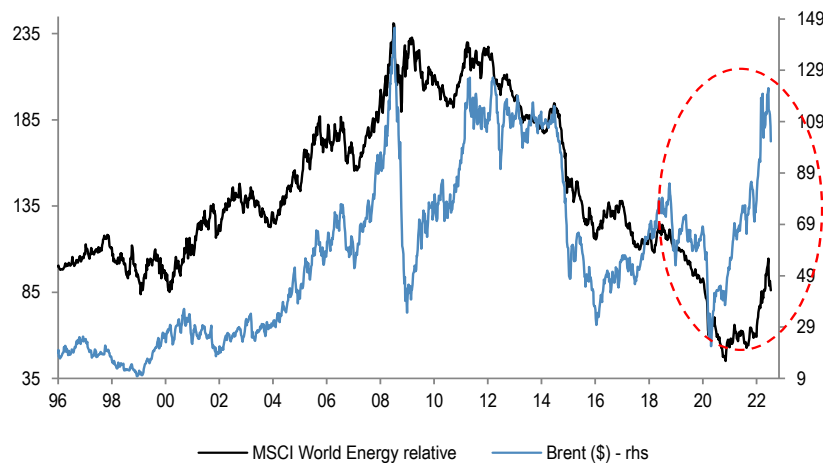
Source: MSCI, J.P. Morgan, Datastream

ENERGY: OVERWEIGHT

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

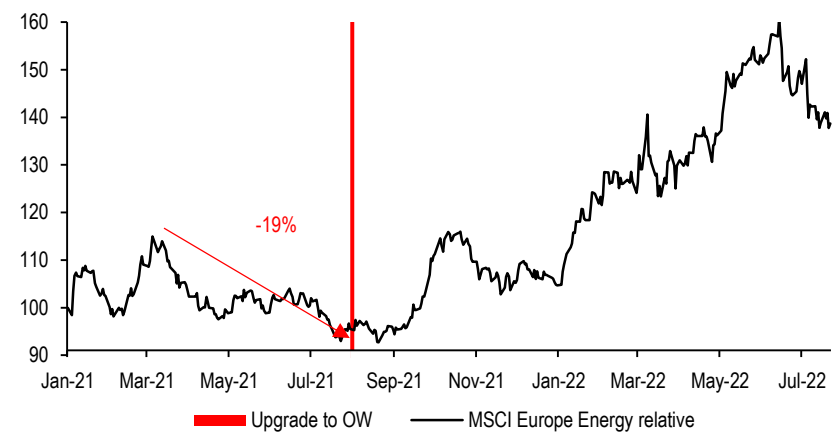
- The energy sector has been relatively volatile in the last few quarters. Up until late August last year, Energy sector was the worst performing of all the European sectors, underperforming the Stoxx600 benchmark by over 1100bp from March '21 high. The oil price surge lifted sentiment on the space and 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...

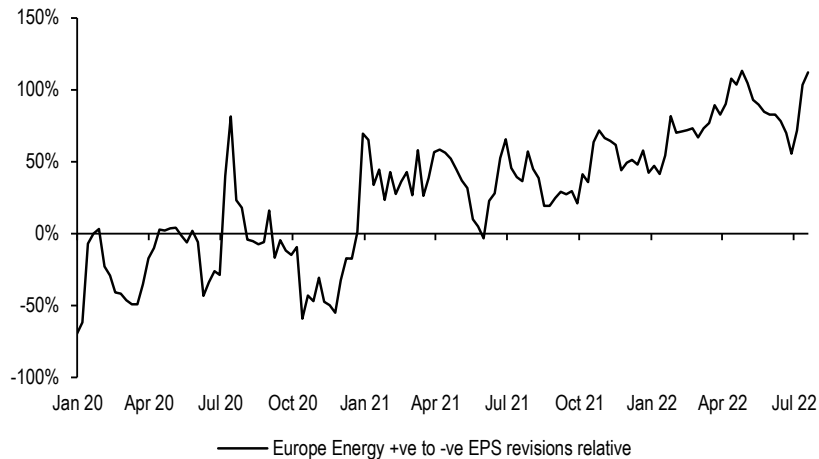
- Valuation case is strong. On EV / EBITDA relative, the sector is close to the cheapest on record. It looks extremely cheap on Price to Book as well. The sector has been seeing strong earnings upgrades as well.

European Energy EV/EBITDA relative



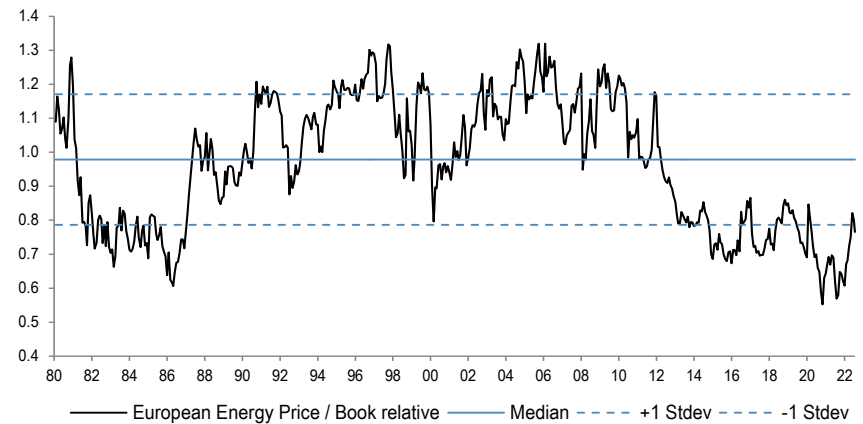
Source: Datastream

European Energy EPS revisions relative



Source: IBES

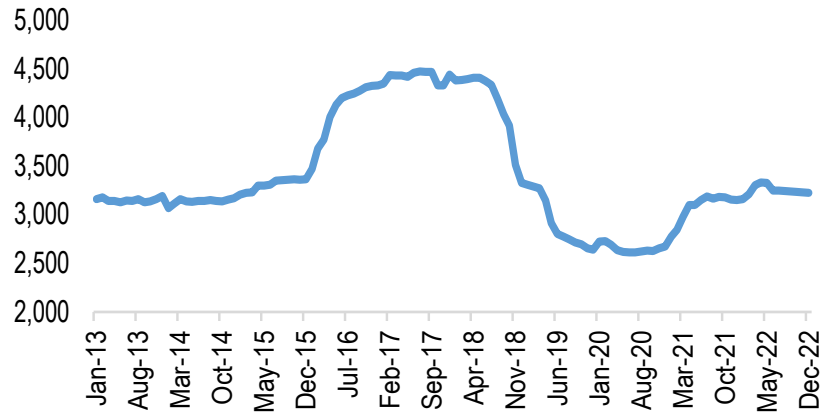
European Energy P/Book relative



Source: Datastream

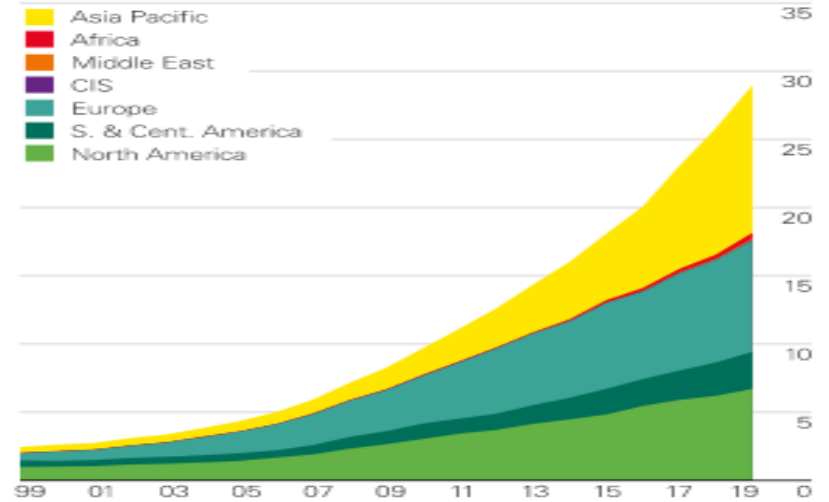
ESG overhang is a longer term headwind, though

Iran production (crude and condensate)



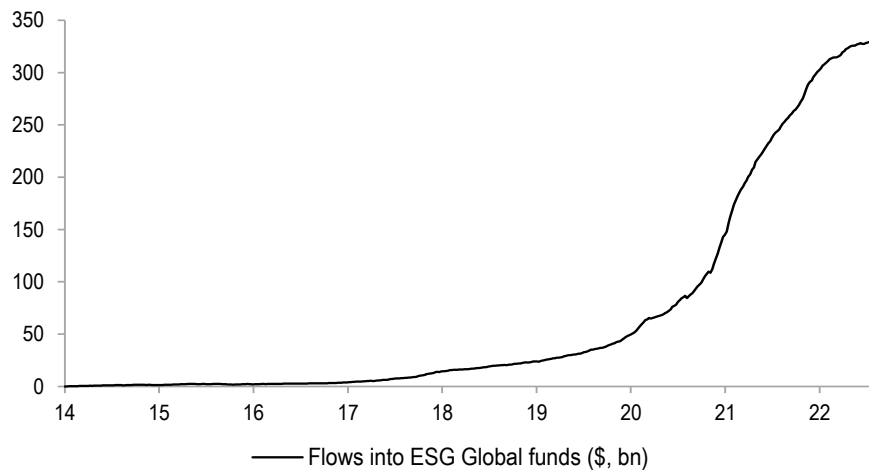
Source: J.P. Morgan commodity research

Penetration of renewables since 1999



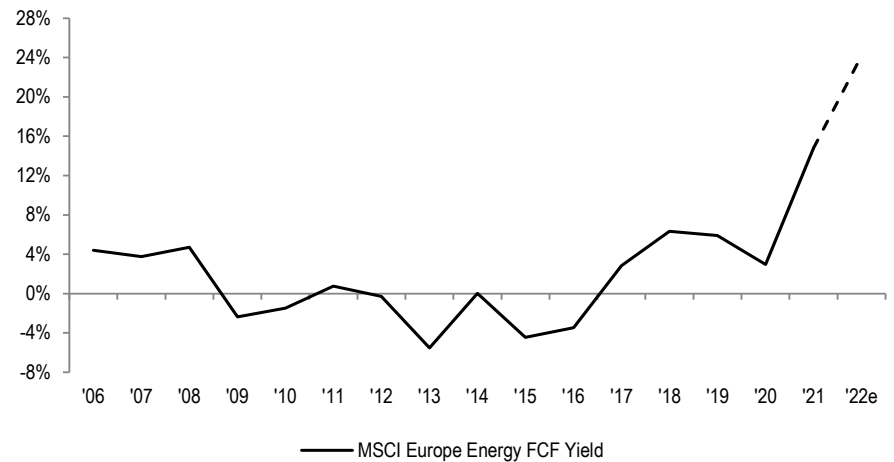
Source: BP

Flows into ESG Global Funds



Source: EPFR

European Energy FCF yield



Source: IBES

MATERIALS: OVERWEIGHT

OW Mining – recent spell of weakness, but supports remain in place...

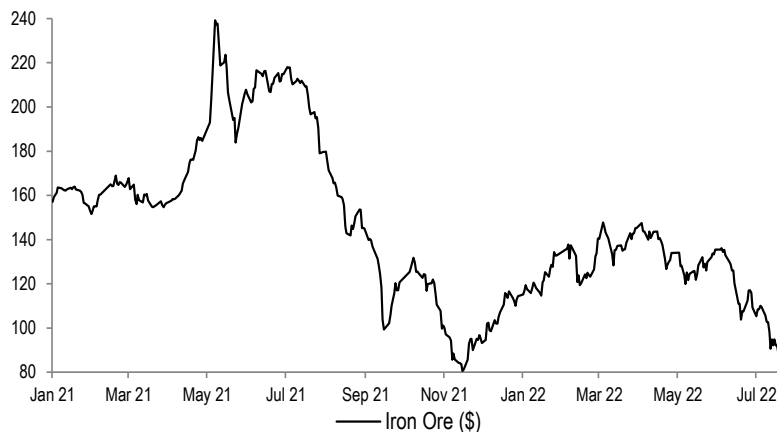
- European Miners had outperformed strongly at the start of the year, as high inflation and geopolitical developments drove investors towards the sector. However, they have recently unwound most of their ytd gains.
- We believe that the sector can do well. China growth momentum is likely bottoming out, and policy is likely to get 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

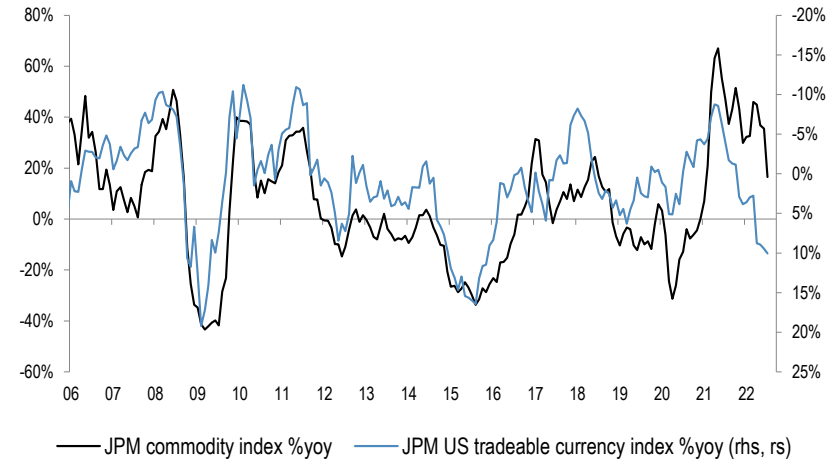
European Mining relative and Copper



Source: Bloomberg Finance L.P.

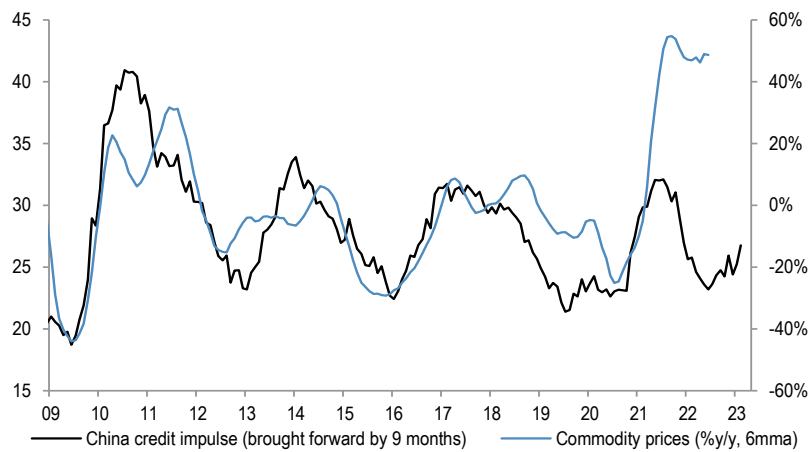
...potential peaking in dollar and the shift to a more accommodative stance by Chinese policymakers are likely to help

JPM tradeable USD and Commodity prices



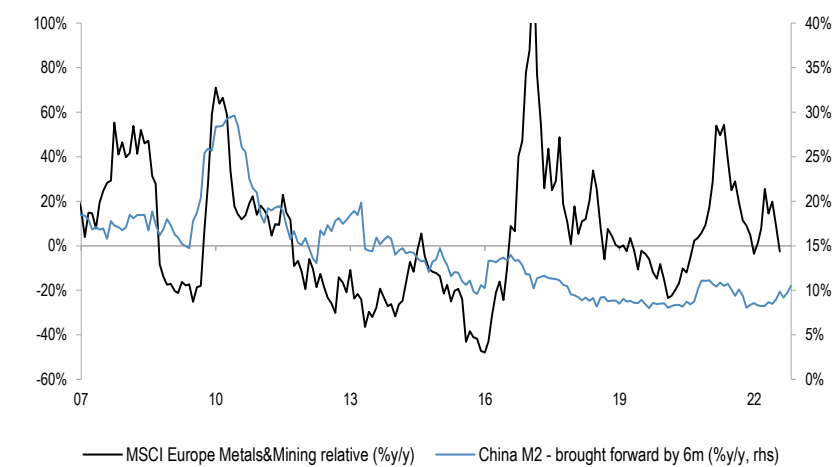
Source: J.P. Morgan, Bloomberg Finance L.P.

China credit impulse and industrial metals spot price



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

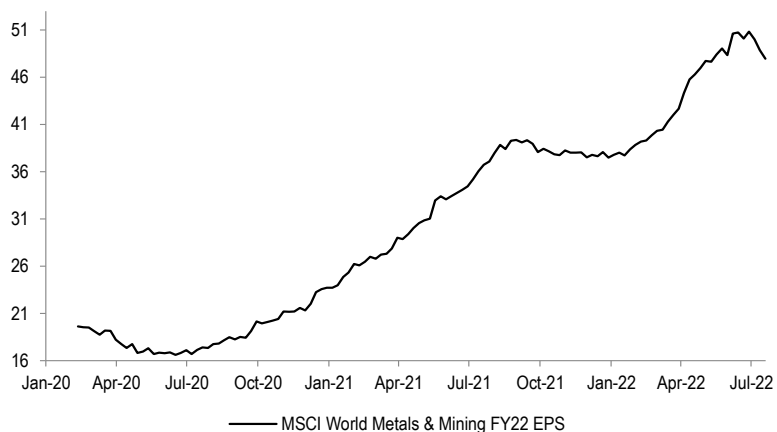
MSCI Europe mining relative and China M2



Source: Datastream

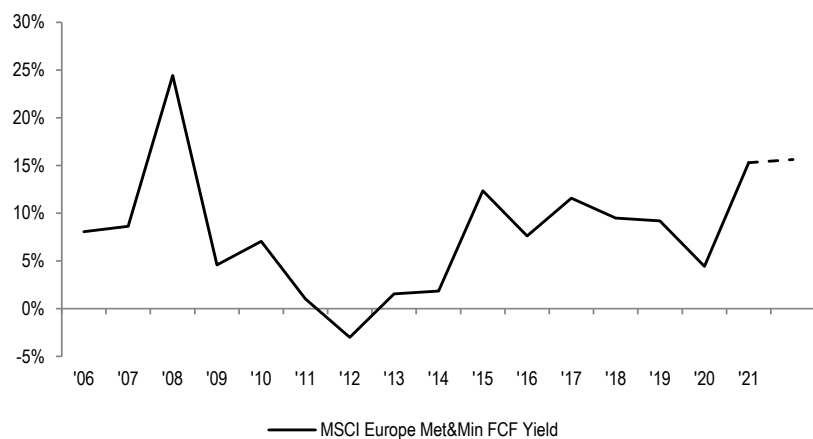
FY22 Earnings are improving, FCF yield is high, balance sheets are resilient and valuations look attractive

Mining FY22 EPS



Source: IBES

European Mining FCF yield



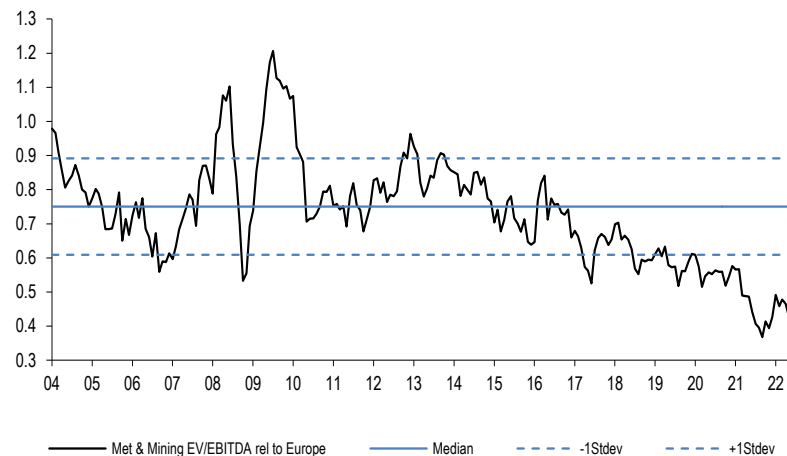
Source: Datastream

2022e DY of key big miners

Name	Ticker	22e DY
RIO TINTO	RIO LN	12.3%
NORSK HYDRO	NHY NO	11.4%
GLENCORE	GLEN LN	11.1%
ANGLO AMERICAN	AAL LN	7.8%
BOLIDEN ORD SHS	BOL SS	7.2%
ANTOFAGASTA	ANTO LN	4.1%
ARCELORMITTAL	MT NA	2.1%

Source: Datastream

Mining EV/EBITDA relative

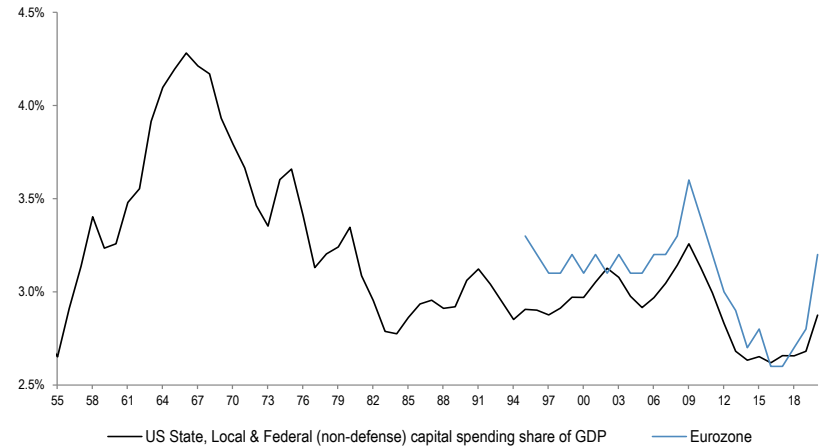


Source: Datastream

N Construction Materials – they stand to benefit from cyclical recovery and increased infrastructure spending

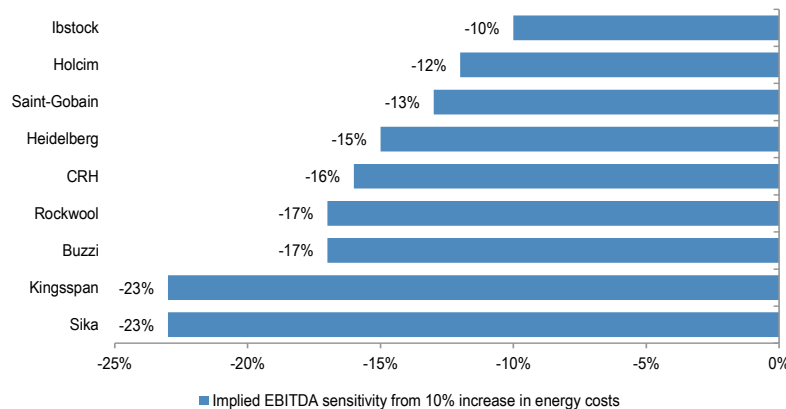
- The sector is a beneficiary of infrastructure spend. Fixed investment as a share of GDP has picked up in both the US and Eurozone last year.
- However, a potential risk for the EM-leveraged cement names is the increasing focus on reducing carbon emissions. The Cement sector accounts for c.8% of global 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



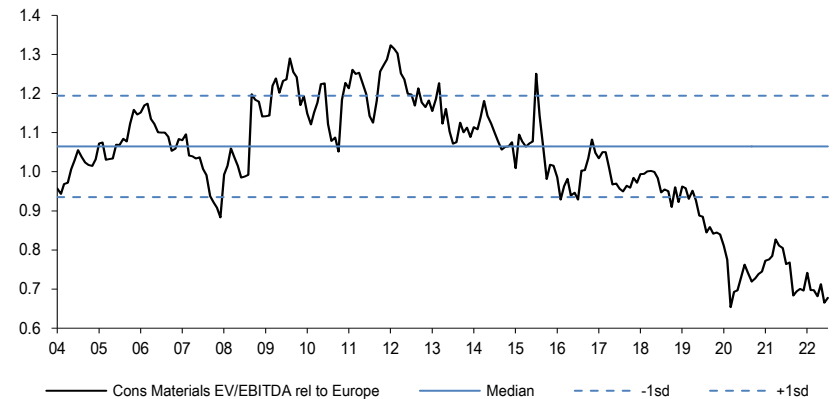
Source: BEA, Eurostat

EBITDA sensitivity from 10% increase in energy costs



Source: J.P. Morgan European Construction Materials Team

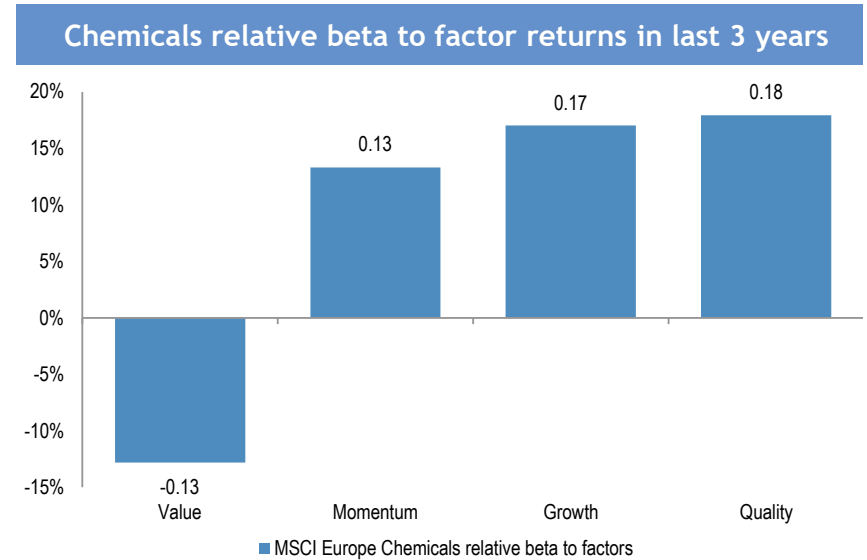
Construction Materials EV / EBITDA relative



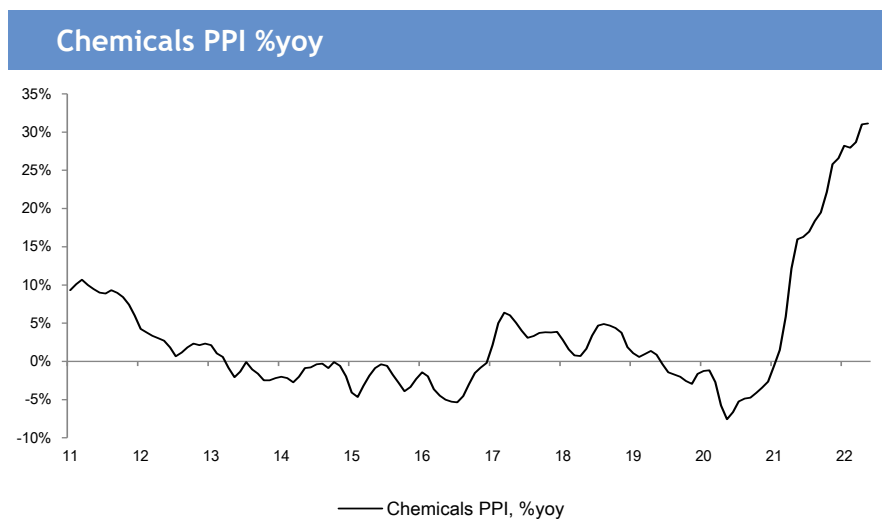
Source: Datastream

N Chemicals – The sector has a large Defensive bias and appears to be trading expensive...

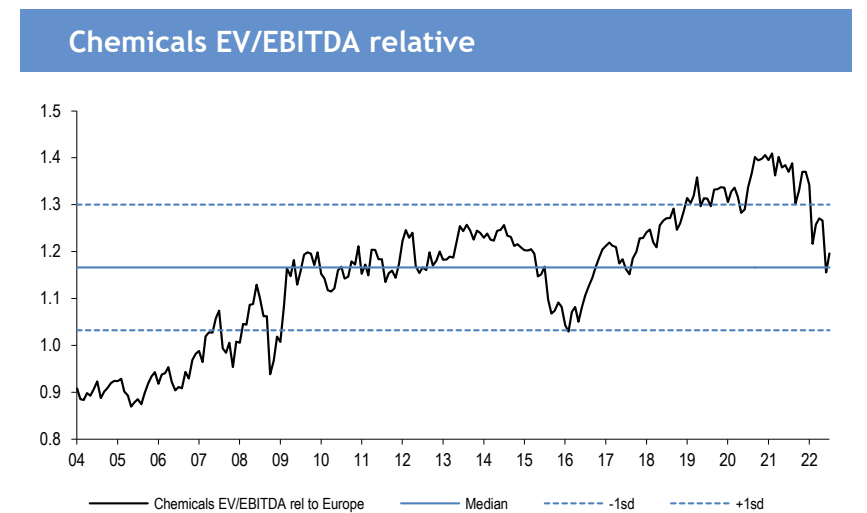
- The sector clearly exhibits a bias towards Growth and Quality styles, as the more Defensive names, such as AIR among others, dominate the sector weight now. Therefore, we do not believe that Chemicals will be an outperformer against a more reflationary backdrop.
- On the positive side, pricing has 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 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 – The quality part of the sector is at risk of rising yields, despite supportive capex outlook...

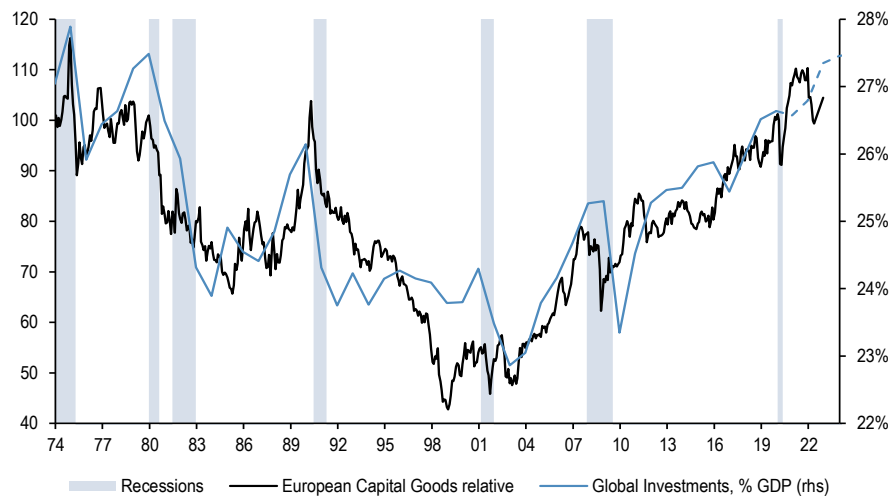
- Capital goods sector has struggled so far this year as investors took profits on the quality names within the sector.
- On the positive side, EU recovery fund implementation has started. The Fund's focus on renewables, building renovation and clean mobility should support the Capital Goods space.
- Big picture, Capital spending could pick up, given earnings support and government stimulus. Historically, this has been positive for the sector.

European Capital Goods relative



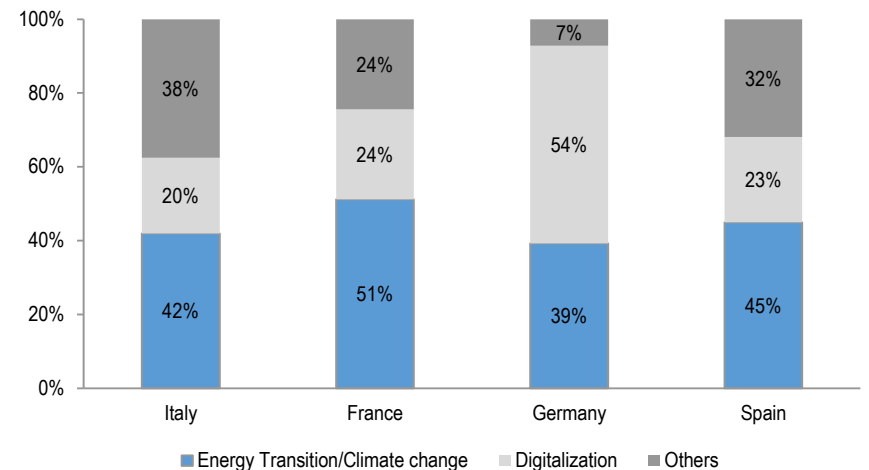
Source: Datastream

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

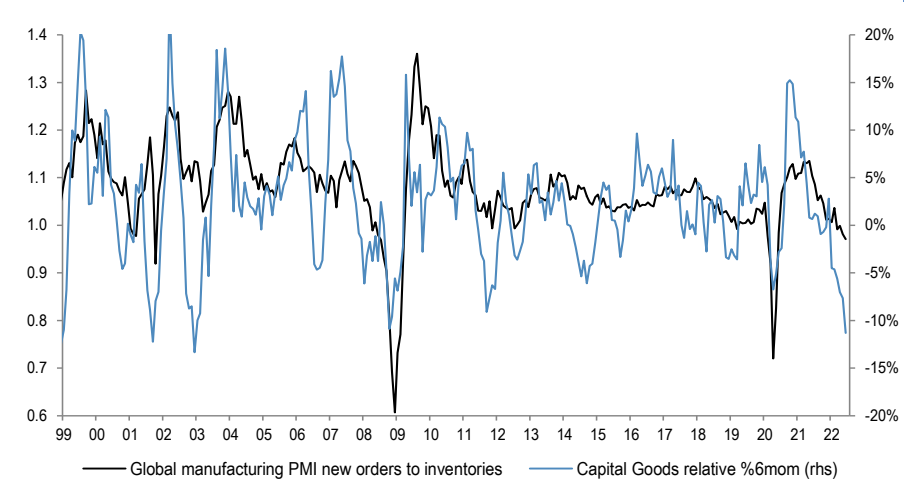


Source: Bruegel. *Note: Based on National plans submitted between April 25-28, 2021

...valuations appear stretched

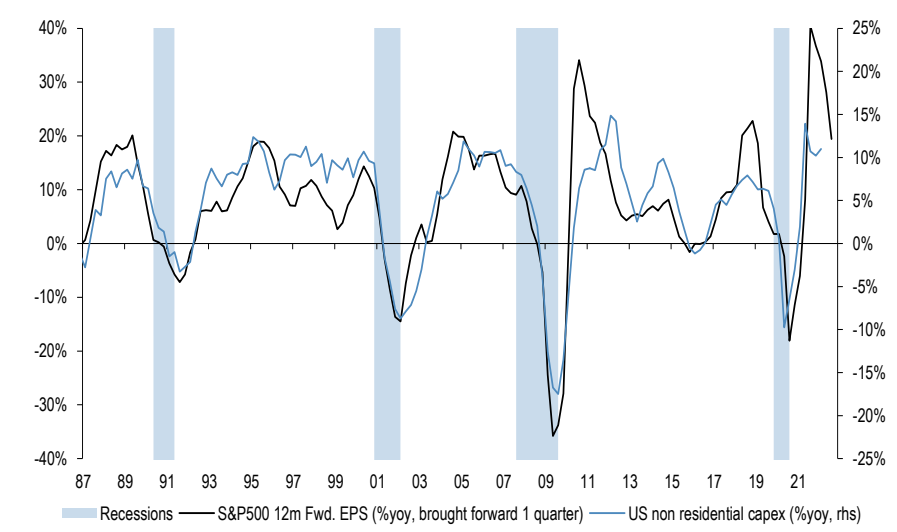
- Capital Goods are a traditional beta play on PMI momentum, and the sector's price relative is closely linked to PMI direction.
- The sector's valuations look unattractive.

Capital Goods relative vs Manufacturing PMI New orders to inventories



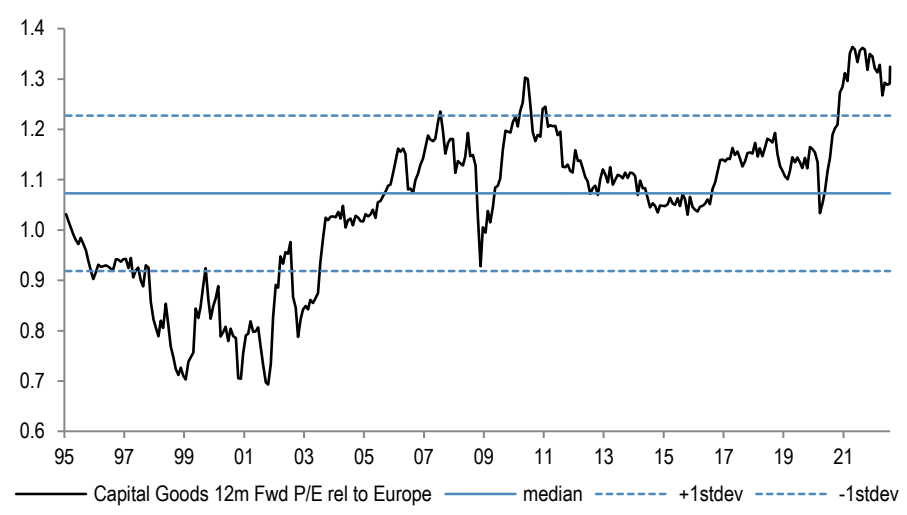
Source: Datastream, J.P. Morgan

US Capex and market Earnings Growth



Source: BEA, IBES

Capital Goods 12m forward P/E relative

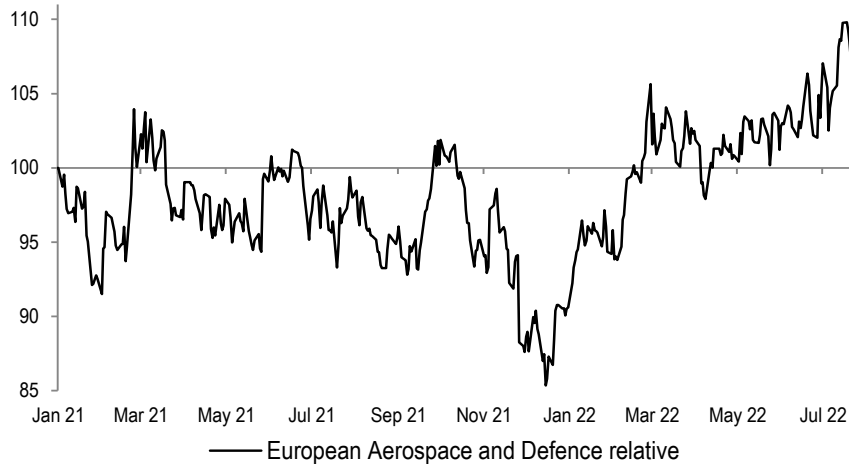


Source: IBES

OW Aerospace & Defense

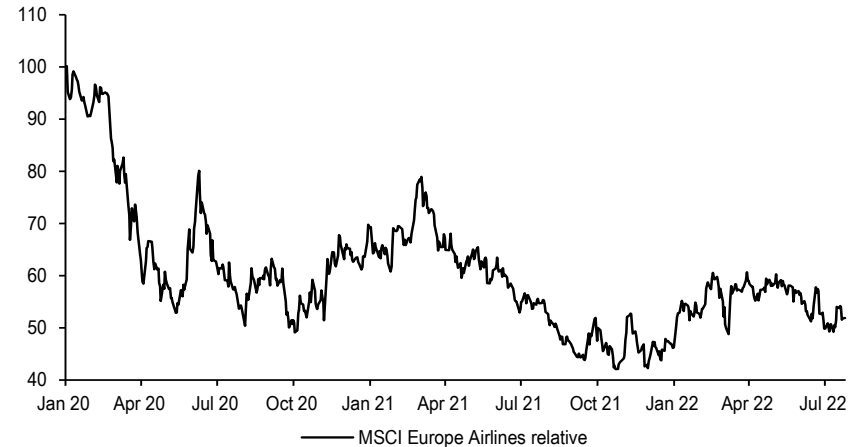
- Civil Aero, which falls under the Capital Goods umbrella, has also been weak last year. However, our sector analysts highlight that these stocks have healthy balance sheets, with Airbus in particular well positioned and will benefit from an accelerated replacement cycle.
- The Russian-Ukrainian crisis 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



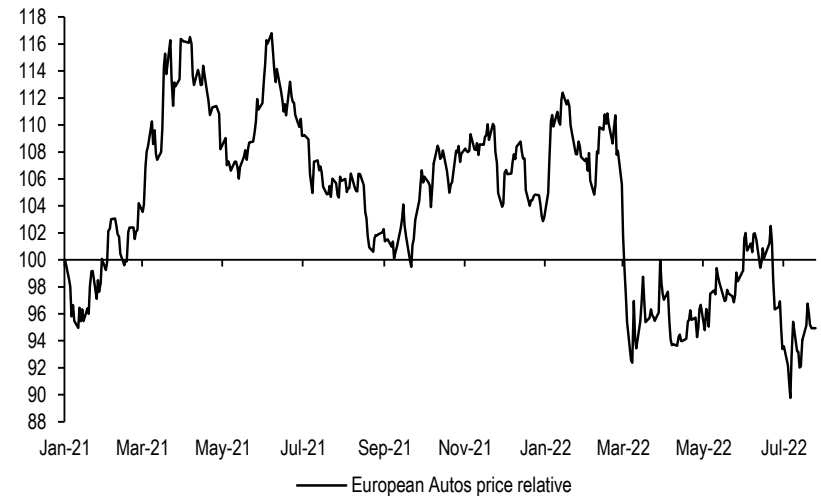
Source: Datastream

CONSUMER DISCRETIONARY: NEUTRAL

Autos are pressured by geopolitics, but valuations look cheap

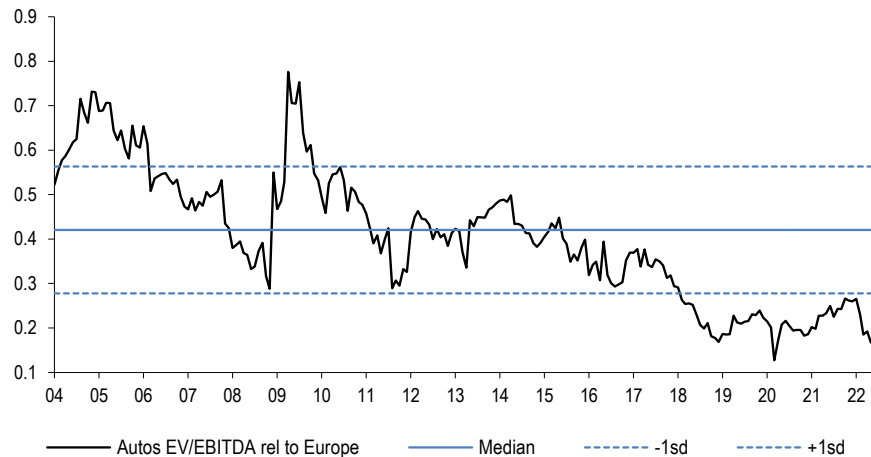
- Autos witnessed some profit taking as geopolitics dominated the market narrative earlier this year. The sector is once again starting to do well, and we stay constructive.
- The sector still looks cheap on a range of valuation measures, such as Price to Book, as well as on EV/EBITDA.

European Autos price relative



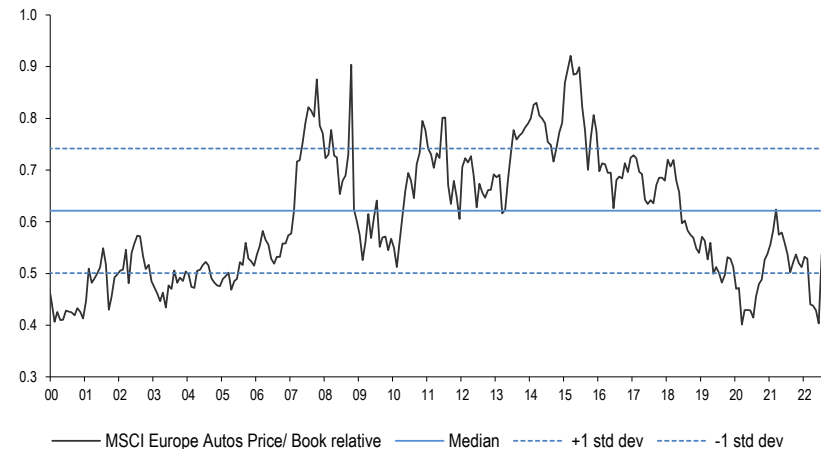
Source: Bloomberg Finance L.P.

Autos EV/EBITDA relative



Source: Datastream

European Autos P/Book relative

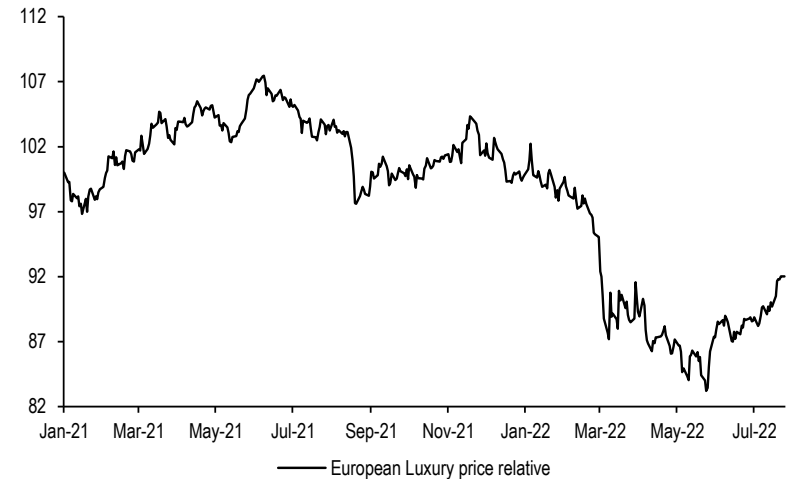


Source: Datastream

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

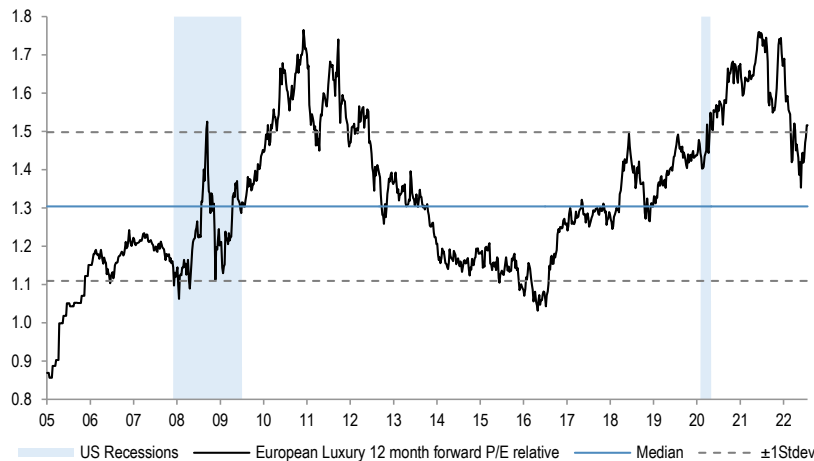
- The performance of Luxury Goods was generally aligned with the Quality trade.
- The sector has derated, but continues to trade on stretched forward P/E multiples. We do not see the sector outperforming this year.
- Chinese consumer demand remains one of the biggest drivers of luxury sector earnings. 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



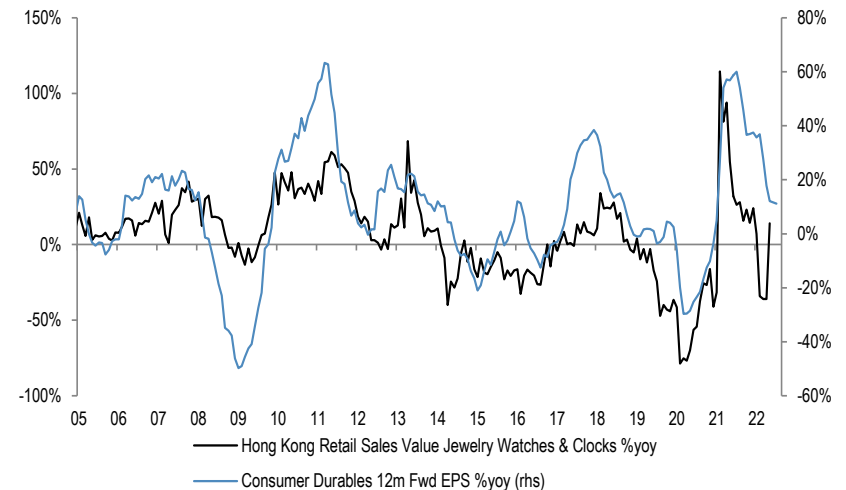
Source: IBES

European Luxury 12m Fwd P/E relative



Source: IBES

HK SAR Jewelry watches sales vs Durables 12m Fwd EPS

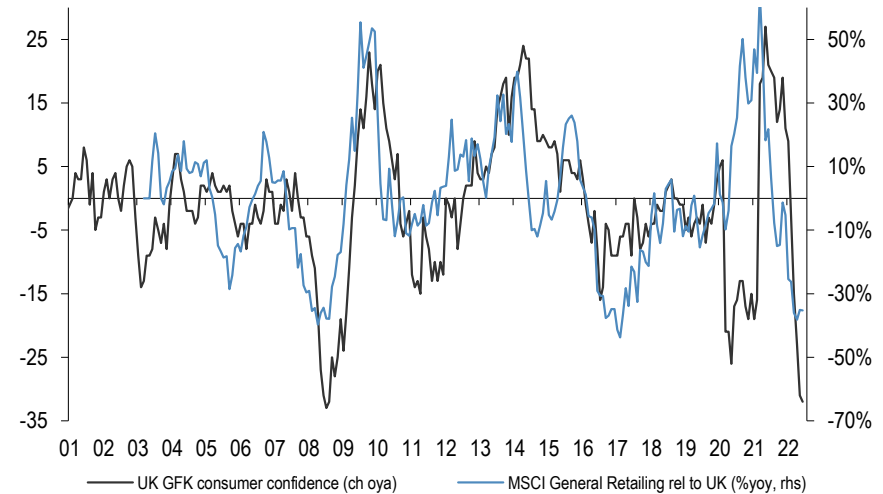


Source: IBES, Bloomberg Finance L.P.

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

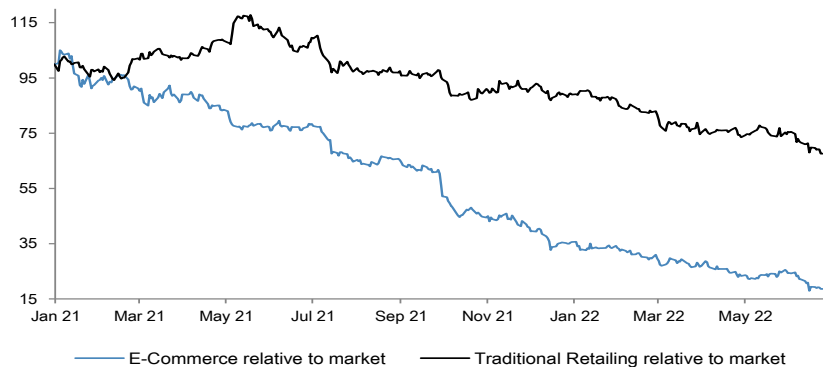
- The General Retail sector has been transformed by the increasing market capitalization of online players.
- The sector has traditionally been a consumer play; however, the relative success of online retailers during the pandemic helped the sector do well even through the dismal consumer backdrop.
- 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



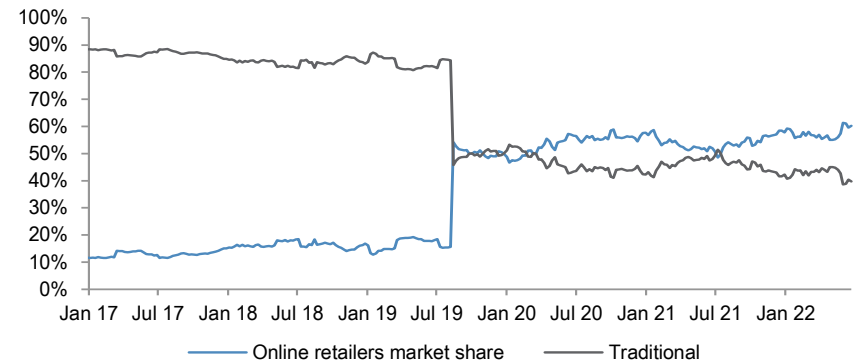
Source: Bloomberg Finance L.P., Datastream

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

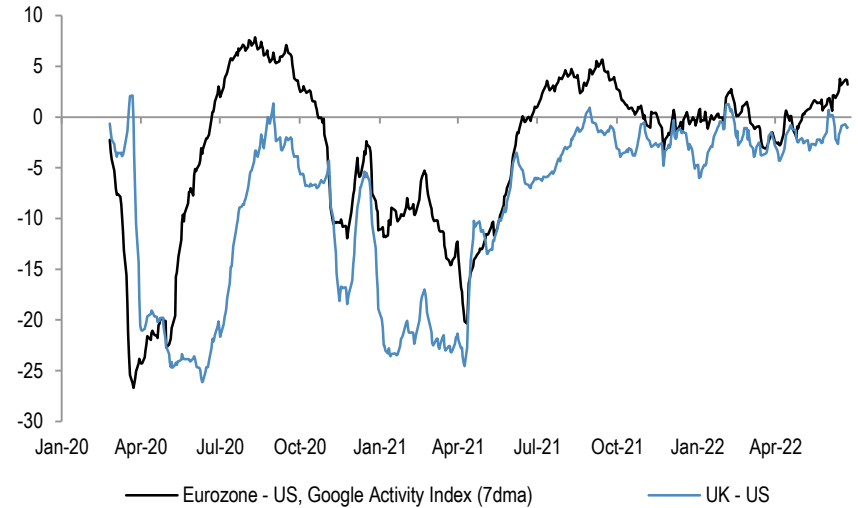


Source: Datastream. * Prosus, which is 33% of the current index weight, was listed on 13th Sep '19

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

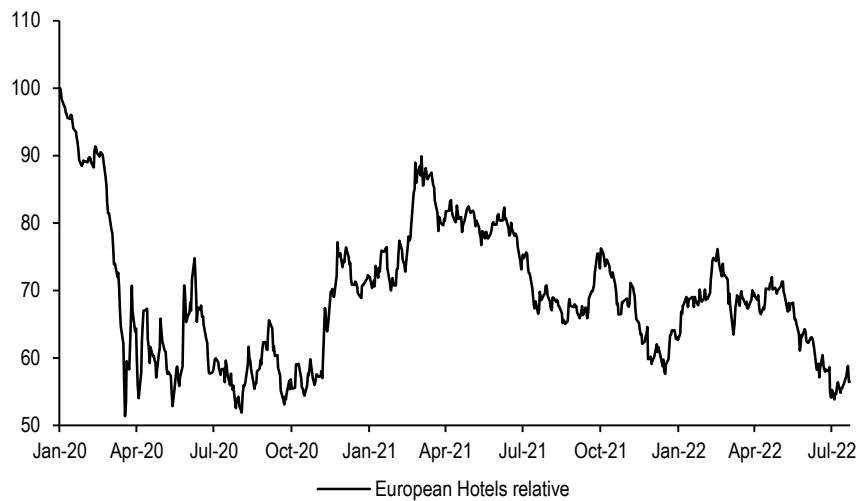
- We believe that the unwind of COVID-19 related headwinds should continue in the DM.

Google activity Index - Europe vs US



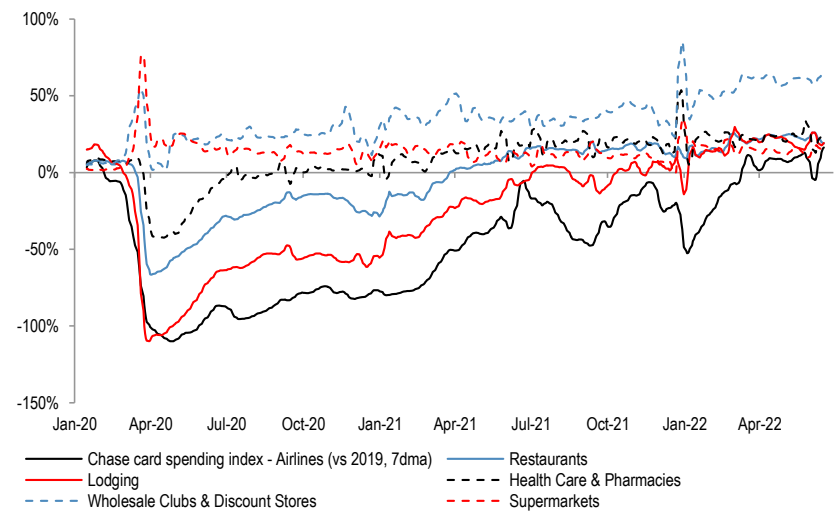
Source: Google Covid-19 mobility report

European Hotels relative



Source: Datastream, J.P. Morgan

Chase card data - by spending categories



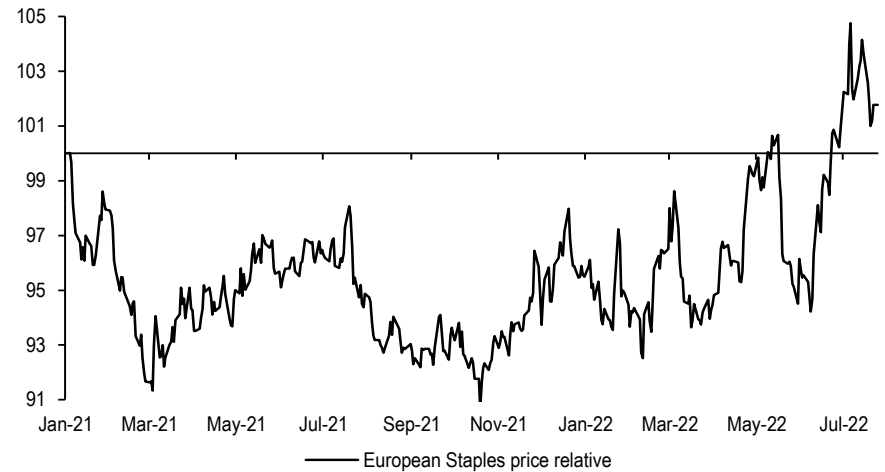
Source: J.P. Morgan Economics Research

CONSUMER STAPLES: UNDERWEIGHT

Likely to come under pressure given input cost squeeze

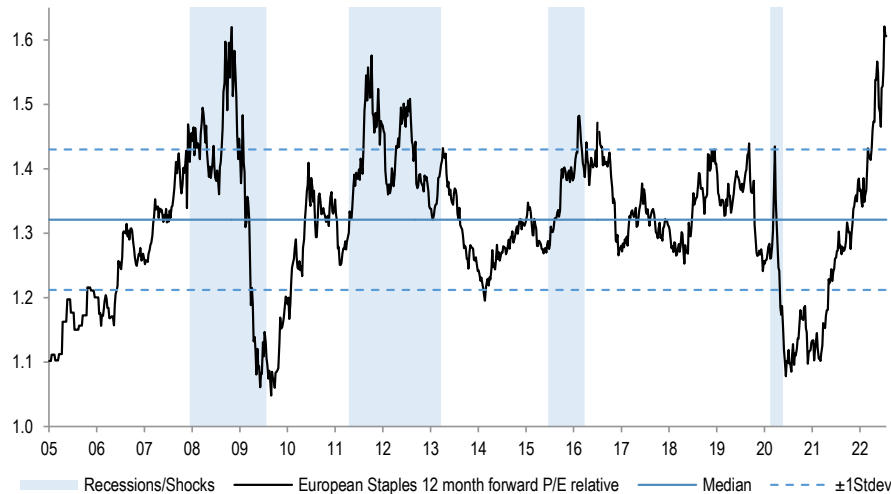
- We see the sector struggling relative to peers as some of the constraints, such as elevated raw material costs are likely to stay a problem.
- Current level of bond yields indicate downside risk for the sector's relative performance.
- Valuations do not look too attractive for Staples, as well.

European Staples relative



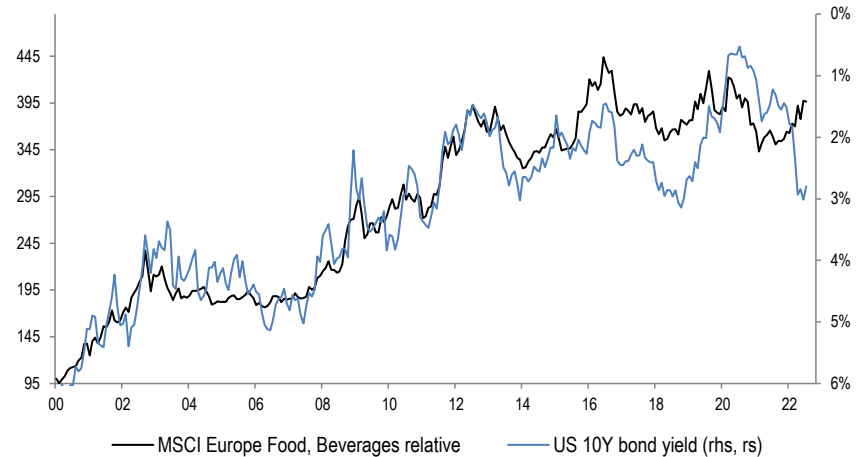
Source: Datastream

MSCI Europe Staples 12m Fwd PE relative



Source: IBES

MSCI Europe Food & Beverages vs US 10Y bond yield

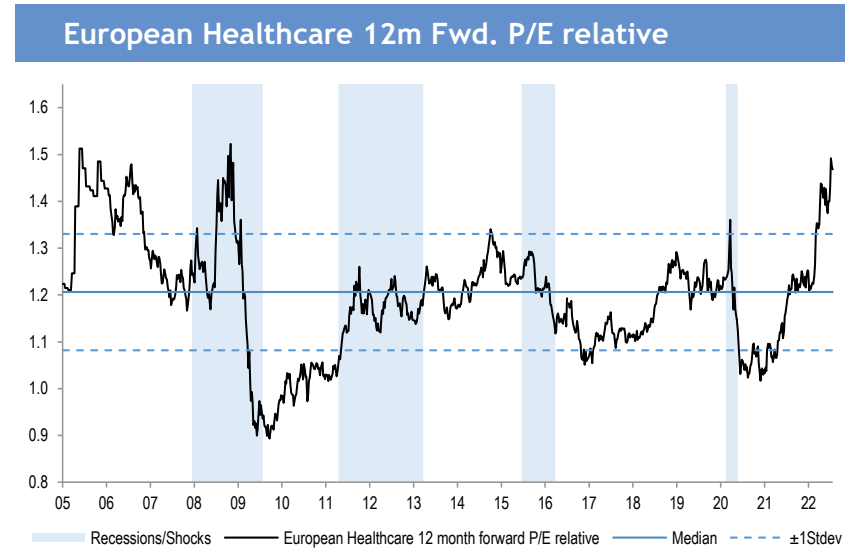


Source: Datastream

HEALTHCARE: UNDERWEIGHT

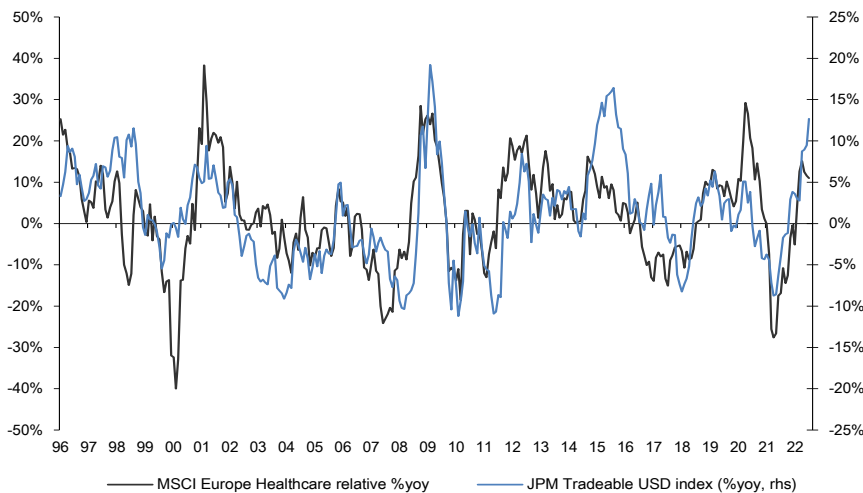
Pharma was helped as a safe haven... rich valuations and peaking USD are headwinds from here...

- 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.



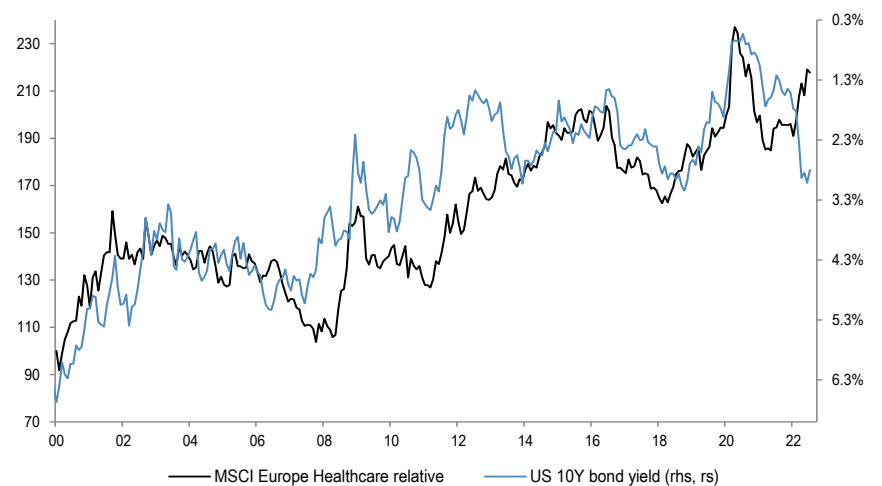
Source: IBES

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

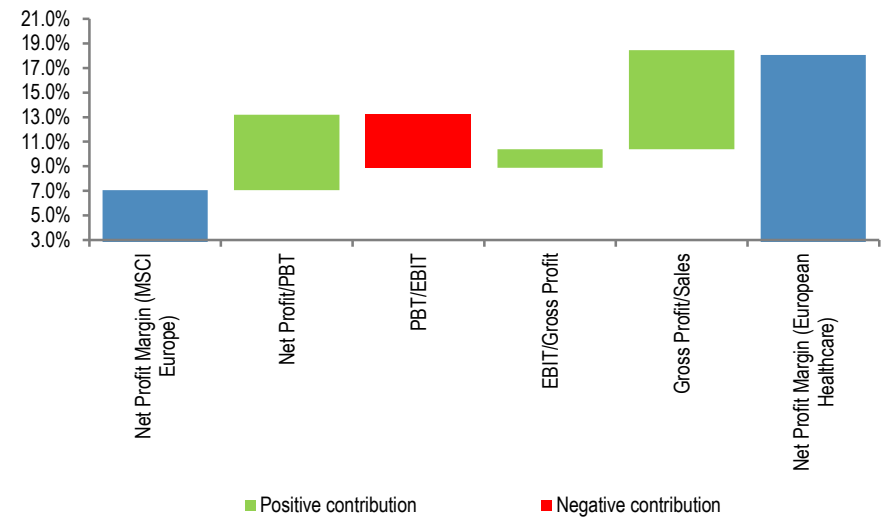
- Healthcare profit margins are exceptionally strong vs the market – given 1) low raw material costs, 2) strong operating leverage, and 3) beneficiary of tax breaks for innovation – and are better placed to withstand the rising input costs pressures, albeit transitory, in our view.
- The sector is trading 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

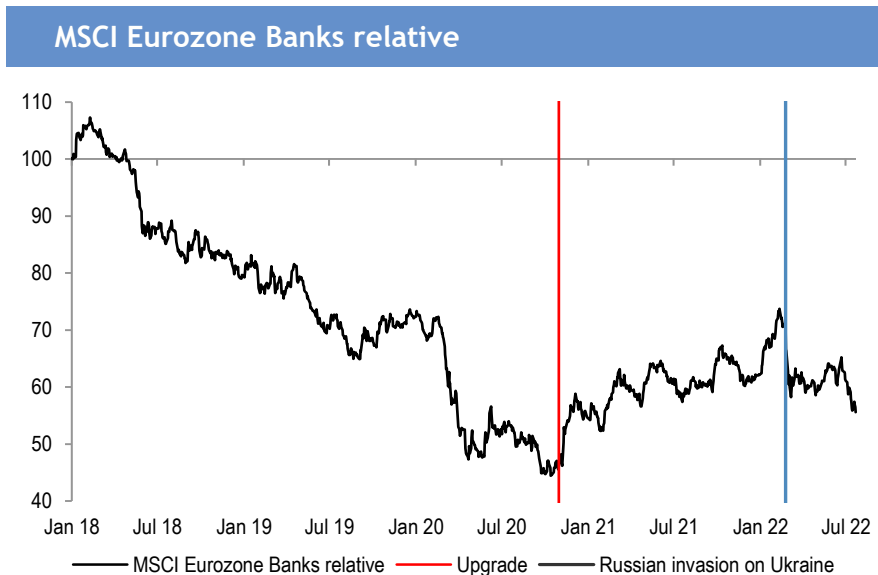


Source: Worldscope

FINANCIALS: OVERWEIGHT

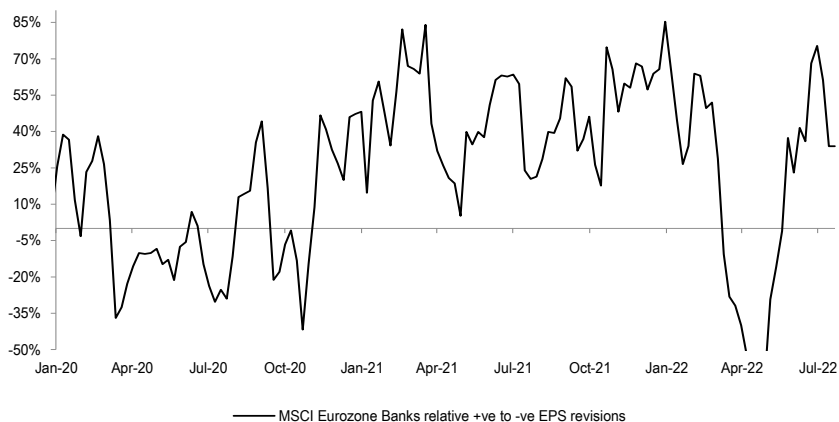
OW Banks – unlikely to work while geopolitics reigns, but fundamentals look supportive...

- 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.



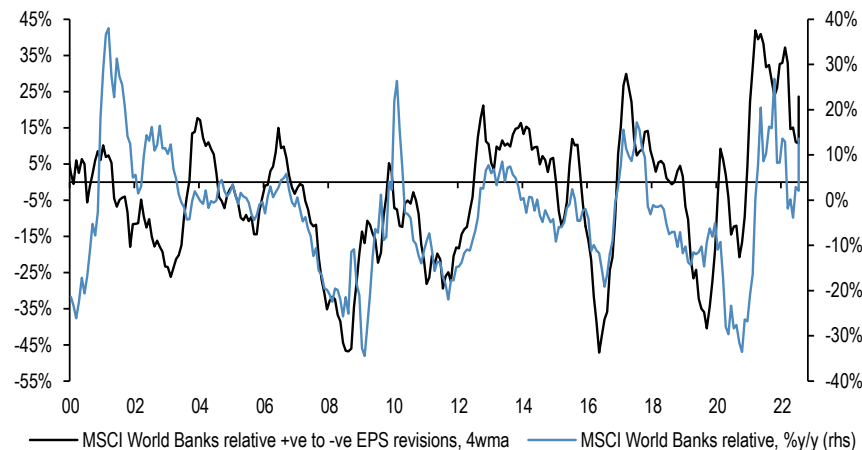
Source: Datastream

Eurozone Banks EPS revisions



Source: Datastream

MSCI World Banks EPS revisions and performance relative



Source: Datastream

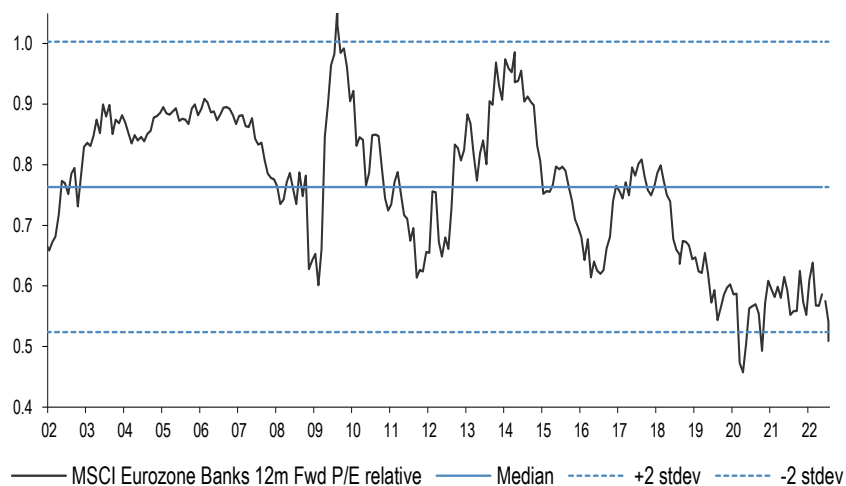
...Banks P/E relative appears very attractive...

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



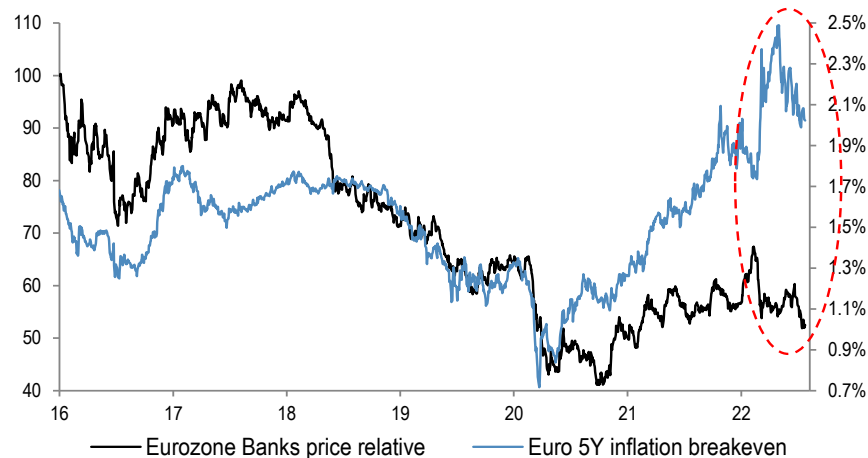
Source: IBES

Eurozone Banks 12m Fwd P/E relative



Source: IBES

Banks relative performance and inflation forwards



Source: Datastream

Eurozone Banks performance after P/E lows

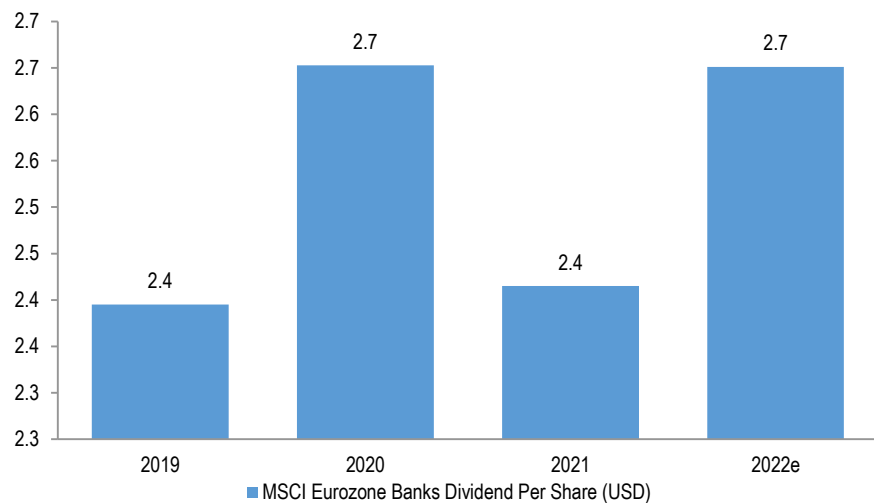
Eurozone Banks performance after P/E goes below -1.8 Stdev

	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

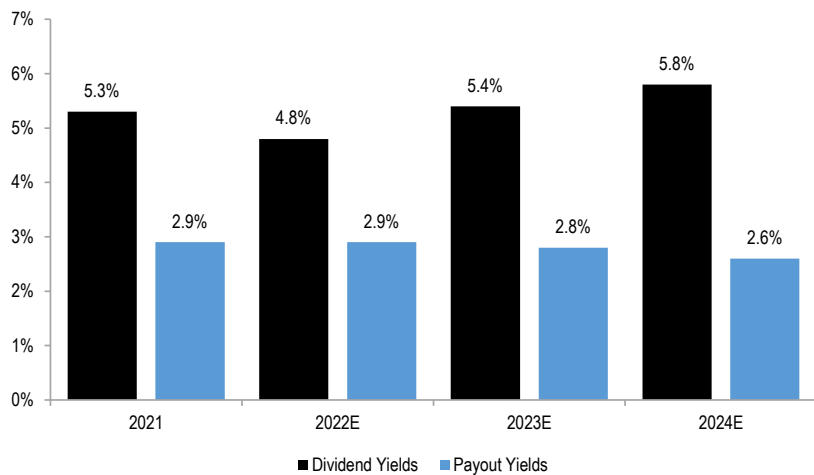
...dividends are coming back...

European Banks dividends projections



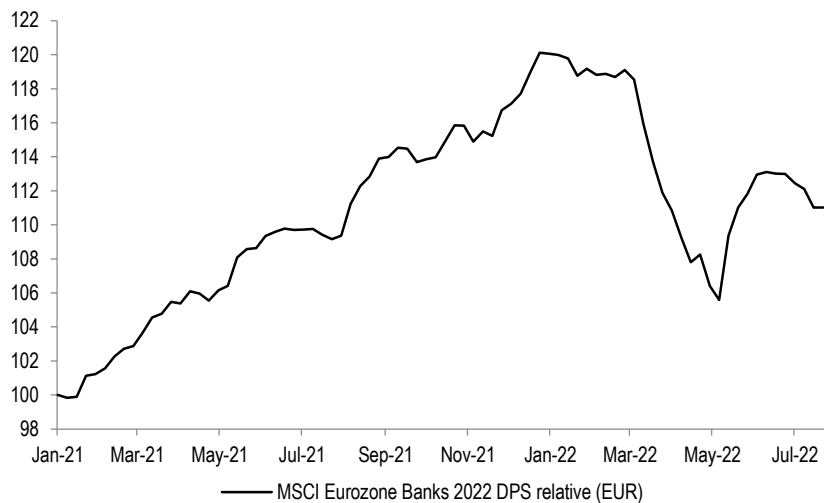
Source: IBES

European Banks dividend estimates



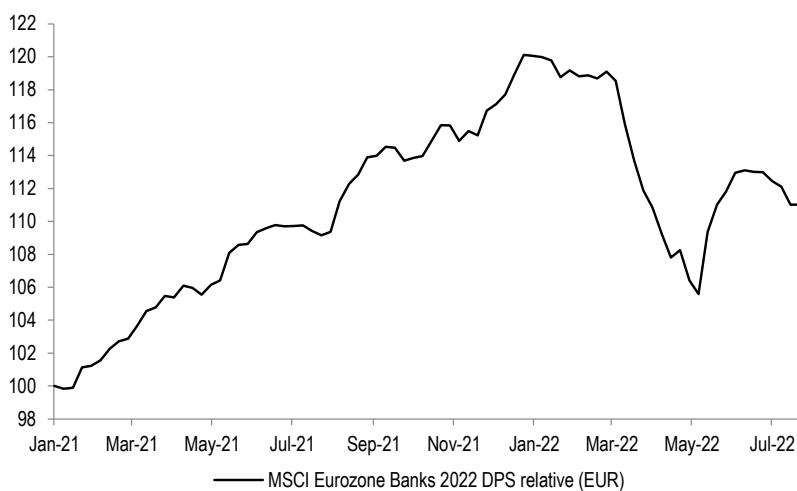
Source: J.P. Morgan European Banks Research

MSCI Eurozone Banks 2022 DPS forecast relative



Source: IBES

MSCI Eurozone Banks 12 month forward Dividend yield

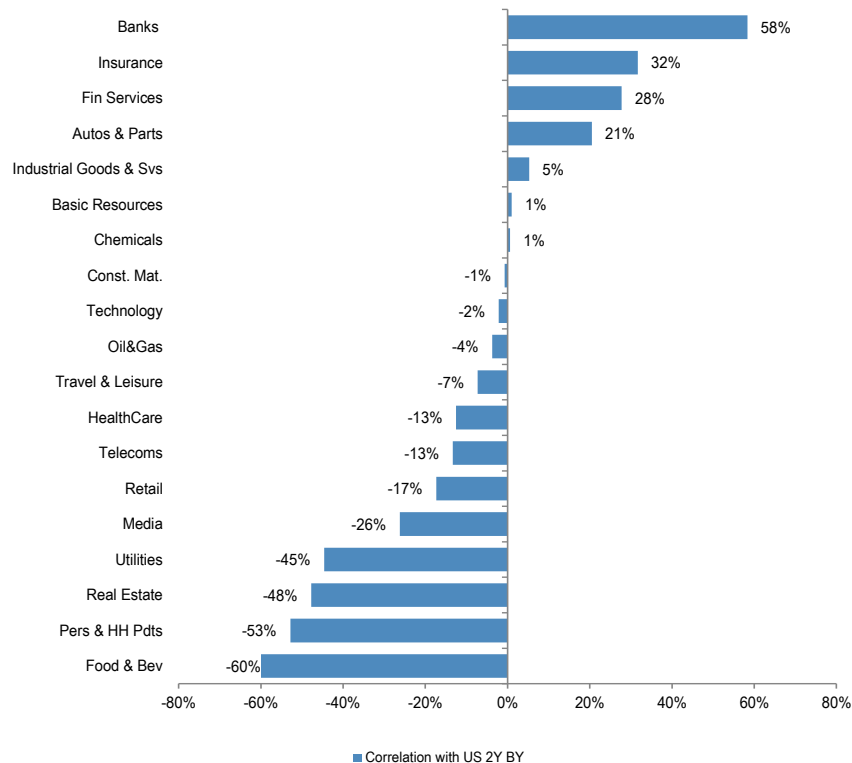


Source: IBES

...bond yield direction is key for the potential P/E re-rating of the sector... peripheral spreads remain well behaved...

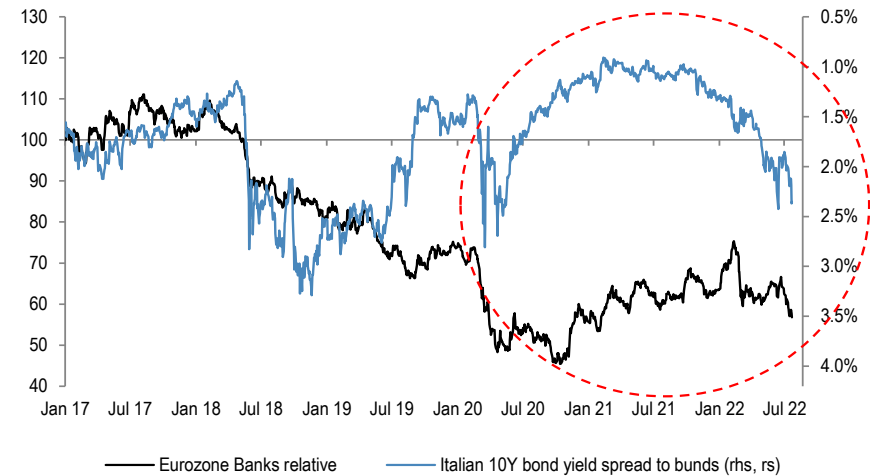
- A significant gap has opened up between Banks relative performance and bond yields, which point to upside for the sector.
- Well behaved peripheral spreads are a support for Euro Banks.

European sectors correlation to bond yields



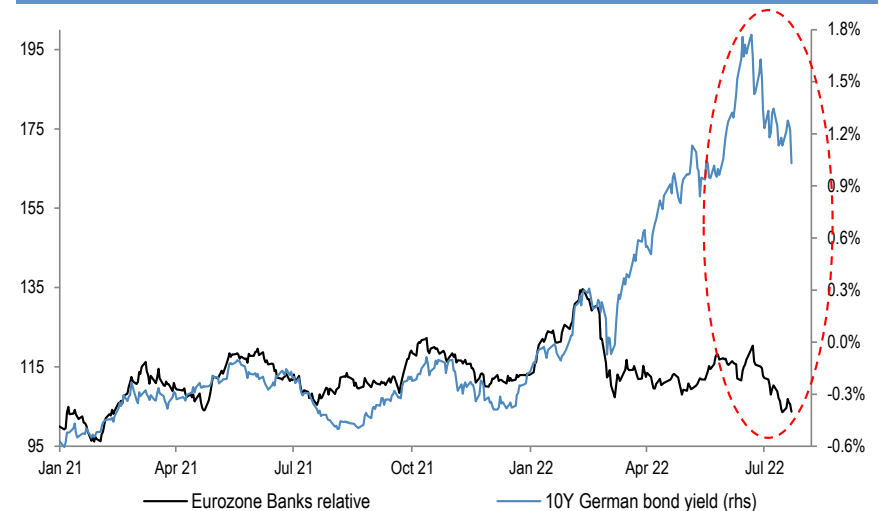
Source: Bloomberg Finance L.P.

Eurozone Banks relative vs peripheral spreads



Source: Bloomberg Finance L.P.

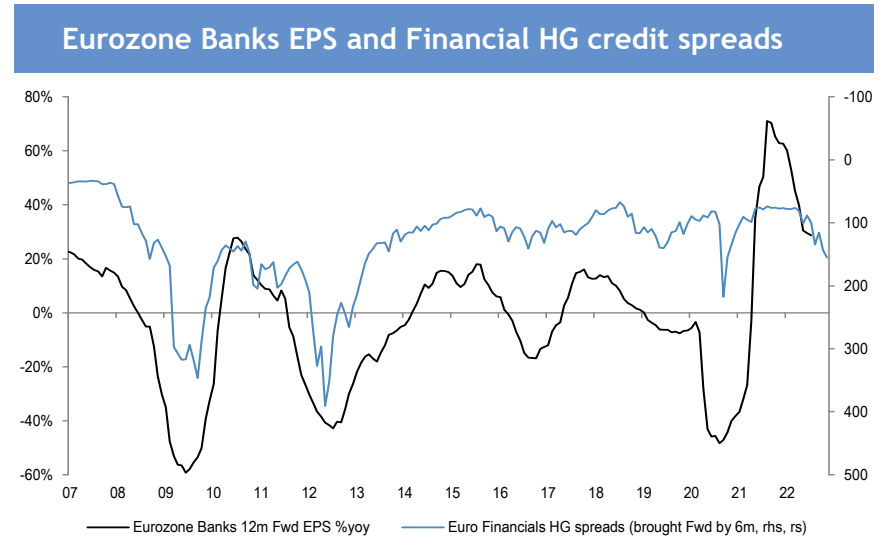
MSCI Eurozone Banks relative and 10Y bond yield



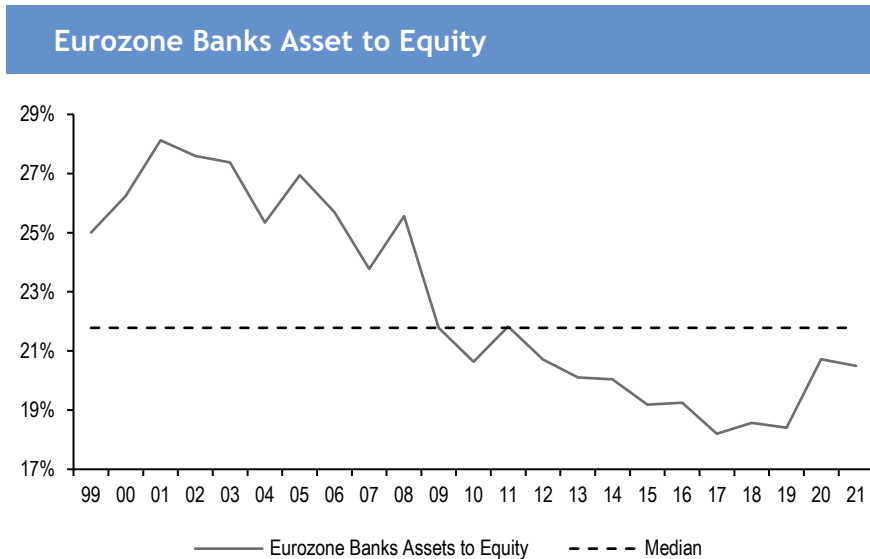
Source: Bloomberg Finance L.P.

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

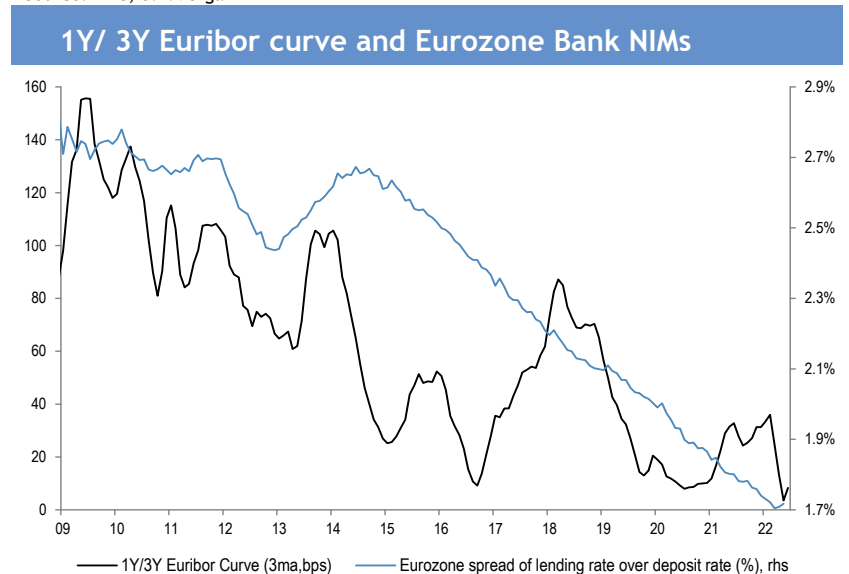
- Credit spreads have widened, but still remain tight in a longer term context, and delinquency rates are significantly better vs GFC. This has helped unlock provisioning reserves, further aiding the earnings outlook for Banks.
- Unlike in past recoveries, we do not think that Banks will have to dilute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



Source: IBES, J.P.Morgan



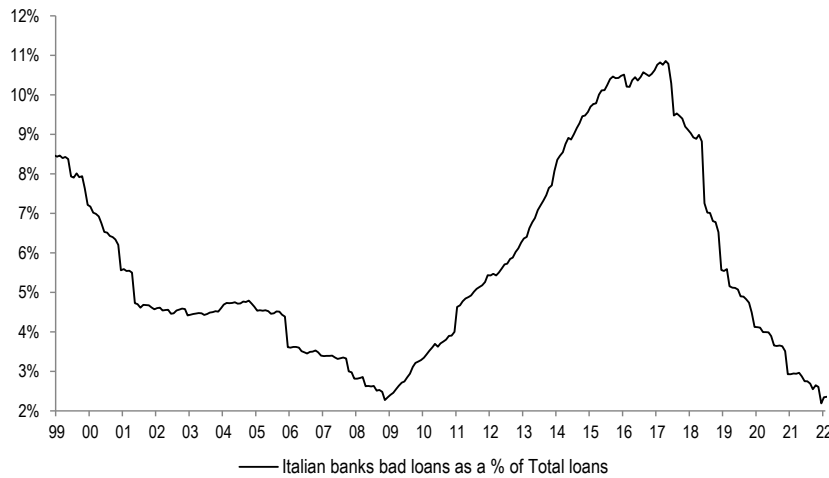
Source: Datastream



Source: J.P.Morgan

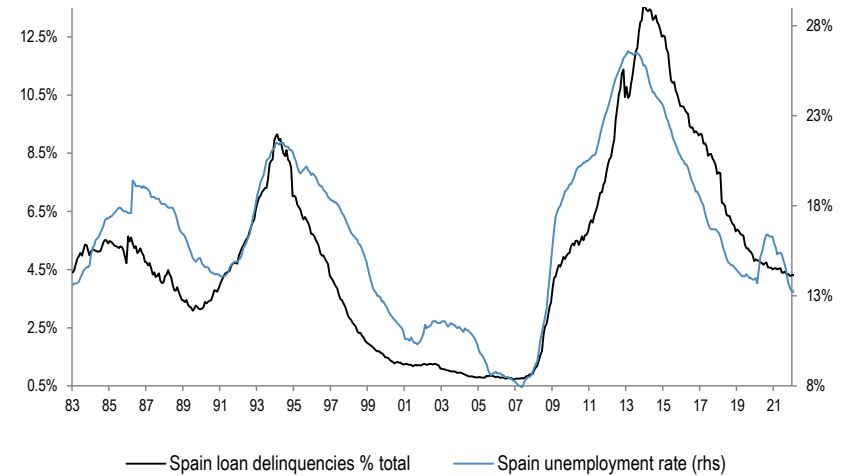
...Banks balance sheet picture is better this time around

Italian bad loans as a % of total loans



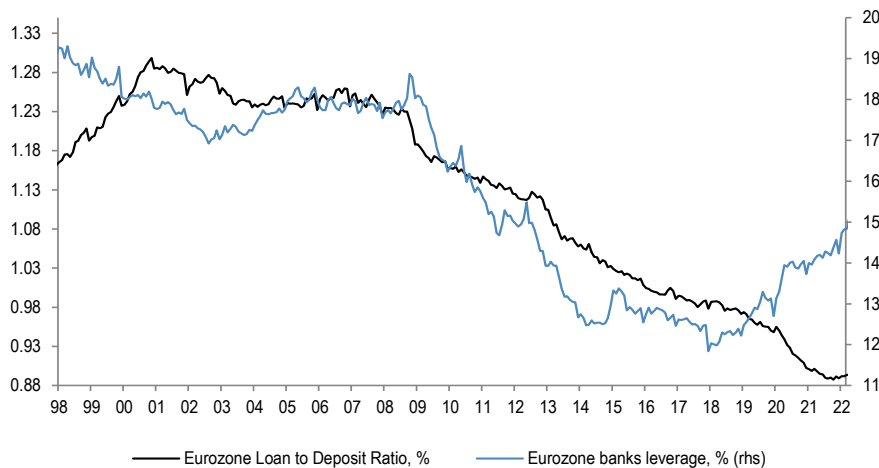
Source: Banca d'Italia

Spanish loan delinquencies vs unemployment rate



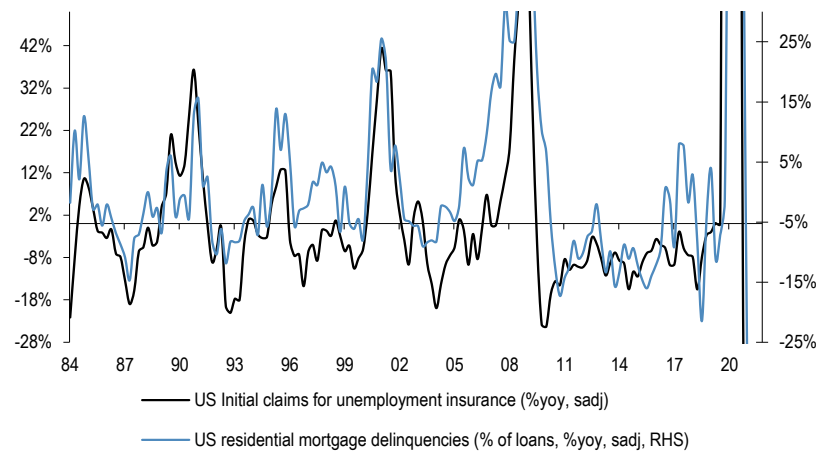
Source: Bloomberg Finance L.P.

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

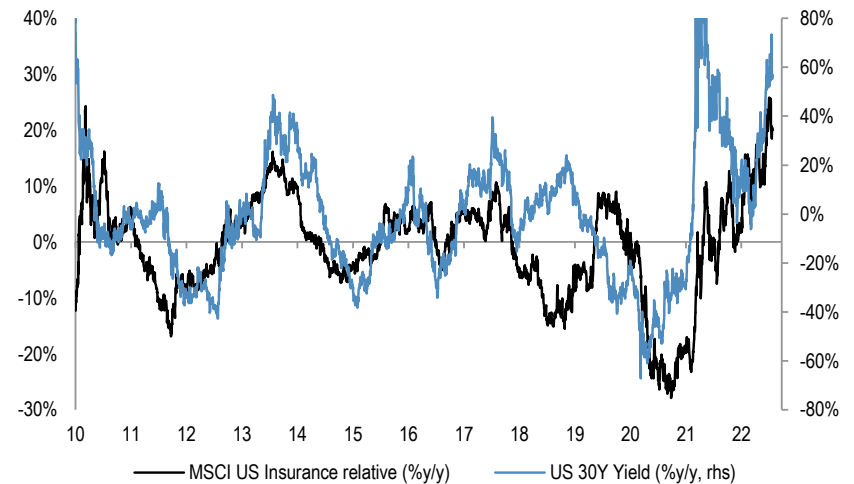
Company	BBG Ticker	PMIs	Inflation expectations	10Y German bunds	Italian - German 10Y spread
ABN AMRO BANK	ABN NA	35%	74%	70%	28%
BAWAG GROUP	BG AV	42%	89%	69%	-8%
PKO BANK	PKO PW	30%	60%	48%	5%
BNP PARIBAS	BNP FP	41%	52%	46%	-47%
CAIXABANK	CABK SM	27%	38%	46%	-9%
ING GROEP	INGA NA	50%	48%	37%	-35%
DEUTSCHE BANK (XET)	DBK GR	34%	40%	30%	-23%
BANCO SANTANDER	SAN SM	34%	51%	27%	-28%
RAIFFEISEN BANK INTL.	RBI AV	18%	40%	57%	-6%
SOCIETE GENERALE	GLE FP	33%	52%	45%	-46%
NORDEA BANK (HEL)	NDA SS	32%	46%	27%	-19%
BBV.ARGENTARIA	BBVA SM	31%	61%	30%	-31%
COMMERZBANK (XET)	CBK GR	32%	29%	38%	-26%
BANCO BPM	BAMI IM	34%	44%	26%	-46%
BANK OF IRELAND GROUP	BIRG ID	41%	42%	26%	-46%
ERSTE GROUP BANK	EBS AV	32%	33%	33%	-32%
BANK POLSKA KASA OPIEKI	PEO PW	18%	59%	18%	-4%
CREDIT AGRICOLE	ACA FP	34%	27%	41%	-61%
BANCO DE SABADELL	SAB SM	16%	55%	21%	-13%
AVANZA BANK HOLDING	AZA SS	37%	14%	16%	-18%
BARCLAYS	BARC LN	31%	41%	18%	-29%
DNB BANK	DNB NO	31%	15%	17%	-24%
FINECOBANK SPA	FBK IM	1%	-4%	30%	-12%
NATWEST GROUP	NWG LN	22%	45%	20%	-29%
STANDARD CHARTERED	STAN LN	12%	21%	3%	15%
SWEDBANK A	SWEDA SS	27%	-1%	6%	-3%
UNICREDIT	UCG IM	25%	27%	40%	-54%
HSBC HOLDINGS	HSBA LN	-8%	24%	-3%	12%
SKANDINAVISKA ENSKILDA BANKEN A	SEBA SS	29%	16%	26%	-34%
CLOSE BROTHERS GROUP	CBG LN	14%	12%	0%	-11%
BANKINTER 'R'	BKT SM	15%	26%	20%	-30%
LLOYDS BANKING GROUP	LLOY LN	19%	19%	30%	-50%
DANSKE BANK	DANSKE DC	25%	5%	3%	-29%
KBC GROUP	KBC BB	29%	5%	21%	-51%
INTESA SANPAOLO	ISP IM	23%	18%	21%	-53%
SVENSKA HANDELSBANKEN A	SHBA SS	-9%	-6%	-28%	1%

Source: Bloomberg Finance L.P., Datastream, Markit

OW Insurance –strong capital position is a support

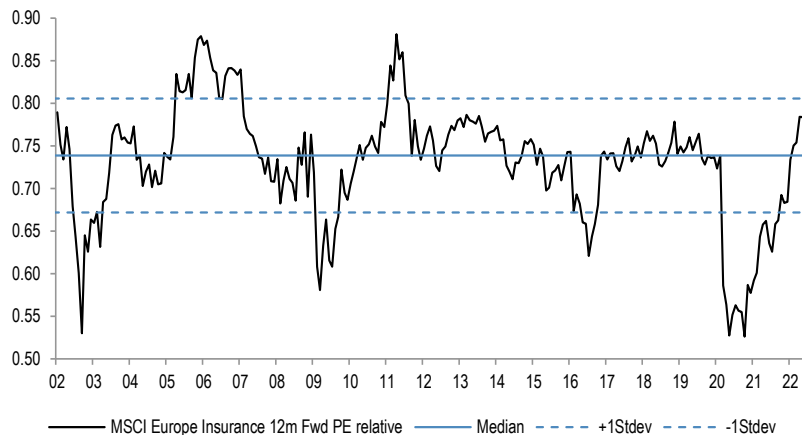
- Insurance sector performance is closely linked to credit spreads. Spreads have widened recently, but aren't likely to deteriorate significantly from here. We believe that the sector should do well going forward.
- Insurance is also one of the highest correlated sectors to bond yields.
- The sector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

MSCI US Insurance relative and US 30Y bond yield



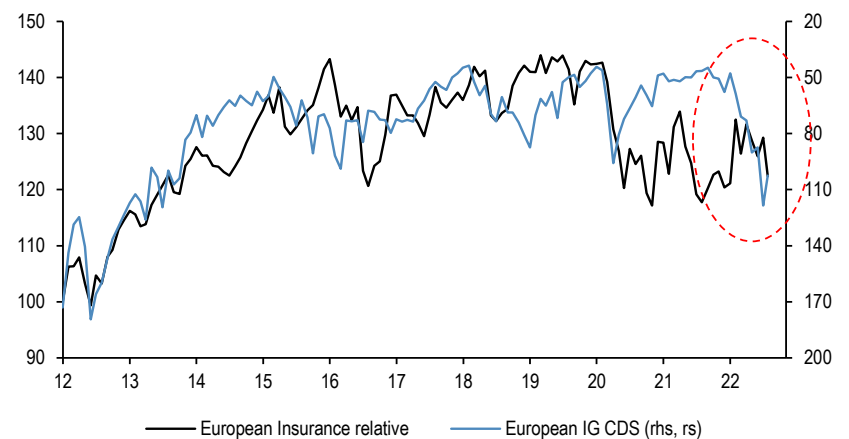
Source: Datastream

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...

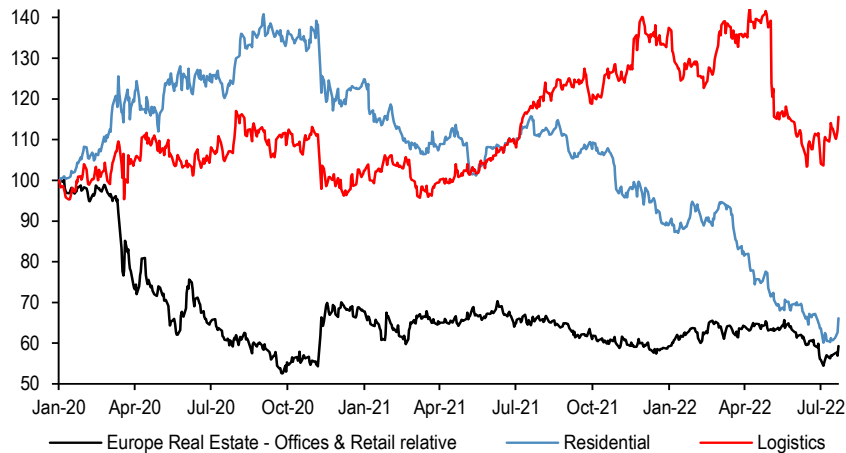
- The Real Estate sector is likely to struggle given challenging fundamentals.
- Within this, Offices & Retail are leveraged to the Reopening trade, and could perform better.
- Rental growth and capital market activity are still depressed from pre-COVID-19 levels, but are moving in the right direction.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

Real estate performance relative



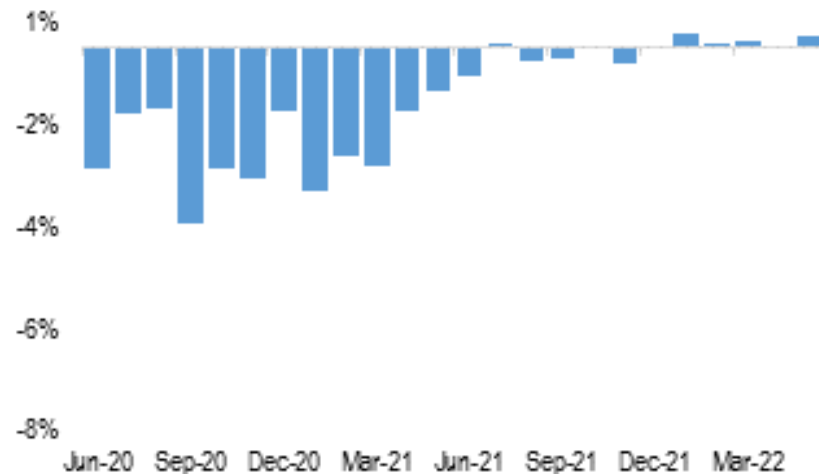
Source: Datastream

Real estate sub-sector performance relative



Source: J.P. Morgan, Datastream

Retail monthly capital growth rate

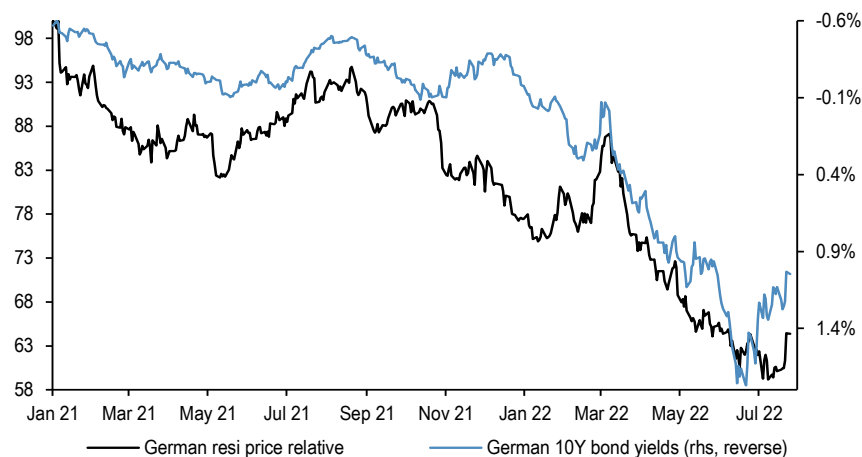


Source: J.P. Morgan Real Estate research

...residential stocks in particular are hurt from rising bond yields

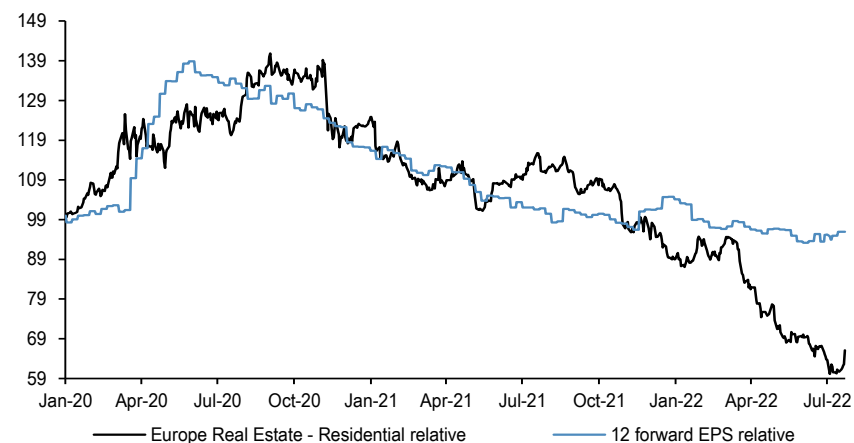
- The sector usually trades like a bond proxy and was hurt by rising yields. Residential stocks in particular are vulnerable here. Tactically, we argued that bond yields could stall into year end.
- On the other hand, Logistics is the cyclical part of the sector, and has benefited from the better performance 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

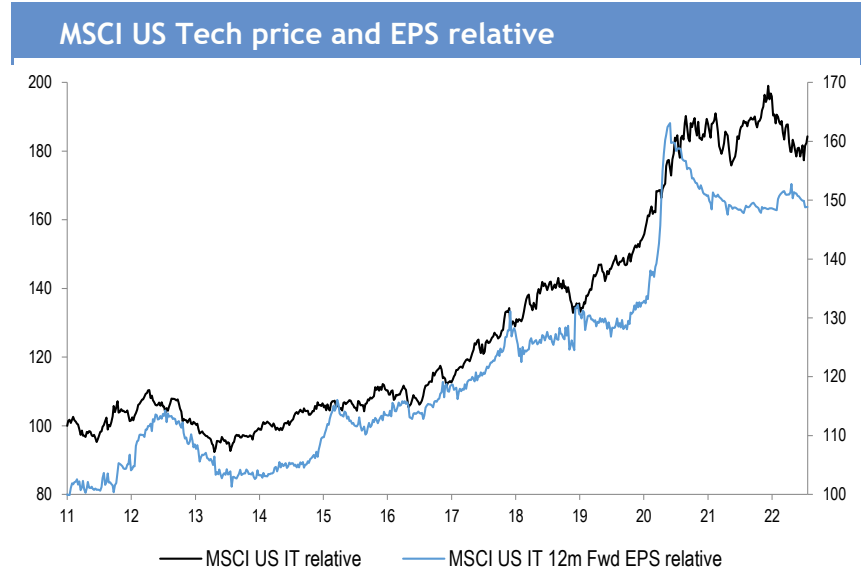


Source: J.P. Morgan, Datastream

TECHNOLOGY: NEUTRAL

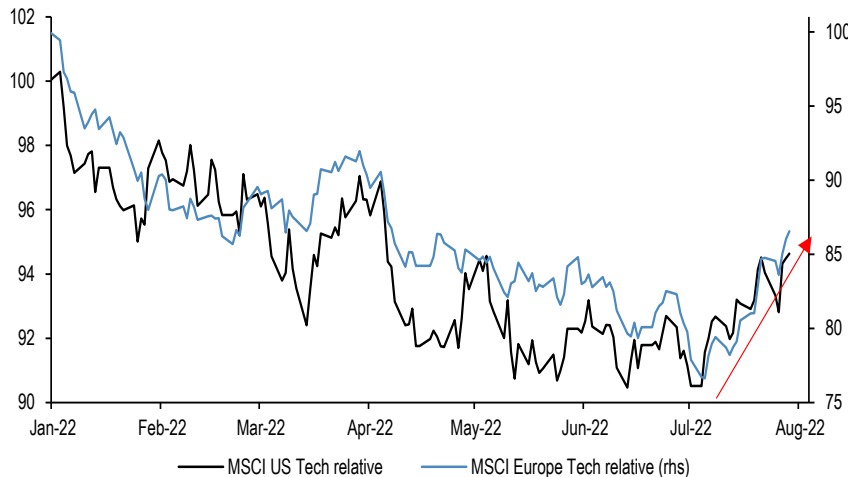
Tech sector to tactically trade better in 2H...

- We have recently 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.



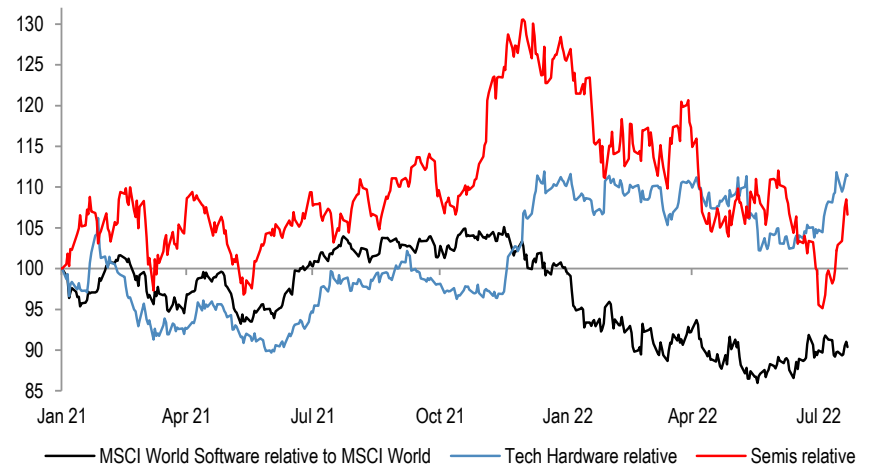
Source: IBES

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...

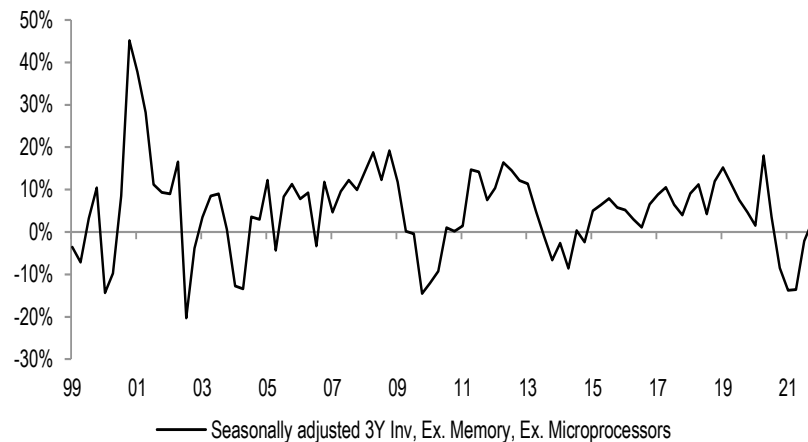
- Semiconductor inventory cycle isn't stretched yet and the demand-supply situation is likely to stay supportive, at least for another 2-3 quarters.
- However, there is fresh supply coming on stream, and valuations have shot up.
- From a medium term perspective, European Semis earnings relative could 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



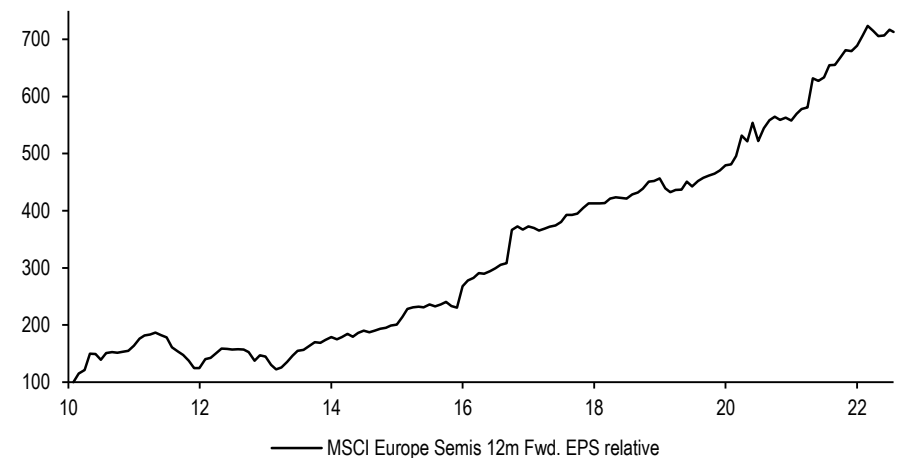
Source: Datastream

Global semiconductor inventory



Source: J.P. Morgan

European Semis 12m Fwd. EPS relative

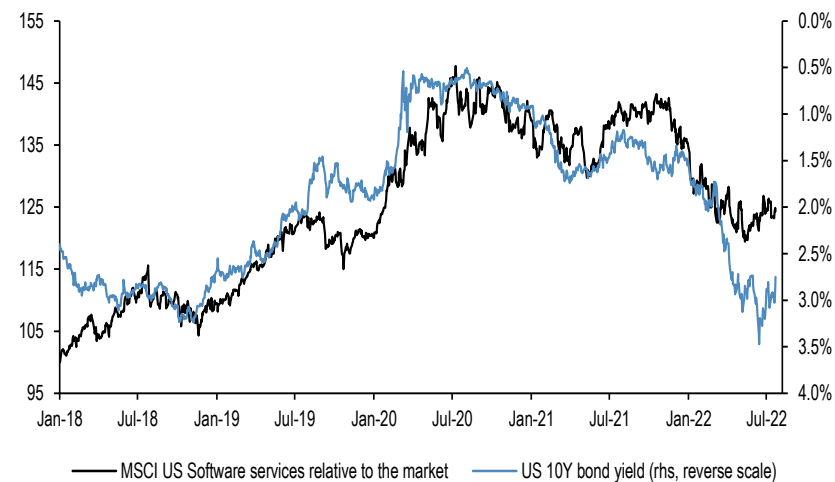


Source: IBES

...Tech correlation to bond yields is inverse

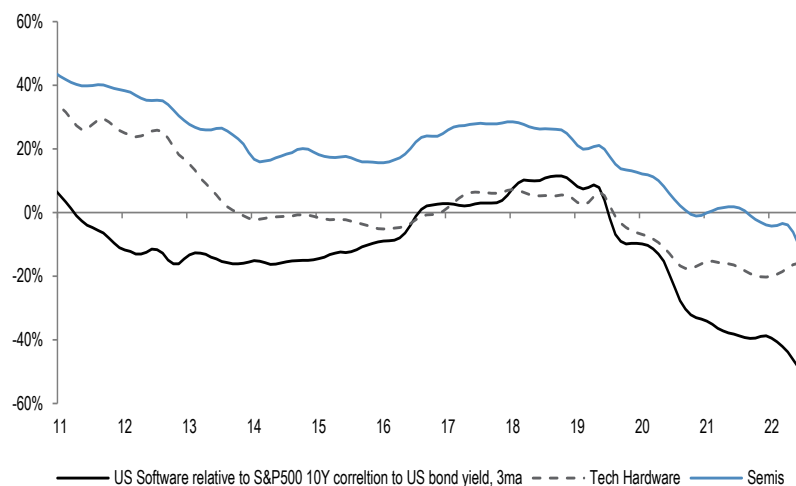
- Tech sector displays a clear inverse correlation to the direction of bond yields.

MSCI US Software relative and US 10Y bond yield



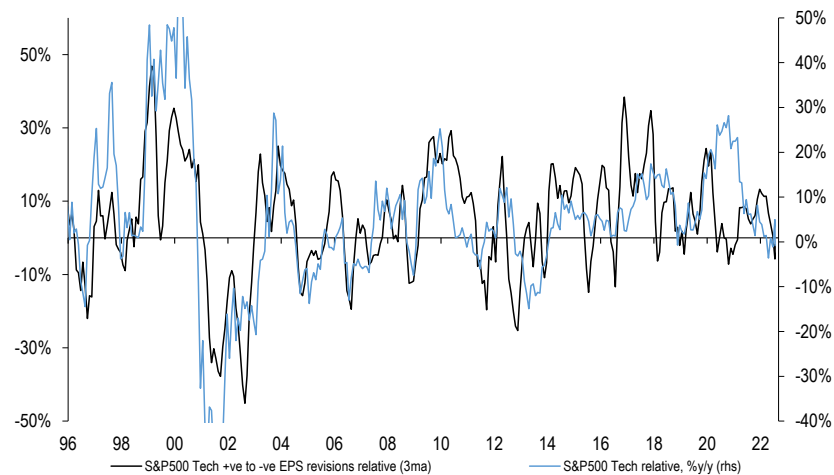
Source: Datastream

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

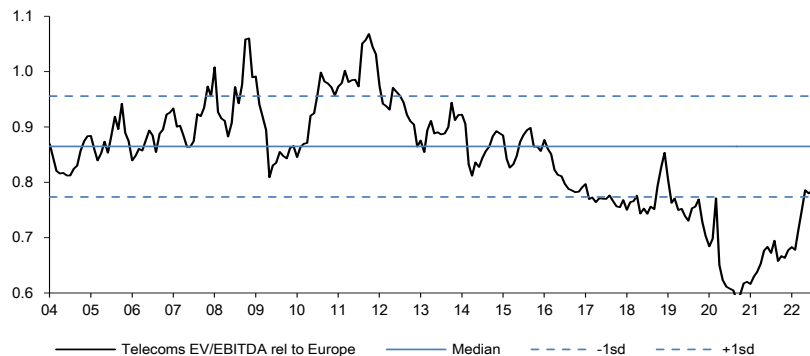
- Telecoms sector is trading cheap relative to the market. The sector's low valuations have driven a surge in PE interest, minority buy-outs and infrastructure deals. Within this, an ongoing trend over the past quarters has been the divestment of tower assets by Telecom operators.
- We note that tower 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

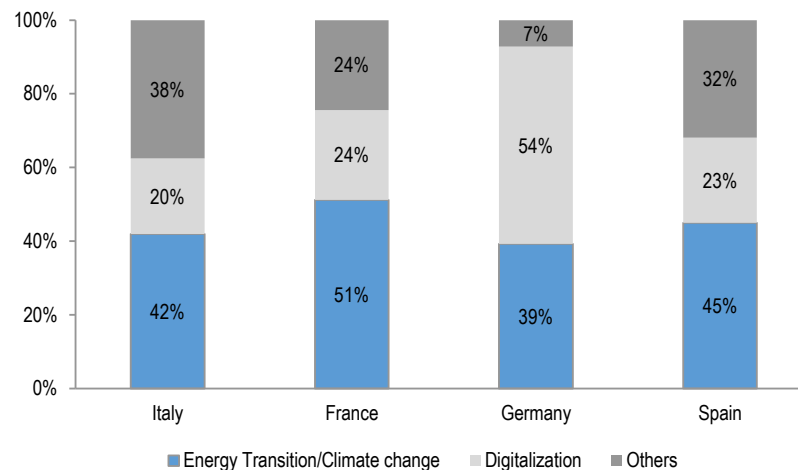
	Company	Comments
Deals announced	Masmovil	Sale of 940k business units
	TalkTalk	Sale of Fibre Nation
	Telecom Italia	Sale of stake in FiberCop
	Masmovil	Sale of 1m business units
	Orange	50% sale of French rural FTTH unit
	Telefonica	Stake sale in Chilean fibre unit
	Telefonica	Sale of 50% stake in Brazilian 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
	Euskatel (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...

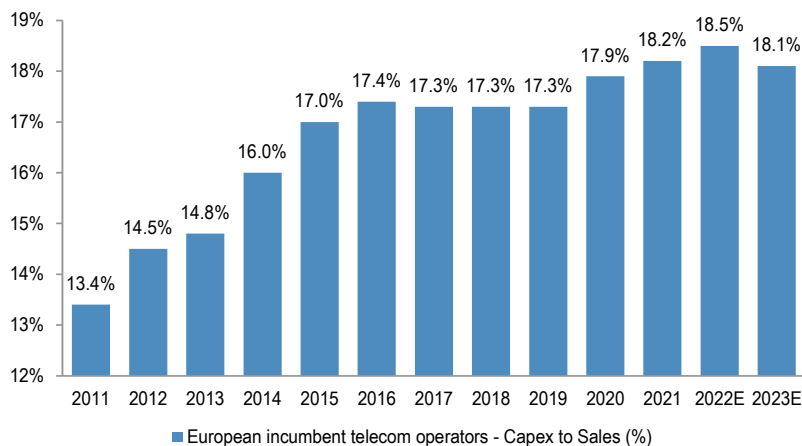
- The sector should be a beneficiary of the EU Recovery fund, with over 20% of fund's resources earmarked for transformation of digital services and infrastructure.
- Capex levels are elevated, but our sector analysts note that companies are on track to deliver rising FCF each year, driven by: 1) modest 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



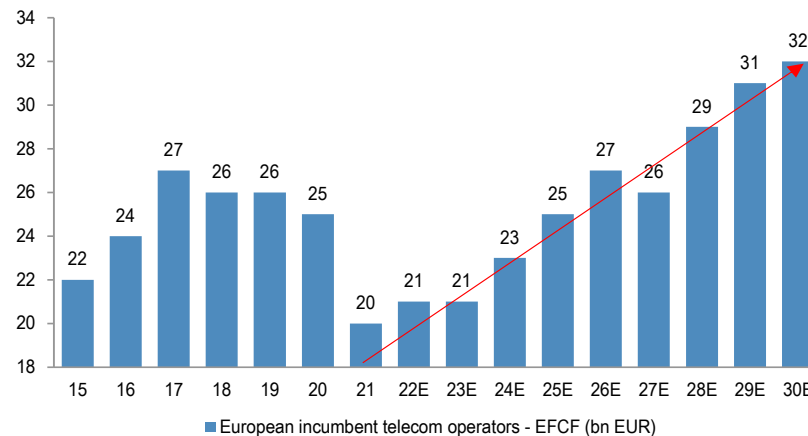
Source: Bruegel. *Note: Based on National plans submitted between April 25-28, 2021

European incumbent Telecom operators - Capex/Sales



Source: J.P. Morgan Telecoms Research

European incumbent Telecom operators - FCF



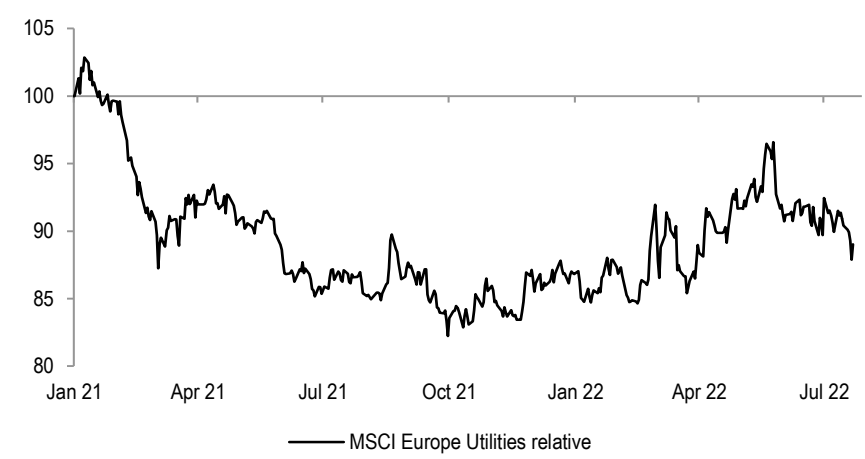
Source: J.P. Morgan Telecoms Research

UTILITIES: NEUTRAL

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

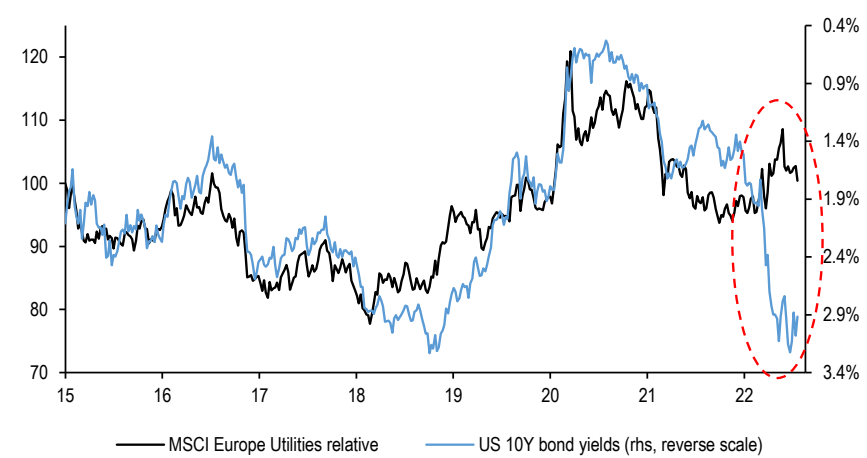
- The sector typically displays an inverse correlation to yields, and has been a constraint for Utility stocks, particularly the Regulated bond-proxies.
- Regulatory overhang around pricing / profitability is also an issue.
- The sector is now trading outright expensive, in our view.

European Utilities relative since Jan'21



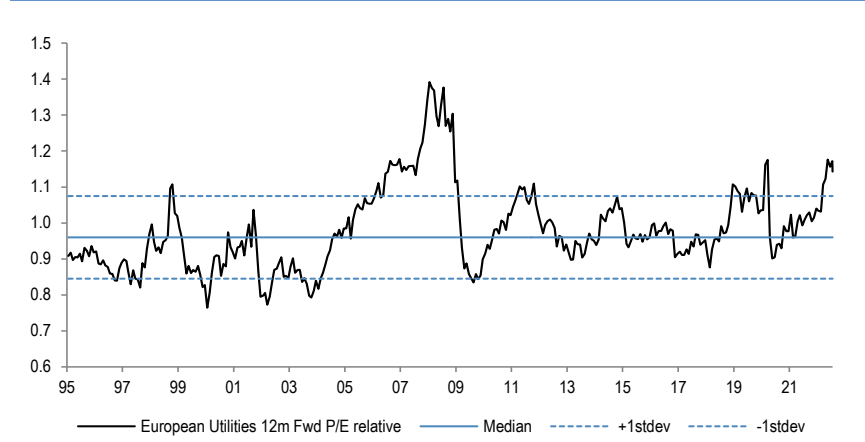
Source: Bloomberg Finance L.P.

Utilities price relative vs bond yields



Source: Bloomberg Finance L.P.

European Utilities P/E relative

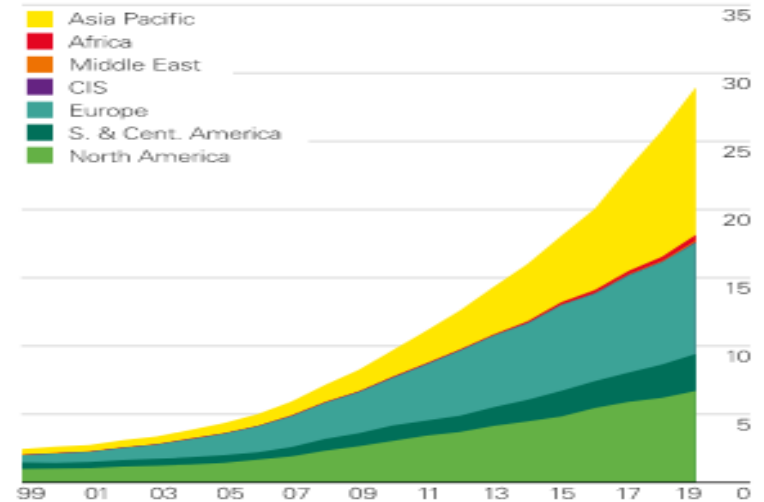


Source: IBES

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

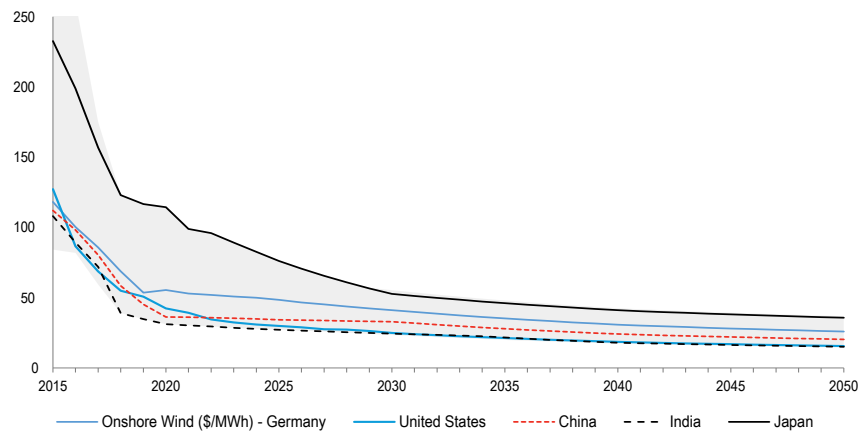
- The key argument that continues to drive the structural opportunity for the sector is the move towards renewables.
- The declining cost of replacing fossil capacity is likely to help the sector's earnings perform better over the next 3-4 years.
- Carbon prices are staying relatively high, which makes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

Penetration of Renewables since '99



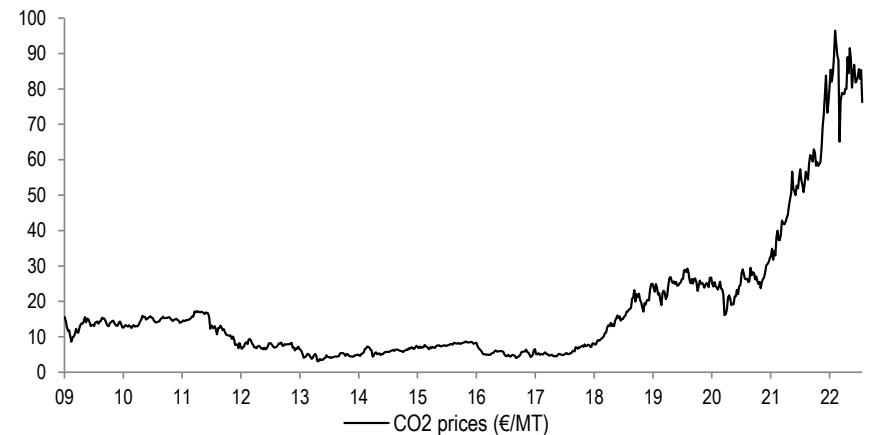
Source: BP

Cost of Onshore wind (\$/MWh)



Source: Bloomberg Finance L.P., NEF

Eurozone CO2 prices

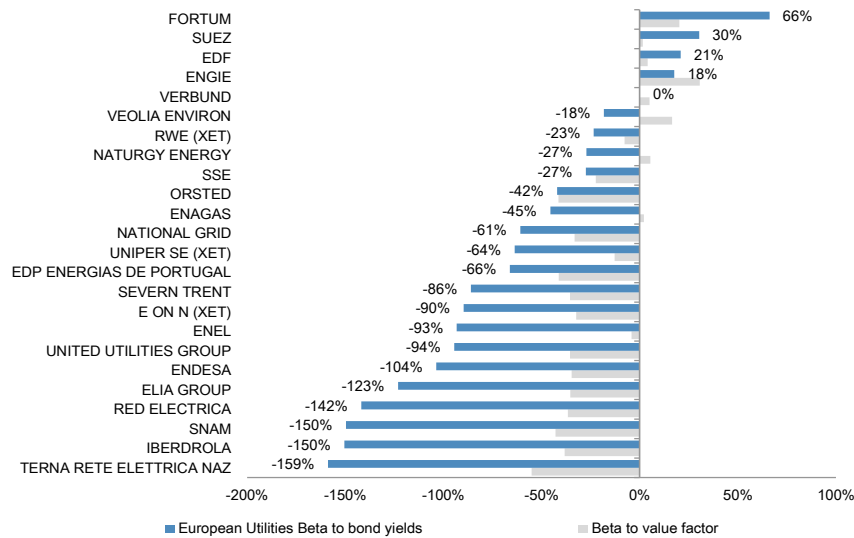


Source: Bloomberg Finance L.P.

J.P.Morgan

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

European Utilities - Beta to bond yields and Value factor

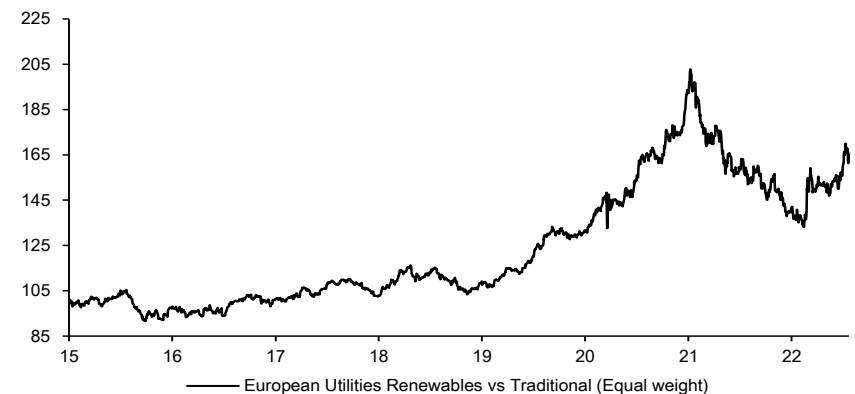


European Utilities - Traditional vs Renewables

Ticker	Name	Weight	Traditional/Regulated Skewed	Renewables skewed
IBESM	IBERDROLA	16%		x
ENELIM	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

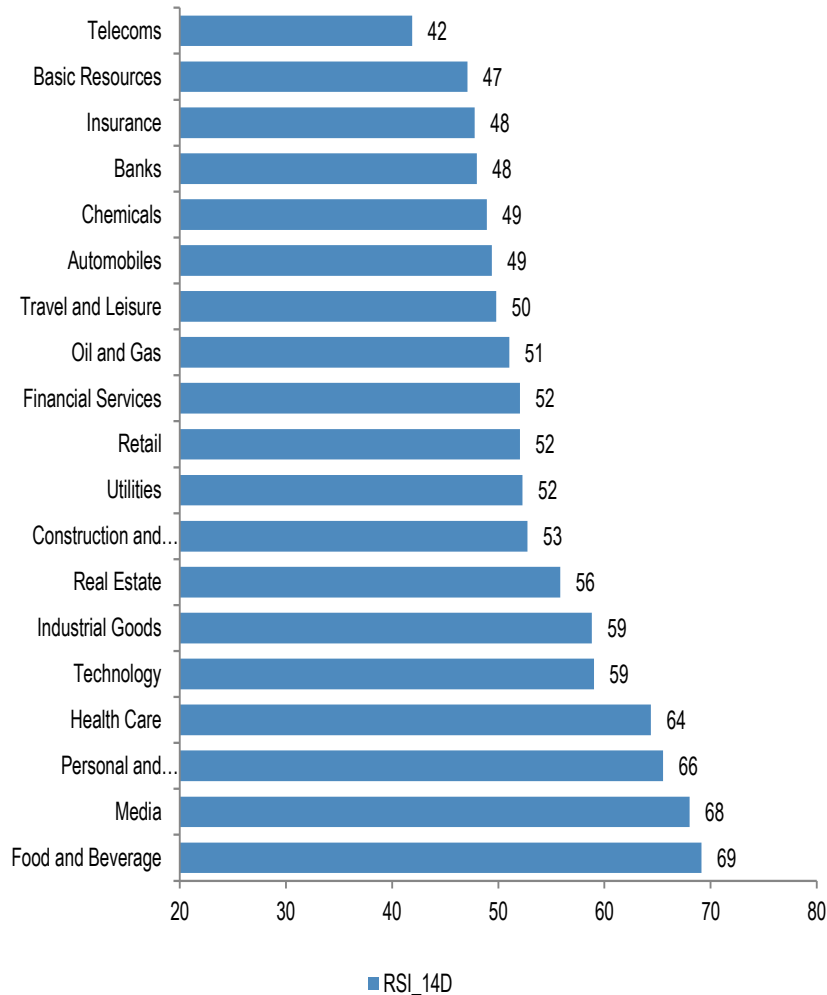
European Utilities performance -Renewables vs Traditional



Technical

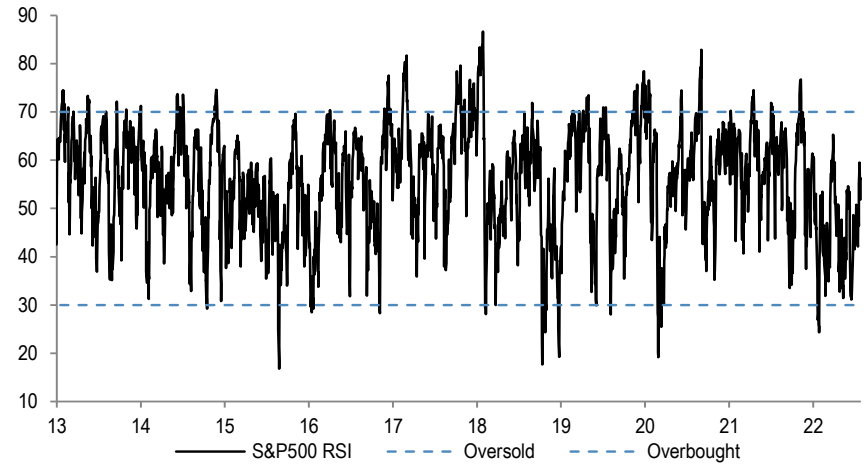
Index RSIs are no longer near oversold territory

SXXP sectors RSI



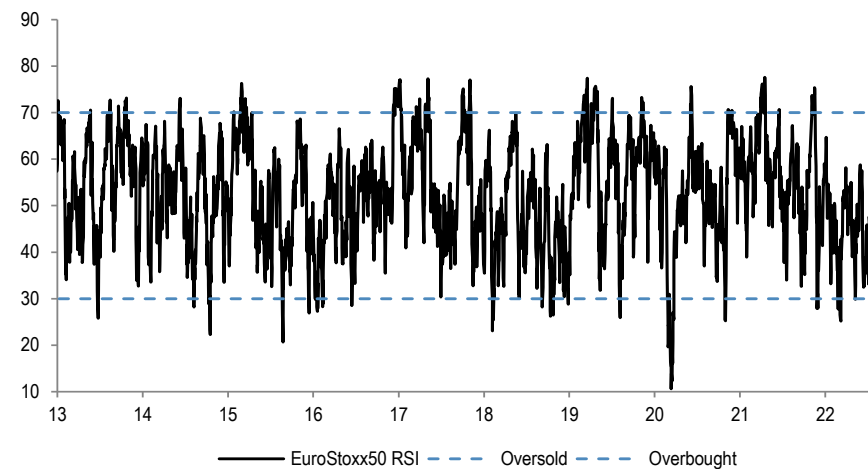
Source: Bloomberg Finance L.P

S&P500 RSI



Source: Bloomberg Finance L.P

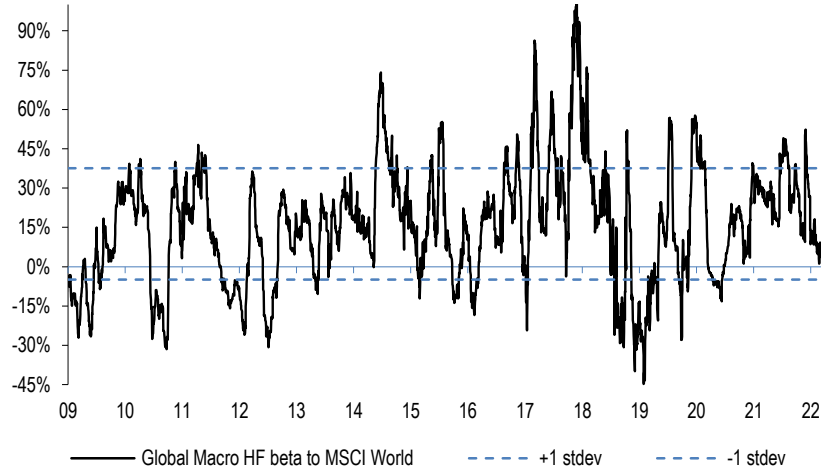
SX5E RSI



Source: Bloomberg Finance L.P

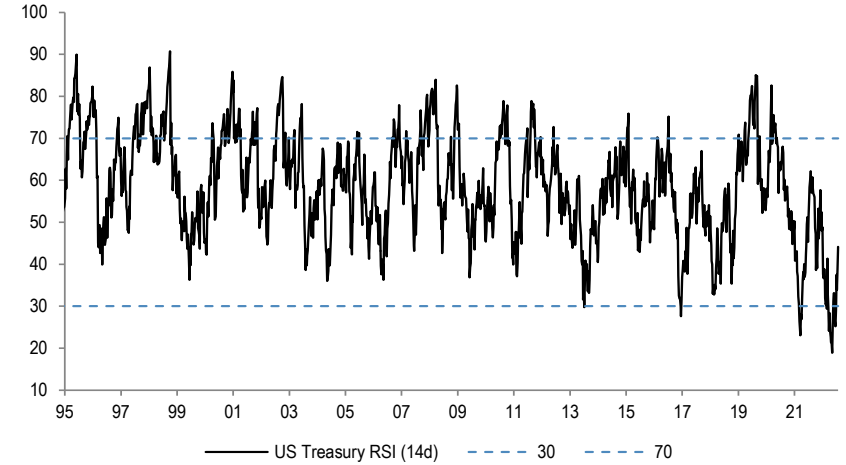
Market positioning indicators are depressed

Hedge Fund beta



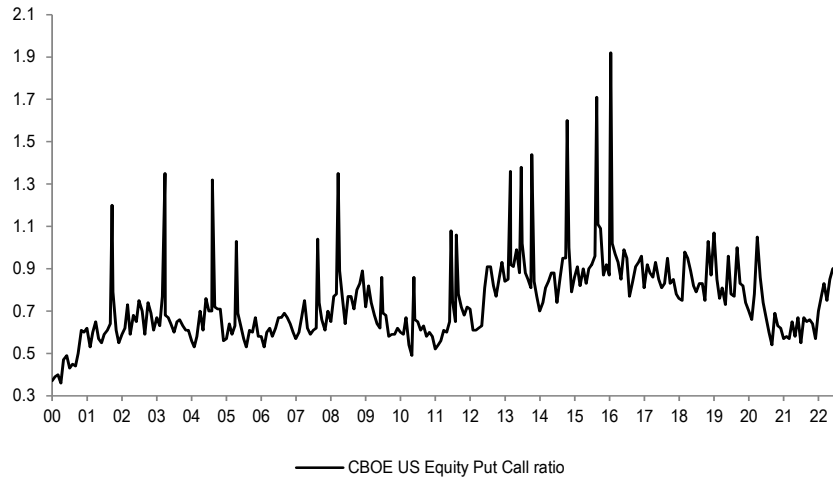
Source: Bloomberg Finance L.P

US 10Y bond RSI



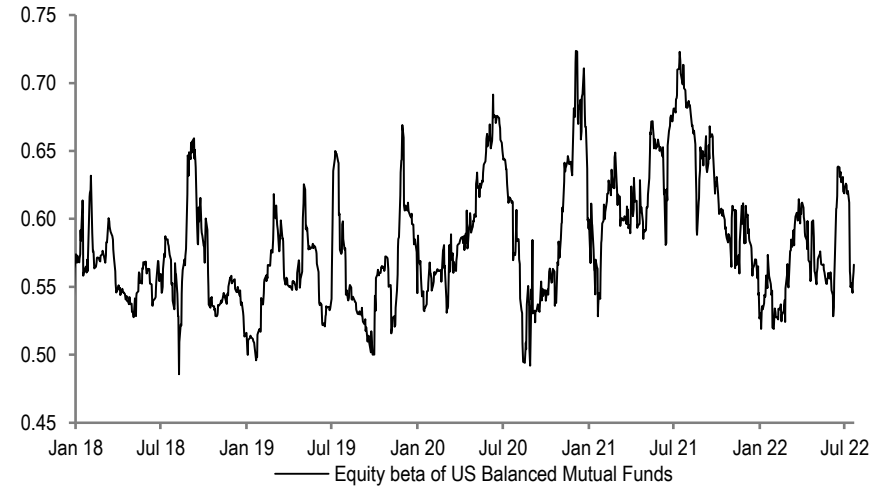
Source: Bloomberg Finance L.P

Put-Call ratio



Source: Bloomberg Finance L.P

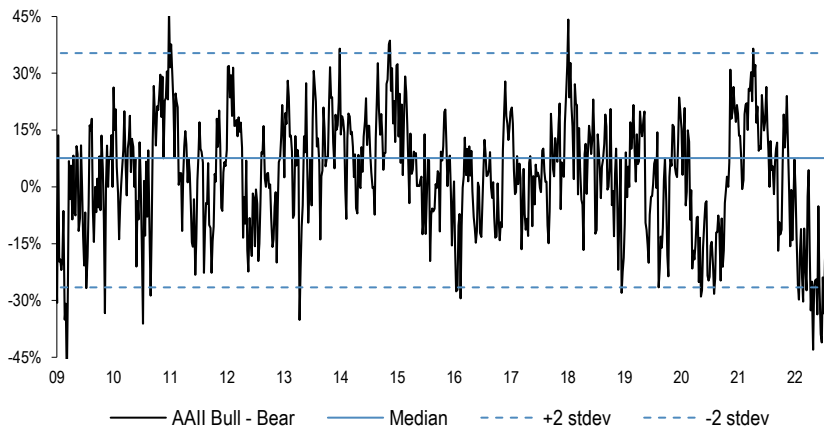
Equity beta for US balanced mutual funds



Source: J.P. Morgan

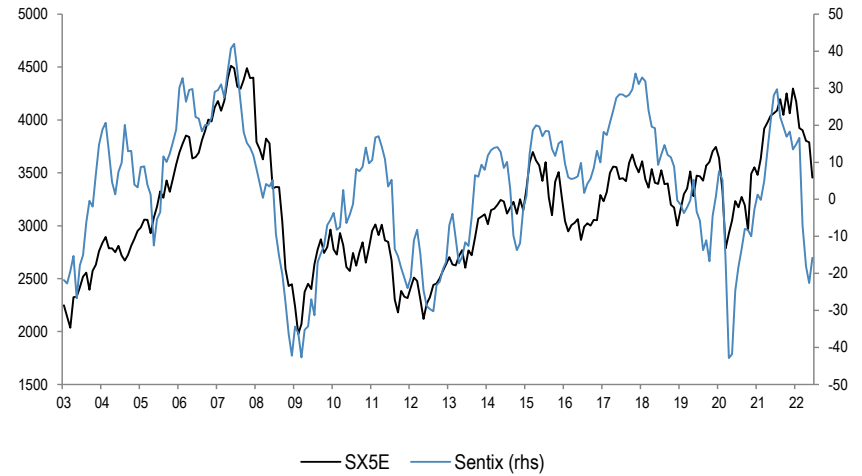
Flows into International were weak

AAll Bull-Bear



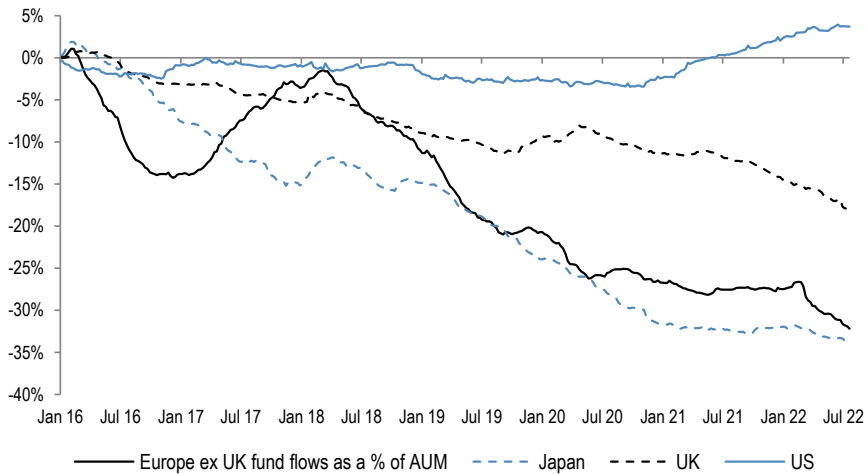
Source: Bloomberg Finance L.P

Sentix sentiment index vs SX5E



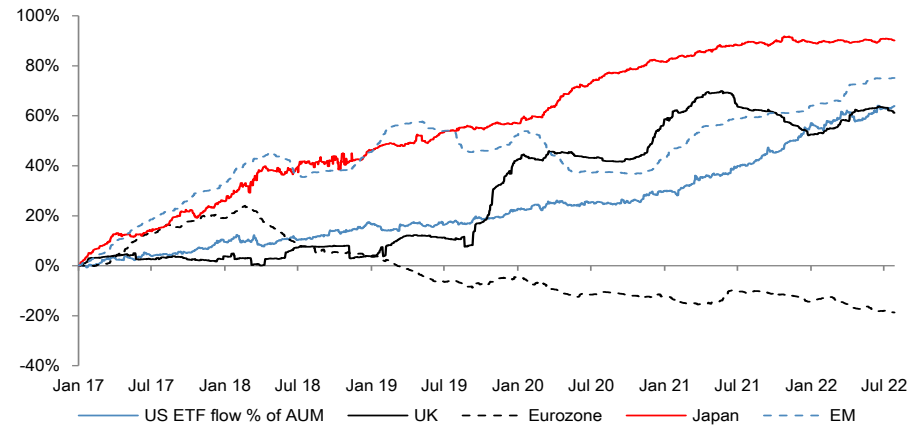
Source: Bloomberg Finance L.P

Cumulative fund flows into regional funds as % of AUM



Source: EPFR, as of 20th Jul, 2022. Japan includes Non-ETF purchases only

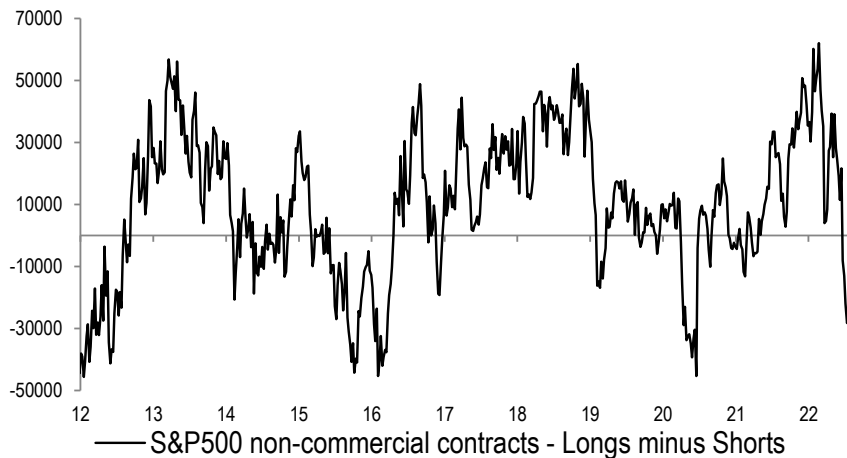
Cumulative fund flows into regional equity ETFs as % of AUM



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

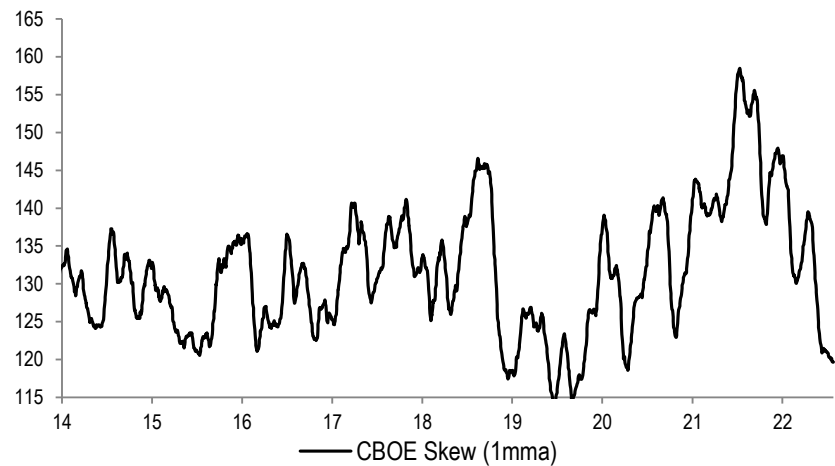
Equity performance has historically been below average in August...speculative positions on SPX futures are net short though

Speculative positions on S&P500 futures contracts



Source: Bloomberg Finance L.P

Equity skew



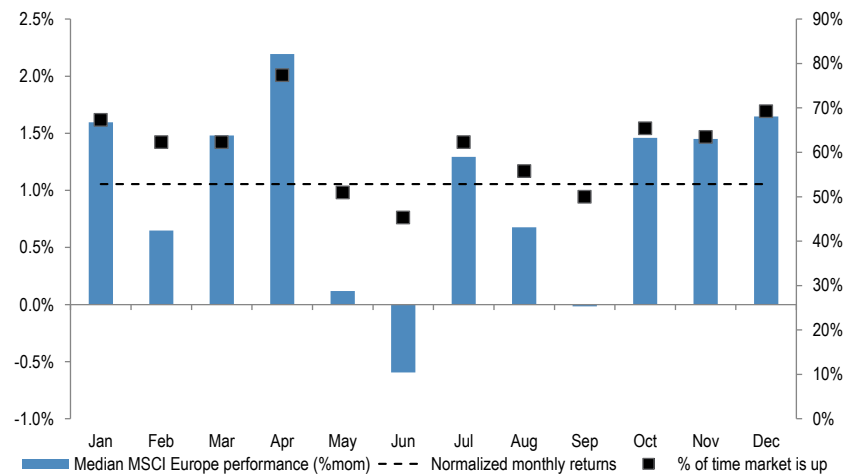
Source: Bloomberg Finance L.P

Gold-to-Copper price ratio



Source: Bloomberg Finance L.P.

Seasonality* of MSCI Europe performance



Source: Datastream, *Median since 1970

Equity Flows Snapshot

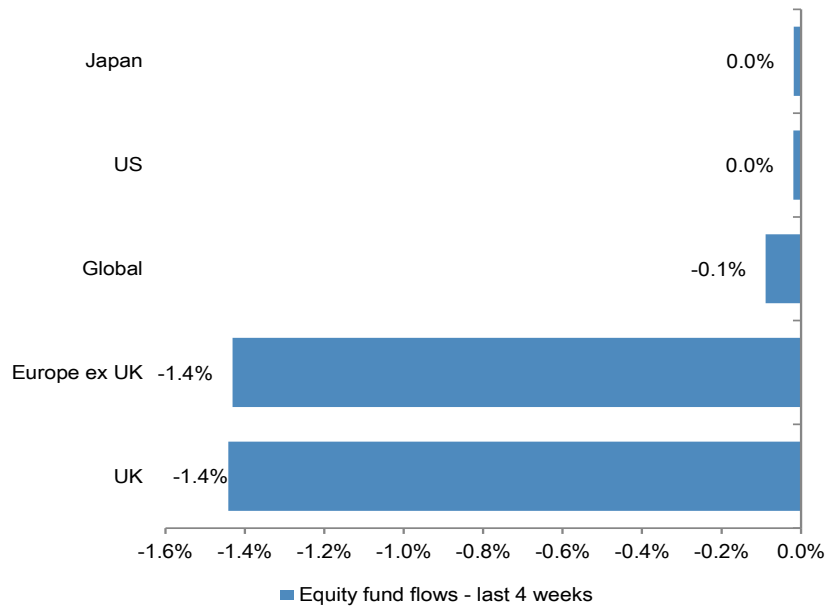
DM Equity Fund Flows Summary

Regional equity fund flows

	\$mn					% AUM				
	1w	1m	3m	ytd	12m	1w	1m	3m	ytd	12m
Global	-346	-3,149	-1,610	60,884	193,655	0.0%	-0.1%	0.0%	1.4%	4.6%
Europe ex UK	-922	-3,957	-8,818	-20,461	-20,098	-0.3%	-1.4%	-2.7%	-5.2%	-5.2%
UK	-116	-3,803	-7,332	-12,382	-22,466	0.0%	-1.4%	-2.4%	-3.5%	-6.4%
US	-698	-1,448	36,166	117,453	285,300	0.0%	0.0%	0.4%	1.2%	3.3%
Japan	503	-110	672	-2,257	2,979	0.1%	0.0%	0.1%	-0.3%	0.4%

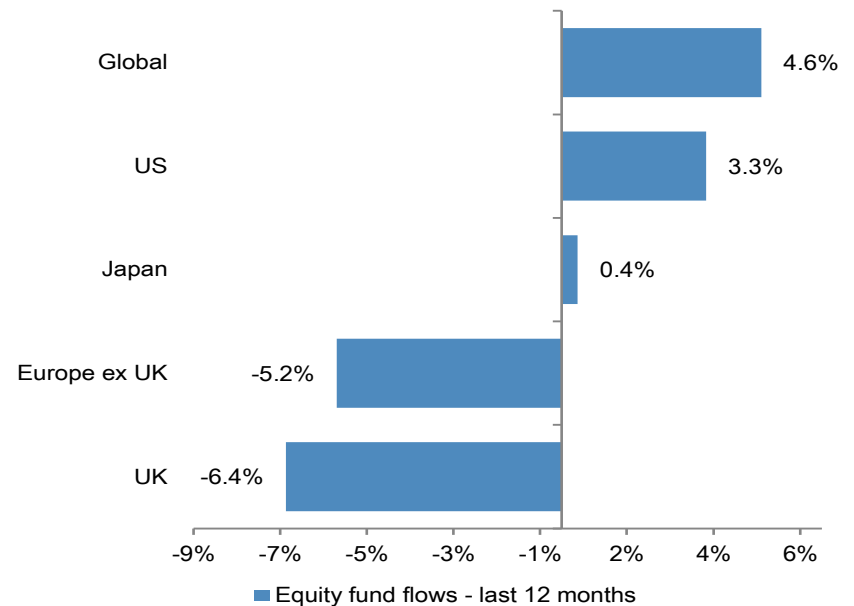
Source: EPFR

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	15.0	15.7	5%	2.8	2.2	-20%	27.0	24.5	-9%	1.8	1.3	-28%
Energy	7.3	14.5	98%	2.3	1.7	-24%	14.9	17.2	15%	0.8	0.9	10%
Chemicals	12.8	15.8	23%	2.0	1.9	-4%	20.3	24.2	20%	1.5	1.2	-21%
Const Mat	12.1	14.1	16%	1.8	1.8	-1%	19.7	20.0	1%	1.1	0.9	-16%
Metals&Mining	7.2	13.2	85%	1.5	1.6	10%	16.7	20.2	21%	0.9	0.9	-2%
Capital Goods	14.8	16.0	8%	1.8	2.1	18%	16.8	20.2	20%	1.3	0.9	-32%
Transport	14.1	16.0	14%	2.2	2.1	-4%	24.1	26.7	11%	1.5	1.1	-28%
Business Services	23.2	18.6	-20%	-	-	-	-	-	-	2.4	1.2	-49%
Automobile	13.0	11.6	-11%	1.6	1.5	-12%	16.3	19.1	17%	0.9	0.5	-46%
Cons Dur	15.1	17.5	16%	5.7	2.8	-52%	39.0	33.7	-13%	1.6	1.1	-35%
Media	16.5	20.0	21%	2.1	2.5	19%	20.4	29.2	43%	2.5	1.7	-31%
Retailing	26.8	20.1	-25%	5.1	3.2	-37%	32.2	32.8	2%	1.6	1.1	-33%
Hot,Rest&Leis	26.7	18.9	-29%	5.2	2.4	-55%	21.0	33.6	60%	2.9	1.9	-36%
Food&Drug Retailing	19.4	17.4	-11%	3.9	3.2	-18%	26.3	30.9	17%	0.5	0.4	-16%
Food Bev &Tob	18.7	17.3	-8%	3.1	2.9	-9%	25.4	28.3	11%	2.3	1.7	-28%
HPC	23.5	20.2	-14%	3.4	2.1	-38%	25.6	29.1	14%	3.0	2.1	-30%
Healthcare	17.0	17.2	1%	4.2	3.2	-24%	35.0	32.1	-8%	2.0	1.8	-10%
Banks	8.8	11.7	33%	0.9	1.3	40%	11.3	20.1	78%	2.3	2.4	5%
Div Fin	13.1	20.8	59%	-	-	-	-	-	-	2.2	1.8	-15%
Insurance	10.8	11.6	7%	1.3	1.7	23%	15.8	22.4	42%	0.9	0.8	-8%
Real Estate	25.1	20.8	-17%	1.3	1.3	1%	14.8	21.0	42%	4.8	4.0	-16%
Software&Svs	24.2	22.9	-5%	5.2	4.0	-23%	42.9	44.8	4%	5.3	3.2	-41%
Tech Hardware	19.7	17.3	-12%	3.1	3.1	-1%	24.6	31.7	29%	3.3	1.4	-59%
Semicon	15.8	16.3	3%	4.2	2.7	-36%	39.4	29.5	-25%	4.6	2.8	-40%
Telecoms	14.8	15.3	3%	1.9	2.3	25%	15.2	20.8	37%	2.0	1.3	-35%
Utilities	17.3	15.0	-13%	1.8	1.6	-12%	19.7	18.7	-5%	1.5	1.0	-35%
Cyclicals	18.1	17.2	-5%	3.6	2.3	-37%	24.9	28.5	14%	2.7	1.3	-54%
Defensives	17.2	17.1	0%	3.7	2.9	-22%	26.9	27.6	3%	1.8	1.4	-21%
Cyc. Vs. Def.	1.1	1.0	-5%	1.0	0.8	-18%	0.9	1.0	11%	1.5	1.0	-36%

Source: Datastream, MSCI, IBES. At 26th Jul 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	12.0	14.2	19%	1.8	1.8	0%	19.9	19.6	-2%	1.4	1.2	-14%
Energy	5.0	13.1	160%	1.1	1.4	31%	10.7	14.7	37%	0.4	0.8	99%
Chemicals	15.3	14.9	-2%	2.0	1.9	-6%	17.1	18.8	10%	1.1	0.9	-19%
Const Mat	9.3	12.9	39%	1.7	1.6	-4%	19.6	16.8	-14%	0.7	0.9	40%
Metals&Mining	5.3	11.1	111%	1.2	1.3	8%	13.6	15.2	12%	0.9	0.7	-25%
Capital Goods	15.7	15.0	-4%	1.8	1.9	6%	16.4	21.3	30%	1.2	0.7	-42%
Business Services	8.9	14.4	61%	-	-	-	-	-	-	1.4	1.2	-14%
Transport	20.7	17.1	-17%	1.9	1.4	-26%	20.0	21.4	7%	2.5	0.7	-70%
Automobile	5.1	9.8	92%	0.8	1.1	39%	8.3	12.6	52%	0.3	0.4	28%
Cons Dur	18.5	16.5	-10%	5.8	2.7	-53%	41.4	35.0	-15%	2.1	1.4	-33%
Media	17.4	16.4	-6%	2.2	2.4	8%	16.4	25.0	52%	1.5	1.7	10%
Retailing	22.7	17.5	-23%	3.1	3.2	1%	16.3	23.3	43%	1.7	1.1	-32%
Hot,Rest&Leis	20.5	17.1	-17%	4.7	1.7	-64%	12.3	19.8	62%	1.6	0.7	-56%
Food&Drug Retailing	13.5	14.5	7%	3.2	2.8	-15%	19.8	27.1	37%	0.4	0.3	-18%
Food Bev &Tob	19.4	16.8	-14%	2.8	2.3	-15%	24.2	24.3	1%	2.0	1.2	-40%
HPC	21.4	20.8	-3%	4.1	2.4	-42%	28.1	23.9	-15%	3.1	2.1	-32%
Healthcare	17.0	16.9	-1%	3.6	3.0	-17%	27.8	26.2	-6%	3.7	2.9	-20%
Banks	6.9	11.0	60%	0.5	0.9	76%	8.3	13.0	56%	1.2	2.3	92%
Diversified Financials	10.1	11.9	18%	-	-	-	-	-	-	1.4	2.4	68%
Insurance	8.9	10.5	18%	1.2	1.5	31%	11.3	22.5	100%	0.6	0.6	1%
Real Estate	13.9	18.8	36%	0.8	1.0	22%	9.5	24.4	156%	10.7	8.9	-18%
Software&Svs	21.5	21.6	1%	3.2	3.7	17%	24.7	34.3	39%	3.4	2.5	-25%
Tech Hardware	13.7	18.2	32%	1.7	2.2	28%	26.9	22.3	-17%	1.8	1.5	-17%
Semicon	21.8	21.0	-4%	3.0	2.3	-24%	46.1	38.0	-18%	8.8	3.0	-66%
Telecoms	15.0	14.4	-4%	1.7	2.2	30%	13.3	20.0	51%	1.3	1.4	7%
Utilities	13.8	13.9	1%	1.6	1.5	-9%	16.7	19.3	16%	1.2	1.1	-5%
Cyclicals	15.3	15.2	-1%	2.4	1.9	-18%	20.3	20.4	1%	1.4	0.9	-38%
Defensives	16.5	16.1	-2%	2.8	2.5	-11%	22.5	23.3	4%	2.0	1.5	-26%
Cyc. vs Def.	0.9	0.9	-1%	0.8	0.8	-8%	0.9	0.9	-3%	0.7	0.6	-16%

Source: Datastream, MSCI, IBES. At 26th Jul 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	9.8	13.2	35%	1.8	1.9	4%	16.9	17.5	4%	1.1	1.1	-3%
Energy	4.8	13.4	178%	0.8	1.5	86%	16.5	16.0	-3%	0.4	0.6	31%
Chemicals	18.6	15.8	-15%	2.6	2.4	-11%	18.1	19.4	7%	2.3	0.8	-67%
Const Mat	-	-	-	1.1	2.1	80%	20.0	16.9	-15%	-	1.3	-
Metals&Mining	5.5	11.5	110%	1.5	1.8	16%	16.8	17.0	1%	0.6	0.9	51%
Capital Goods	15.2	13.8	-9%	1.6	2.6	62%	18.5	17.4	-6%	1.0	0.8	-19%
Transport	-	-	-	3.5	2.5	-27%	15.8	19.8	25%	-	-	-
Business Services	22.5	16.4	-27%	-	-	-	-	-	-	4.2	1.3	-69%
Automobile	-	-	-	-	-	-	3.8	16.1	322%	-	-	-
Cons Dur	8.4	10.7	27%	4.8	4.9	2%	23.1	28.6	24%	1.4	1.9	37%
Media	13.8	15.6	13%	2.2	2.2	2%	19.6	23.4	19%	1.6	1.5	-6%
Retailing	10.3	13.9	35%	2.9	2.5	-13%	14.6	20.1	37%	0.7	0.7	-7%
Hot, Rest&Leis	21.4	16.0	-25%	3.9	1.8	-54%	11.0	20.5	87%	1.5	0.8	-49%
Food&Drug Retailing	15.3	14.0	-9%	4.4	3.0	-32%	19.5	23.8	22%	0.3	0.4	28%
Food Bev & Tob	12.4	14.4	16%	2.3	2.7	21%	25.1	22.7	-10%	3.0	1.9	-36%
HPC	18.7	18.4	-2%	2.1	1.5	-26%	13.2	20.1	53%	2.3	2.8	20%
Healthcare	16.1	15.9	-1%	3.8	5.2	36%	30.0	22.6	-25%	3.4	2.8	-16%
Banks	7.2	10.6	48%	0.6	0.9	64%	12.7	12.2	-4%	1.8	2.2	19%
Div Fin	12.5	13.4	8%	-	-	-	-	-	-	2.0	3.0	52%
Insurance	8.6	10.7	24%	1.7	2.0	19%	12.7	16.0	26%	0.8	0.8	-6%
Real Estate	21.8	21.2	-3%	1.0	0.9	-12%	16.7	25.4	52%	13.5	9.8	-27%
Software&Svs	23.5	17.9	-24%	2.6	3.3	30%	25.0	32.2	29%	3.7	3.1	-16%
Tech Hardware	-	-	-	5.0	3.1	-37%	30.3	26.0	-14%	-	1.1	-
Semicon	-	-	-	-	-	-	47.1	-	-	-	13.1	-
Telecoms	12.3	13.4	10%	1.4	2.3	62%	11.1	19.7	77%	1.0	1.5	50%
Utilities	17.7	13.3	-25%	1.7	2.4	44%	16.8	16.1	-4%	2.2	0.9	-59%
Cyclicals	9.6	14.2	48%	2.5	2.3	-8%	22.7	20.9	-8%	1.3	1.2	-6%
Defensives	10.9	14.2	31%	3.0	3.6	21%	22.8	20.9	-8%	2.2	1.8	-19%
Cyc. Vs. Def.	0.9	0.9	7%	0.8	0.6	-24%	1.0	1.0	1%	0.6	0.7	22%

Source: Datastream, MSCI, IBES. At 30th Jul 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	4Q21	2Q22	4Q22	2Q23
United States	5.7	2.0	1.4	6.9	-1.6	1.4	1.0	1.5	1.7	6.7	8.6	6.8	3.5
Eurozone	5.3	3.0	0.7	1.0	2.0	2.8	0.5	-0.5	-0.5	4.6	8.0	8.3	4.0
United Kingdom	7.4	3.3	0.3	5.2	3.0	-1.0	0.5	-1.2	0.8	4.9	9.2	11.0	6.7
Japan	1.7	1.4	1.6	4.0	-0.5	3.0	2.5	2.5	1.0	0.5	2.1	2.1	1.8
Emerging markets	7.1	3.3	3.6	7.6	5.8	-3.8	5.6	3.6	4.1	2.4	3.3	3.9	3.0
Global	6.0	2.7	2.2	6.1	2.5	-0.5	2.9	2.0	2.2	4.7	7.3	7.1	3.9

Official interest rate	Forecast		Forecast for			
	next change	Current	Sep 22	Dec 22	Mar 23	Jun 23
Federal funds rate	Sept 22 (+75bp)	2.50	3.00	3.50	3.50	3.50
Depo rate	Sept 22 (+25bp)	0.00	0.25	0.75	1.00	1.25
Bank Rate	Aug 22 (+50bp)	1.25	2.00	2.25	2.50	2.75
Pol rate IOER	On hold	-0.10	-0.10	-0.10	-0.10	-0.10

10 Yr Govt BY	Forecast for end of				
	26-Jul-22	Sep 22	Dec 22	Mar 23	Jun 23
US	2.79	3.25	3.10	3.00	2.85
Euro Area	0.94	1.20	1.00	0.90	0.80
United Kingdom	1.92	2.30	2.35	2.15	2.00
Japan	0.21	0.25	0.25	0.25	0.25

Exchange rates vs US\$	Forecast for end of				
	26-Jul-22	Sep 22	Dec 22	Mar 23	Jun 23
EUR	1.01	0.95	0.97	1.00	1.02
GBP	1.20	1.14	1.15	1.16	1.17
CHF	0.96	1.03	0.99	0.94	0.90
JPY	137	138	140	139	138
DXY	107.2	112.6	111.1	106.8	107.1

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	6.0	11.6	-48%	-32%	0.8	1.3	-34%	-20%	4.6	2.4	-12%	7%	12%	-7%	-6%	52.6%	5.2	3.9	1.8
Belgium	17.4	13.5	29%	52%	1.5	2.0	-26%	-19%	2.5	3.0	-17%	-2%	-4%	9%	19%	-22.2%	6.5	2.3	1.5
Finland	14.5	15.6	-7%	12%	2.3	2.3	-4%	10%	3.3	3.5	8%	-1%	-6%	4%	7%	24.6%	3.5	1.8	1.5
France	11.8	14.1	-16%	-1%	1.7	1.7	0%	12%	2.9	3.1	-6%	11%	22%	1%	6%	30.9%	6.8	2.2	0.6
Germany	9.9	13.3	-26%	-11%	1.3	1.7	-25%	-16%	3.8	2.7	0%	-14%	6%	7%	10%	21.9%	2.9	1.6	0.6
Greece	9.9	12.9	-23%	-8%	0.9	1.7	-47%	-41%	2.7	2.6	-36%	4%	83%	-20%	20%	-7.7%	8.4	4.1	2.5
Ireland	13.5	15.1	-11%	7%	1.8	2.0	-7%	5%	1.9	2.1	4%	-17%	9%	12%	11%	8.5%	13.7	5.1	3.0
Italy	7.6	13.2	-43%	-31%	1.0	1.2	-14%	-2%	5.4	3.6	-8%	-7%	15%	3%	7%	32.0%	6.6	3.0	0.2
Netherlands	18.3	14.1	30%	56%	2.4	2.2	12%	33%	2.0	2.7	13%	5%	12%	19%	15%	14.0%	4.9	2.9	1.5
Portugal	17.7	15.0	18%	44%	2.6	2.0	34%	59%	3.3	3.8	2%	11%	46%	9%	4%	4.1%	5.4	5.6	2.0
Spain	10.1	12.9	-22%	-7%	1.1	1.5	-27%	-16%	3.9	4.0	-14%	1%	20%	6%	7%	2.3%	5.1	4.4	1.3
EMU	11.5	13.7	-16%		1.5	1.7	-11%		3.3	3.1	-3%	-1%	14%	5%	9%	42.8%	5.4	2.8	1.6
Norway	8.7	11.9	-27%		2.1	1.6	30%		3.8	3.4	-7%	25%	64%	-17%	-9%	80.8%	3.9	3.6	2.0
Sweden	14.2	15.3	-7%		2.0	2.2	-10%		3.4	2.8	8%	3%	5%	8%	9%	25.6%	5.1	2.3	1.7
Switzerland	16.8	16.1	4%		3.1	2.7	15%		2.9	2.8	0%	3%	9%	10%	10%	11.2%	3.8	2.5	1.5
Denmark	18.0	16.4	10%		5.1	3.1	62%		1.9	1.7	30%	22%	25%	-17%	-3%	91.5%	4.9	3.1	1.8
United Kingdom	9.8	13.2	-26%		1.8	1.9	-5%		3.9	3.6	-16%	17%	18%	-1%	1%	30.2%	7.4	3.3	0.3
Europe	12.0	14.2	-16%		1.8	1.9	-3%		3.3	3.2	-4%	5%	15%	3%	6%	42.9%	5.3	2.8	0.6
US	16.8	16.3	3%		4.0	2.9	36%		1.6	1.9	19%	2%	9%	9%	9%	34.8%	5.7	1.9	1.3

Source: Datastream, IBES, J.P. Morgan Economics Research, consensus forecast in italics, 26th Jul 2022

Global Equities Performance & Valuations

3M Performance	Market	Energy	Materials	Industrials	Discretionary	Staples	Healthcare	Financials	IT	Telecom	Utilities
US	-6.5%	-0.4%	-11.4%	-6.1%	-12.6%	-7.2%	-0.5%	-7.7%	-5.4%	-9.9%	-3.0%
Europe	-3.7%	1.6%	-12.7%	-4.6%	1.2%	-0.6%	-0.8%	-6.9%	-4.2%	-4.3%	-6.9%
UK	-0.5%	-0.5%	-10.6%	-0.9%	0.8%	2.7%	2.8%	2.6%	-4.9%	-4.7%	-6.1%
Euro	-4.9%	2.8%	-11.3%	-5.9%	1.9%	-1.1%	-3.7%	-11.8%	-3.5%	-3.4%	-7.6%
Switzerland	-6.6%	-	-18.1%	-8.3%	-1.3%	-4.9%	-4.5%	-9.2%	-	-7.5%	-
Japan	2.9%	4.7%	-3.9%	2.6%	3.4%	4.4%	7.3%	3.7%	0.2%	2.9%	9.8%
World	-5.5%	-0.2%	-12.3%	-4.4%	-8.6%	-4.3%	-0.3%	-6.7%	-5.2%	-8.6%	-4.0%
12M Performance											
US	-13.5%	46.8%	-9.1%	-13.9%	-24.2%	2.8%	-1.2%	-12.0%	-16.5%	-35.7%	7.7%
Europe	-8.0%	36.4%	-17.9%	-15.6%	-20.1%	-0.4%	5.3%	-9.7%	-21.6%	-3.9%	-4.8%
UK	6.8%	44.2%	-8.2%	-1.9%	-11.6%	4.9%	24.7%	1.3%	-19.6%	-0.4%	15.8%
Euro	-14.0%	20.8%	-22.2%	-15.2%	-20.9%	-8.9%	-5.6%	-14.1%	-19.7%	-0.5%	-9.2%
Switzerland	-8.7%	-	-26.7%	-28.4%	-10.7%	2.7%	-3.5%	-10.7%	-	-4.2%	-
Japan	1.0%	37.4%	-6.2%	-2.4%	2.2%	-3.5%	-1.2%	17.3%	-3.1%	3.6%	19.2%
World	-11.4%	41.5%	-12.6%	-12.3%	-21.1%	1.2%	-0.2%	-8.9%	-17.3%	-31.2%	3.4%
P/Book (-1M)											
US	4.2	2.8	3.2	4.8	9.4	6.4	4.9	1.6	8.8	3.2	2.4
Europe	1.9	1.5	2.0	3.2	1.8	3.4	4.0	0.9	4.7	1.5	2.0
UK	1.8	1.1	2.5	5.1	2.7	2.9	7.2	0.9	8.0	0.8	2.5
Euro	1.6	1.4	1.6	2.6	1.7	2.7	2.1	0.7	5.0	1.6	1.8
Switzerland	3.0	-	2.7	5.1	2.6	5.7	5.4	1.0	-	3.9	-
Japan	1.7	0.8	1.3	1.9	1.8	2.6	3.5	0.7	3.0	2.7	0.8
World	2.9	2.2	2.3	3.1	3.8	4.4	4.5	1.3	7.5	2.8	2.1
12m Fw P/E											
US	16.3	7.8	11.8	16.4	23.2	19.9	16.2	11.1	19.9	15.0	18.9
Europe	11.7	4.8	8.9	14.3	11.6	18.7	16.6	8.0	18.2	15.3	13.7
UK	9.7	4.6	5.8	17.4	12.9	14.4	16.3	8.1	25.7	12.6	17.4
Euro	11.1	4.8	10.0	14.1	10.9	18.6	13.7	7.2	18.7	15.5	12.3
Switzerland	16.7	-	18.6	17.6	16.8	26.3	16.0	9.5	13.1	17.8	-
Japan	12.3	5.5	9.0	10.3	11.7	21.1	24.0	8.7	15.7	14.0	12.5
World	14.6	6.9	9.7	14.8	18.1	19.5	16.6	10.2	19.7	15.2	17.1
12m fw EPS Gr											
US	8.9	23.8	0.9	17.3	24.0	5.1	3.4	2.0	9.7	6.4	7.6
Europe	7.3	14.3	-8.2	9.4	10.6	8.2	9.3	5.8	11.8	12.1	4.5
UK	5.8	16.6	-10.1	11.3	11.5	6.8	14.2	-0.4	9.0	7.0	7.3
Euro	8.3	12.3	-9.9	18.0	9.3	9.4	7.7	6.7	12.3	16.6	4.4
Switzerland	10.2	-	9.7	2.7	24.2	8.6	5.9	20.1	5.5	-6.4	-
Japan	8.0	-21.6	-11.9	3.0	10.1	10.5	19.7	-1.4	10.5	90.3	51.0
World	8.4	19.4	-5.2	13.0	17.8	6.6	5.0	3.7	9.9	10.9	7.9
Dividend Yield											
US	2.2	3.6	2.2	2.1	2.2	2.7	2.0	2.7	1.2	3.8	3.0
Europe	3.4	4.5	4.9	2.8	3.1	2.7	2.5	5.1	1.4	4.0	4.4
UK	3.9	4.0	8.2	2.1	2.8	4.0	2.7	3.9	1.7	4.6	4.6
Euro	3.5	5.4	3.6	2.6	3.2	2.0	2.7	6.1	1.3	3.6	4.6
Switzerland	2.8	-	2.5	3.3	2.2	2.1	2.7	4.5	-	4.1	-
Japan	2.5	3.9	3.7	2.5	2.0	2.1	1.7	4.1	1.7	2.7	2.4
World	2.6	3.9	4.1	2.3	2.4	2.6	2.1	3.6	1.3	3.6	3.5

Source: IBES, MSCI, Datastream, At 26th Jul 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.

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