Equity Strategy

Earnings outlook, margins and past downturns

- Q3 reporting season is coming up. While EPS revisions have been incredibly resilient so far, with Eurozone earnings for 2022 net revised up 12% ytd, UK up 33%, and US net flat, earnings are finally likely to see some weakness in Q3, and onwards, as PMIs are in contraction territory. **There is a gap now between activity levels and analyst projections**. FX makes a big difference regionally, where in Europe weaker currency helps exporters, while the US will see a headwind. Consequently, the consensus projections for SPX Q3 EPS have moved down by a notable 5$ in the past few weeks.
- We expect continued PMI weakness, driven by our lead indicator, real M1, with a base case of a Eurozone recession starting in Q4, which will result in earnings contraction. We hold -10% EPS growth projection for Europe in 2023. If realized, this would imply a **meaningfully milder move in forward EPS by consensus from peak to trough**, versus a typical 20-40% drawdown that is seen in past downturns in key regions.
- Why could European earnings hold up better than typical in the upcoming recession: 1. **stronger topline growth this time around**, there is a bigger gap between nominal and real GDP growth, compared to past downturns, and earnings remain nominal variables. Profit margins are at historical highs, and are likely to move lower, together with a peaking out in corporate pricing, but might not fall more than typical, especially if long bond yields start stalling, as we now expect.
- 2. Less delinquency risk, and fewer recapitalizations likely, which are typically heavily earnings dilutive. **Nominal bond yields are much lower than the inflation would have suggested** – real bond yields are staying extremely low. Banks balance sheets are significantly stronger than ahead of past downturns – credit is likely to keep flowing. There is no need for a protracted balance sheet recession, or sustained falls in house prices, given that there is not much housing inventory in US or Europe.
- 3. Geopolitics is a wild card, with a risk of further escalation, but we don't expect forced shutdowns this winter, as gas storages are full, and more LNG is coming in – Eurozone natural gas prices are now down more than 50% from August highs. We anticipate continued **government intervention to shield consumers and industry** from the bulk of the energy price spike.
- 4. **FX is a big tailwind for European earnings this time around**. Of course, for the US the FX is working negatively, but our economists still don't have recession as a base case in the US. Notably, **the gap has opened up between US and European equity prices and earnings**, both in lc and in USD.
- 5. China has been countercyclical to US & Europe in the last two years, showing significant weakness. For 2023, it could stay countercyclical, but this time become more of a tailwind for growth given the easy hurdle rate, just as Europe is in a recession.
- At sector level, Discretionary, Industrials and Chemicals are likely to see weakness in earnings, while Financials, Commodities, and generally Exporters, could hold up better.

Equity Strategy

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EPS revisions have been extremely resilient so far ytd, especially in Europe. This will finally change...

...we look for earnings downside, but the extent could be milder than typical, where in the past downturns forward earnings fell 20-40%…

	Peak to trough move in 12m Fwd EPS		
Recession year	MSCI US	MSCI Eurozone	MSCI UK
1990	-14%	-27%	-20%
2001	-23%	-21%	-7%
2008	-40%	-42%	-40%
2012	NA	-20%	-11%
2020	-15%	-30%	-30%
Average	**-23%**	**-28%**	**-22%**
Median	**-19%**	**-27%**	**-20%**

…Europe is typically a high beta on the way down, but the gap has opened up between prices and earnings vs the US

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

See page 32 for analyst certification and important disclosures, including non-US analyst disclosures.

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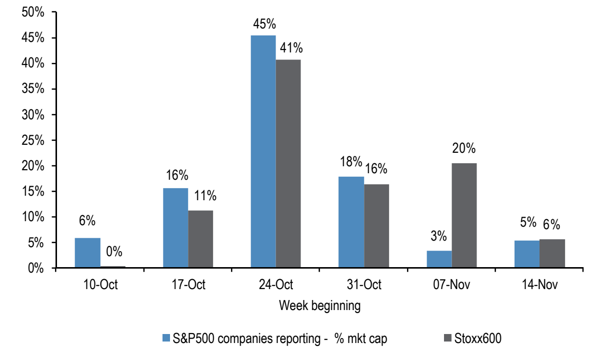
Earnings outlook, margins and past downturns

Reporting season is coming up…

Figure 1: Q3 reporting season calendar

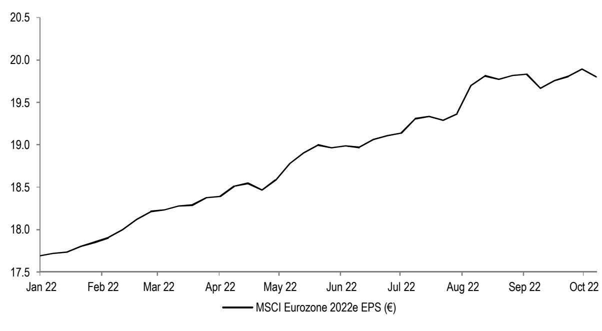


Source: Bloomberg Finance L.P.

We are approaching the main part of the Q3 reporting season, with 61% of S&P500 companies scheduled to report in the next 2 weeks. Eurozone will see 55% of the companies expected to release Q3 numbers report over the same time period.

…EPS projections have been exceptionally resilient so far ytd…

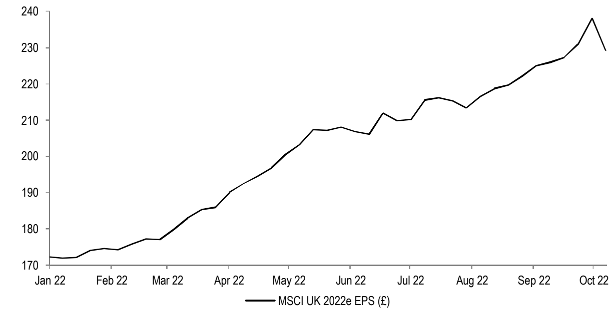
Figure 2: MSCI Eurozone 2022e EPS consensus projections ytd



Source: Datastream

Eurozone earnings projections for 2022 have been upgraded by 12% so far ytd, in spite of the clouding macro outlook.

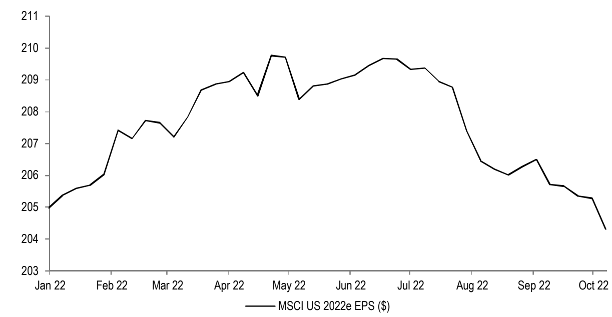
Figure 3: MSCI UK 2022e EPS projections ytd



Source: Datastream

UK 2022 EPS projections have been revised up ytd by an exceptional 33%.

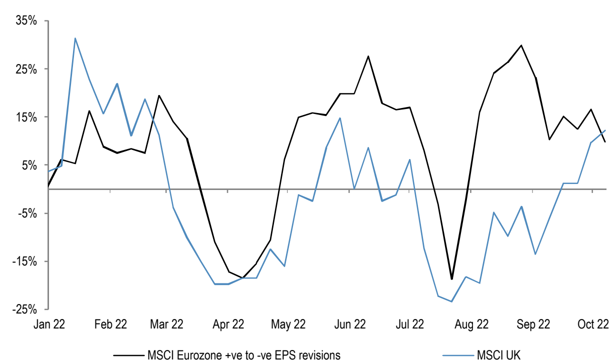
Figure 4: MSCI US 2022e EPS projections ytd



Source: Datastream

Even in the US, there was no real net downgrade ytd, although the spring upgrades have been reversed.

Figure 5: Weekly EPS revisions in Eurozone and the UK



Source: IBES

Weekly EPS revisions remain in positive territory in Eurozone and in the UK.

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…the gap with activity levels has opened up…

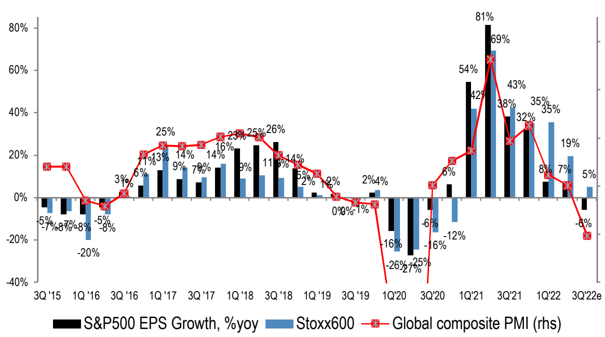
Table 1: Key global activity indicators

	1Q '21	2Q '21	3Q '21	4Q '21	1Q '22	2Q '22	3Q '22
Real GDP, % oya							
US	1.2%	12.5%	5.0%	5.7%	3.7%	1.8%	1.6%
Euro Area	-0.8%	14.4%	3.7%	4.6%	5.4%	4.1%	2.1%
Japan	-1.7%	7.3%	1.2%	0.5%	0.9%	1.4%	2.4%
EM	13.1%	12.4%	6.0%	4.7%	4.7%	2.9%	3.8%
IP, %oya							
US	-0.8%	15.7%	4.9%	4.2%	4.5%	4.2%	3.6%
Euro Area	4.6%	23.9%	5.7%	0.4%	-0.2%	0.6%	2.1%
Japan	-1.8%	18.4%	6.6%	1.1%	-0.6%	-3.6%	3.9%
EM	14.2%	22.2%	9.6%	4.1%	4.1%	3.8%	4.2%
PMI Composite							
US	59.3	65.3	56.8	57.3	54.9	54.0	47.3
Euro Area	49.9	56.8	58.5	54.3	54.2	54.2	49.0
Japan	48.4	49.6	47.4	52.2	48.7	52.1	50.2
EM	52.2	52.4	51.2	52.9	49.7	48.5	52.5
German IFO	98.2	104.2	104.2	100.9	98.6	93.1	87.9
CPI, %oya							
US	1.9%	4.8%	5.3%	6.7%	8.0%	8.6%	8.2%
Euro Area	0.9%	1.8%	3.0%	4.6%	6.1%	8.1%	9.3%
Japan	-0.5%	-0.8%	-0.2%	0.5%	0.9%	2.4%	3.0%
EM	1.9%	3.0%	3.1%	4.1%	5.0%	6.9%	7.3%
Consumer Sentiment							
US	80.2	85.6	74.8	69.9	63.1	57.9	56.1
Euro Area	-12.2	-5.7	-4.2	-7.6	-13.6	-22.3	-27.0
Japan	33.4	35.6	37.2	39.1	34.8	32.4	31.0
Unemployment rate, %							
US	6.2	5.9	5.1	4.2	3.8	3.6	3.5
Euro Area	8.2	8.1	7.5	7.1	6.8	6.7	6.6
Japan	2.9	2.9	2.8	2.7	2.7	2.6	2.6

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

This is in contrast to activity momentum, which has softened vs the previous quarter. PMIs have moved into contraction territory in both the US and in Euro Area. Consumer sentiment is still at multi-year lows.

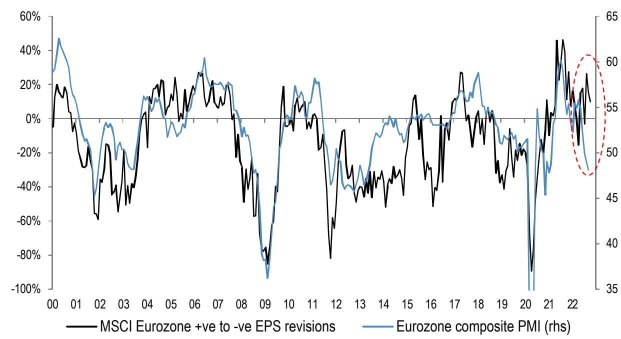
Figure 6: US and European quarterly EPS growth and global composite PMI, with ex Energy projections for Q3 '22



Source: IBES, J.P. Morgan, S&P Global

As activity is down, the consensus projections for Q3 now appear too optimistic. Negative growth is implied by PMIs, in contrast to flat-positive yoy consensus projections by the sellside.

Figure 7: MSCI Eurozone EPS revisions and Composite PMI



Source: Datastream, J.P. Morgan

EPS revisions have been much stronger than the PMIs would suggest for a few months now, and we think that the upcoming earnings season could be a catalyst for earnings to finally start to move lower. PMIs are consistent with negative earnings revisions.

Table 2: recent profit warnings

Company Name	Company Ticker	Industry	Commentary	Date	5Day Perf relative to market, %	10Day perf of Equal weight FY22 and FY23 EPS, %	MV(in $bn)
ILLUMINA INC	ILMN US	HEALTH CARE	Illumina Inc. cut its annual profit forecast as the company faces reduced demand for its sequencing equipment and possible penalties in Europe over its acquisition of cancer-test provider Grail.	12 Aug	-9.9%	11%	31.9
KRISPY KREME INC	DNUT US	DISCRETIONARY	Sees FY capex $105m-110m, approx. 7% of revenue, a reduction of $10m from prior expectations due to shift to lower capital points of access spend and benefit from foreign currency translation	17 Aug	-12.4%	-20%	2.2
TJX COMPANIES INC	TJX US	DISCRETIONARY	While stores in the U.S. were open for all of Fiscal 2022, a significant number of stores in TJX Canada and TJX International Europe and Australia experienced COVID-related temporary store closures and government-mandated shopping restrictions during Fiscal 2022. Therefore, the Company cannot measure year-over-year comparable store sales with Fiscal 2022 in these geographies in a meaningful way	17 Aug	0.0%	-1%	75.7
KOHLS CORP	KSS US	DISCRETIONARY	A weakening macro environment, high inflation and dampened consumer spending are having broad implications across much of retail, especially in discretionary categories like apparel. Given our penetration in these discretionary categories, this is disproportionately impacting Kohl's	18 Aug	-10.5%	0%	3.2
DEERE & CO	DE US	INDUSTRIALS	Deere & Co. cut its full-year outlook as the world's largest maker of agricultural machinery warned of ongoing supply-chain issues and rising production costs. Shares fell in premarket trading.	19 Aug	7.5%	0%	110.8
ZOOM VIDEO COMMUNICATIONS-A	ZM US	IT	"While we saw continued momentum with our Enterprise customers and our non-GAAP operating income came in meaningfully higher than our outlook, our revenue was impacted by the strengthening of the U.S. dollar, performance of the online business, and to a lesser extent sales weighted to the backend of the quarter"	22 Aug	-14.1%	0%	22.2
NORDSTROM INC	JWN US	DISCRETIONARY	Nordstrom Cuts FY Revenue Forecast	23 Aug	-20.3%	0%	3.0
MACY'S INC	M US	DISCRETIONARY	Macy's Inc. cut its full-year forecast for profit and revenue, citing tighter consumer budgets and an industrywide inventory glut that is leading to steeper markdowns.	23 Aug	-0.4%	0%	4.9
NVIDIA CORP	NVDA US	IT	Nvidia Corp., which warned earlier this month that its sales were slipping, gave a weak forecast for the current period that suggested demand may be even worse than feared.	24 Aug	-6.5%	0%	297.8
GAP INC/THE	GPS US	DISCRETIONARY	The company is working through elevated inventory levels and has pledged to cap price increases at its Old Navy stores, which is likely to hurt margins.	24 Aug	-0.8%	0%	3.6
PETCO HEALTH AND WELLNESS CO	WOOF US	DISCRETIONARY	-	24 Aug	-1.6%	0%	2.8
PELOTON INTERACTIVE INC-A	PTON US	DISCRETIONARY	Peloton Interactive Inc. gave a bleak forecast for the current quarter, with losses piling up and sales falling more steeply than Wall Street expected, renewing concerns about the fitness company's comeback plan.	25 Aug	-19.9%	0%	2.9
CHEWY INC - CLASS A	CHWY US	DISCRETIONARY	We believe that we will continue to see differences in demand patterns between discretionary and non-discretionary categories throughout the balance of the year. As such, we are revising our full-year top line expectations. At the same time, we are also raising our profitability outlook	30 Aug	-11.2%	0%	15.3
SEAGATE TECHNOLOGY HOLDINGS	STX US	IT	Seagate Technology Holdings Plc, the biggest maker of computer hard drives, cut its outlook for the fiscal first quarter amid a worsening macroeconomic backdrop.	31 Aug	-3.9%	0%	11.0
HP INC	HPQ US	IT	HP Inc. analysts noted that the PC maker will need a couple of quarters to correct its inventory after the company reported quarterly sales that missed estimates and cut its annual profit forecast as demand for personal computers and printers slowed.	31 Aug	-10.2%	0%	26.2
VEEVA SYSTEMS INC-CLASS A	VEEV US	HEALTH CARE	Veeva cut its revenue forecast for the year after headwinds from macro uncertainty affected its pipeline in June and July.	31 Aug	-14.8%	0%	24.2
CHURCH & DWIGHT CO INC	CHD US	STAPLES	The owner of the Arm & Hammer and OxiClean brands now expects revenue growth of 2% to 4%, down from its previous forecast of as much as 5%. It pinned the gloomier outlook on weak demand for its discretionary goods such as Waterpik water flossing devices and Flawless hair removal products.	06 Sep	-7.0%	-1%	17.8
ASSOCIATED BRITISH FOODS PLC	ABF LN	STAPLES	Associated British Foods Plc warned profit in the next fiscal year will be lower as rising energy costs and the strengthening of the dollar weigh on its Primark value fashion chain.	08 Sep	-9.2%	-6%	11.7
ASOS PLC	ASC LN	DISCRETIONARY	British fast-fashion company Asos Plc warned that sales in August were weaker than expected as inflation crimped shoppers' purchasing power.	09 Sep	-4.6%	-27%	0.6
KORIAN	KORI FP	HEALTH CARE	Orpea shares slump as much as 21% as the company warns that profit will be lower than expected, citing rising energy and salary costs.	12 Sep	-4.9%	0%	1.0
ELECTROLUX AB-B	ELUXB SS	DISCRETIONARY	Electrolux sinks as weak consumer demand triggers profit warnings	12 Sep	-2.9%	-12%	3.1
THULE GROUP AB/THE	THULE SS	DISCRETIONARY	-	12 Sep	-8.2%	-22%	2.0
OCADO GROUP PLC	OCDO LN	STAPLES	British online grocer Ocado Retail lowered its sales and earnings forecast for fiscal 2022, saying that smaller baskets and the acceleration in trading down to cheaper items due to the cost-of-living crisis have dampened its outlook for the year, according to a Tuesday business update.	13 Sep	-12.5%	3%	4.2
ABOUT YOU HOLDING SE	YOU GR	DISCRETIONARY	Profit warning: weakening consumer sentiment & "surging cost inflation"	13 Sep	-17.6%	15%	1.0
KION GROUP AG	KGX GR	INDUSTRIALS	citing supply-chain issues and high energy and material costs.	14 Sep	-30.1%	-4%	2.7
RAYTHEON TECHNOLOGIES CORP	RTX US	INDUSTRIALS	Raytheon Cuts Cash Flow Outlook by $2 Billion Due to R&D Mandate	14 Sep	3.7%	0%	125.3
MIPS AB	MIPS SS	DISCRETIONARY	-	14 Sep	-12.6%	-18%	0.9
CLEVELAND-CLIFFS INC	CLF US	MATERIALS	Nucor Corp. is sounding alarm bells that shipments of the key metal used from automobiles to skyscrapers will be reduced this quarter, signaling precarious demand across the US economy.	14 Sep	-11.3%	-3%	7.9
NUCOR CORP	NUE US	MATERIALS	The company said it expects "steel mills segment earnings to be considerably lower in the third quarter of 2022 as compared to the second quarter" due to metal margins contracting and reduced shipping volumes	14 Sep	-14.6%	1%	32.5

THG PLC	THG LN	DISCRETIONARY	THG Plc warned that sales will miss guidance this year as consumer appetite drops on the higher cost of living in the UK.	15 Sep	-12.9%	0%	0.6
HILTON FOOD GROUP PLC	HFG LN	STAPLES	-	15 Sep	-28.8%	0%	0.7
FEDEX CORP	FDX US	INDUSTRIALS	"Global volumes declined as macroeconomic trends significantly worsened later in the quarter, both internationally and in the US," Chief Executive Officer Raj Subramaniam said in the statement. "We are swiftly addressing these headwinds, but given the speed at which conditions shifted, first-quarter results are below our expectations."	16 Sep	-20.9%	0%	40.7
SOLTEQ OYJ	SOLTEQ FH	IT	Solteq forecasts its revenue and profit will be weaker, than earlier estimated, and company will write off investments made to product development	19 Sep	-15.8%	0%	0.0
FORD MOTOR CO	F US	DISCRETIONARY	Ford plunges most in 11 years after warning on inflation costs, that it is pushing costs $1 billion higher than expected	20 Sep	-13.4%	0%	47.3
CHEMOURS CO/THE	CC US	MATERIALS	-	21 Sep	-16.2%	0%	4.3
SUSE SA	SUSE GR	IT	Company said the current macroeconomic environment continues to impact its emerging business, with slower purchase decision making for new contracts and some customer project delays	22 Sep	-16.0%	-3%	2.8
INTRUM AB	INTRUM SS	INDUSTRIALS	Lowered collection expectations on specific investment portfolios will negatively impact its profit and loss account for the third quarter, the Stockholm-based debt collector said in a statement.	26 Sep	-18.2%	0%	1.5
TRONOX HOLDINGS PLC	TROX US	MATERIALS	Tronox cut its forecast for 3Q adjusted Ebitda due to weak TiO2 sales volumes and increasing energy costs in Europe.	26 Sep	9.5%	-12%	2.0
AVIENT CORP	AVNT US	MATERIALS	Cuts EPS View on Weaker Demand & Unfavorable FX	27 Sep	-2.3%	-19%	2.8
UNITED UTILITIES GROUP PLC	UU/ LN	UTILITIES	United Utilities sees lower full-year revenue due to lower consumption	27 Sep	-3.0%	10%	6.6
AKZO NOBEL N.V.	AKZA NA	MATERIALS	Akzo Nobel NV said commodity input prices are set to soften from a peak during the third quarter as the paintmaker expects to continue to pass on much of the raw material and freight inflation.	27 Sep	5.7%	-9%	10.3
COMMERZBANK AG	CBK GR	FINANCIALS	MBank Expects Net Loss in 2022 on Growing FX-Mortgage Costs	27 Sep	-6.4%	0%	9.4
BOOHOO GROUP PLC	BOO LN	DISCRETIONARY	Boohoo Group Plc cut its profit guidance for the year as soaring energy and food bills stopped consumers from splashing out on clothes and shoes.	28 Sep	3.5%	-39%	0.6
VF CORP	VFC US	DISCRETIONARY	VF is revising its FY23 outlook due to lower-than-expected Q2'FY23 results, coupled with ongoing uncertainty in the current environment, weaker than anticipated back-to-school performance at Vans and increasing inventories leading to a more promotional environment in North America in the fall	28 Sep	-13.4%	-7%	11.3
NUTRIEN LTD	NTR US	MATERIALS	The challenges of shipping food and fertilizer from Russia are expected to persist, Nutrien Ltd. Chief Executive Officer Ken Seitz said in an interview for the Bloomberg Canadian Finance Conference. At least 25% of Russian potash shipments are constrained, along with vital food staples from the region, including wheat and barley.	28 Sep	0.3%	1%	46.7
COLRUYT SA	COLR BB	STAPLES	Colruyt shares drop as much as 19%, the most intraday on record, after the company posted a profit warning at yesterday's AGM, stating the consolidated net result for FY22/23, ex. one-offs, is expected to decrease considerably vs last year.	28 Sep	-24.0%	-6%	3.0
NEXT PLC	NXT LN	DISCRETIONARY	Next Plc issued its second profit warning this year due to soaring inflation and a devaluation of the pound which has undermined consumer confidence.	29 Sep	-11.2%	0%	7.0
SYNTHOMER PLC	SYNT LN	MATERIALS	Synthomer expects financial performance to be below previous expectations, according to a statement issued today. Cites continued de-stocking and further reduced production volumes during the third quarter	29 Sep	-19.2%	-10%	0.5
SEIBU HOLDINGS INC	9024 JP	INDUSTRIALS	-	29 Sep	-8.6%	9%	3.1
NIPPON LIGHT METAL HOLDINGS	5703 JP	MATERIALS	-	29 Sep	-3.2%	0%	0.6
ALLEGRO.EU SA	ALE PW	DISCRETIONARY	Poland's Allegro Cuts 2022 Outlook on Rising Risks	29 Sep	-17.4%	-10%	4.2
ALLEGIANT TRAVEL CO	ALGT US	INDUSTRIALS	Allegiant Travel Co. is cutting its revenue guidance, citing the impact of Hurricane Ian, which has forced the ultra-low-cost airline to cancel most flights to and from Florida for a multi-day stretch	29 Sep	-3.8%	-24%	1.2
NIKE INC -CL B	NKE US	DISCRETIONARY	Nike's shares tumbled the most in two decades, after a glut of unwanted merchandise eroded the sportswear giants profitability	30 Sep	-8.3%		140.1
VERTIV HOLDINGS CO	VRT US	INDUSTRIALS	Vertiv says that its third quarter guidance is reaffirmed at the lower end of the previous guidance range primarily due to foreign exchange headwinds.	03 Oct	11.1%		4.1
HELEN OF TROY LTD	HELE US	DISCRETIONARY	Hele Cites Severance Related Costs, Contract Termination	05 Oct	3.3%		2.4
TESCO PLC	TSCO LN	STAPLES	Tesco Plc said profit this year will be at the lower end of a previously guided range as more shoppers turn to discount grocery rivals amid Britain's cost-of-living crisis.	05 Oct	1.4%		17.2
SHELL PLC	SHEL LN	ENERGY	Shell shares fall after oil major said it expects Q3 refining margin to drop $15 a barrel from $28 a barrel in Q2 of 2022	06 Oct	-1.4%		183.7
MARSHALLS PLC	MSLH LN	MATERIALS	Marshalls shares dive after paving firm issues profit warning as financially squeezed households cut back on landscape projects	07 Oct	-22.9%		0.6
PPG INDUSTRIES INC	PPG US	MATERIALS	PPG stock slides after it warned third-quarter earnings would lag estimates due to softer demand in Europe and China.	10 Oct	-2.7%		26.4
BONHILL GROUP PLC	BONH LN	COM. SERVICES	Bonhill Group drop as issues profit warning, puts itself up for sale	10 Oct	-25.1%		0.0
Average					-9.0%	-3.9%	
Median					-9.6%	0.0%	

Source: Bloomberg Finance L.P.

In the last couple of months, we have seen a raft of profit-warnings in both Europe and in the US. These companies on average declined 9% relative to the broader benchmark on the day of the warning. This might have already reset the expectations among investors to a good extent.

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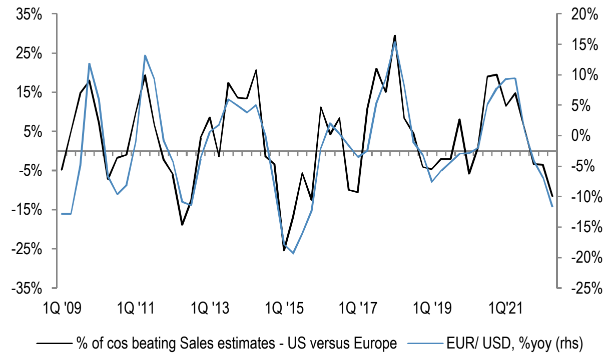
…FX matters for regional outcomes…

Figure 8: % of companies beating sales estimates in US vs Europe and EUR/USD

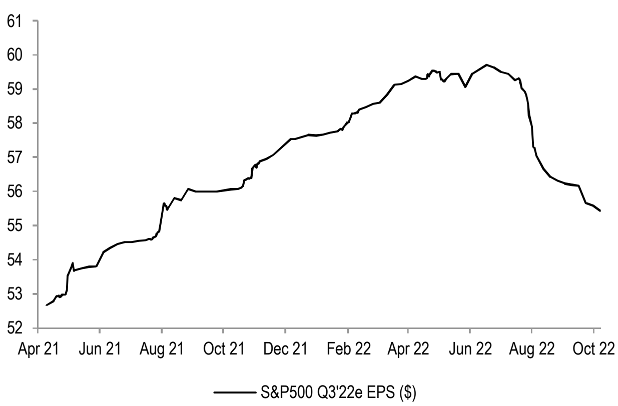


Source: JPMorgan, Bloomberg Finance L.P.

European EPS revisions are stronger than in the US partly due to better currency backdrop. FX does have a clear impact into the relative EP Sand sales outcomes between regions.

…projections have come down most recently in the US

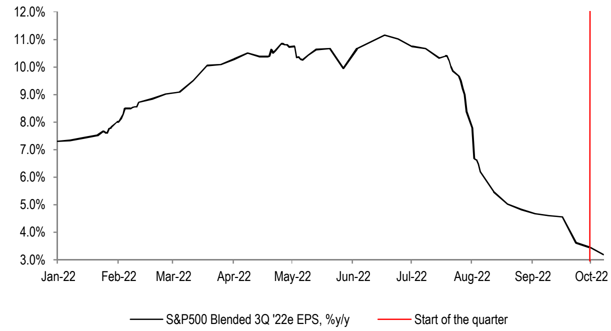
Figure 9: S&P500 3Q '22 EPS projections



Source: Thomson Reuters

Consequently, US projections are coming off most recently. Estimates for S&P500 Q3 EPS have been revised lower by $5, from $60 to $55.

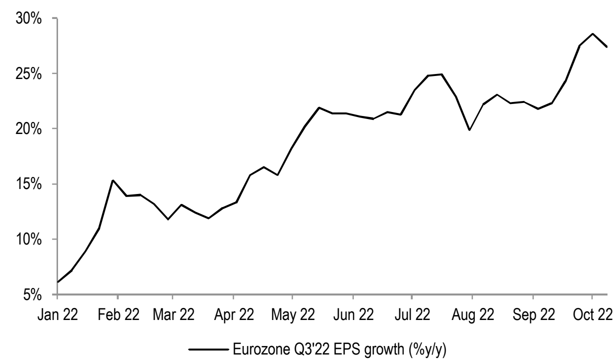
Figure 10: S&P500 3Q'22 EPS, %y/y



Source: Thomson Reuters

The growth rate has come down from 10-11% to 3% most recently.

Figure 11: Eurozone 3Q'22 EPS, %y/y ytd



Source: Thomson Reuters

Europe is not seeing yet a rollover.

Table 3: Q3 '22 EPS growth estimates, yoy%

	Q3 '22e EPS growth, %y/y			
	US	Europe	Eurozone	Japan
Energy	120%	169%	141%	21%
Materials	-7%	-30%	-33%	-20%
Industrials	25%	43%	68%	35%
Discretionary	8%	5%	11%	19%
Staples	-6%	15%	13%	-9%
Financials	-15%	-1%	7%	-30%
Health Care	-7%	13%	15%	10%
IT	-4%	0%	-3%	29%
Com. Services	-18%	3%	1%	-2%
Utilities	-7%	11%	11%	-249%
Real Estate	-2%	2%	1%	-5%
Market	**1%**	**29%**	**21%**	**6%**
Market Ex-Financials	**5%**	**41%**	**27%**	**12%**
Market Ex-Energy	**-6%**	**5%**	**5%**	**6%**
Cyclicals	**3%**	**5%**	**0%**	**21%**
Defensives	**-10%**	**12%**	**11%**	**-14%**
Value	**17%**	**57%**	**47%**	**-26%**
Growth	**-6%**	**11%**	**9%**	**13%**

Source: IBES, * Value includes Energy and Financials. Growth includes Tech, Healthcare and Staples

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In terms projections breakdown, S&P500 earnings ex Energy are expected to decline 6% y/y for Q3 '22. In comparison, European companies are expected to deliver an earnings growth of 5% y/y, ex Energy.

Table 4: Q3 '22 sales growth estimates

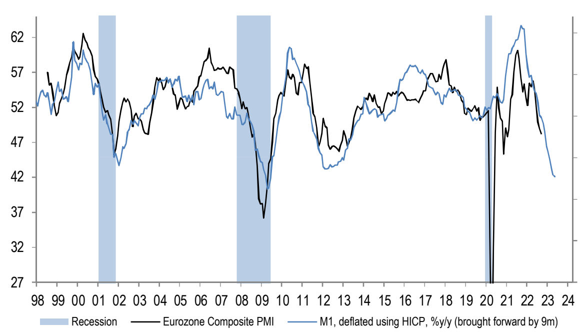
	Q3 '22e Sales growth, %y/y			
	US	Europe	Eurozone	Japan
Energy	49%	69%	74%	24%
Materials	4%	13%	11%	18%
Industrials	13%	17%	16%	14%
Discretionary	14%	22%	21%	18%
Staples	6%	19%	18%	7%
Financials	3%	6%	7%	-12%
Health Care	4%	12%	12%	8%
IT	5%	13%	15%	12%
Com. Services	4%	7%	8%	4%
Utilities	4%	7%	4%	39%
Real Estate	13%	8%	6%	3%
Market	**10%**	**24%**	**21%**	**13%**
Market Ex-Financials	**11%**	**27%**	**24%**	**15%**
Market Ex-Energy	**6%**	**14%**	**14%**	**12%**
Cyclicals	**10%**	**18%**	**17%**	**16%**
Defensives	**4%**	**11%**	**11%**	**11%**
Value	**22%**	**38%**	**34%**	**0%**
Growth	**4%**	**14%**	**15%**	**10%**

Source: IBES, * Value includes Energy and Financials. Growth includes Tech, Healthcare and Staples

Topline is projected to grow at a healthy 6% in the US, and as much as 14% in Europe.

Activity momentum is likely to stay on a softening path, our base case is European recession, we look for 10% EPS contraction in 2023

Figure 12: Eurozone M1 growth (deflated by HICP) v PMI



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

Our money supply indicator suggests that Eurozone PMIs are likely to remain in contraction territory in the coming months.

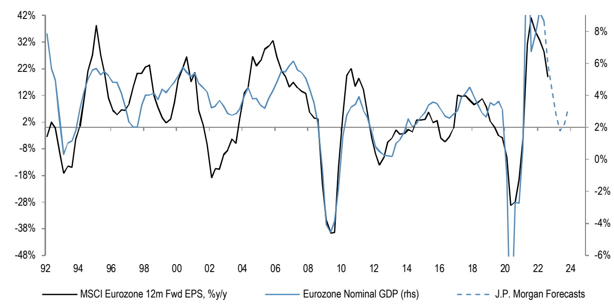
Table 5: Eurozone Real GDP projections

	Real GDP % over previous period, saar						
	2Q22E	3Q22E	4Q22E	1Q23E	2Q23E	3Q23E	4Q23E
USA	-0.6	2.0	1.5	1.0	0.8	0.7	0.5
Eurozone	3.1	0.5	-1.8	-1.0	2.0	2.0	2.0
UK	0.9	-0.5	-1.0	0.7	1.3	1.0	0.0

Source: J.P. Morgan.

Our economists are projecting a mild recession in Eurozone, starting in Q4.

Figure 13: Eurozone EPS growth vs GDP growth



Source: IBES, JPMorgan

This is likely to weigh on the earnings outlook. Current bottom-up consensus growth expectations of 4% EPS growth for Eurozone earnings for next year appear too optimistic, in a recession scenario.

Our base case is for 10% y/y decline in European earnings in 2023.

Historical EPS decline in downturns was of the order of 20-40%...

Table 6: Fall in MSCI Eurozone 12m Fwd. EPS during past recessions, and the duration of fall

Peak in 12m Fwd EPS	Trough in 12m Fwd EPS	Peak	Trough	Peak to trough move	#months
Feb-92	May-93	4.2	3.1	-27%	15
Oct-01	May-03	9.7	7.6	-21%	19
Mar-08	May-09	16.1	9.3	-42%	14
Jun-11	May-13	13.1	10.5	-20%	23
Mar-20	Jul-20	12.9	9.0	-30%	5
Average				**-28%**	**15**
Median				**-27%**	**15**

Source: IBES

In the last 5 recessions, Eurozone earnings have on average fallen by 30%.

Table 7: Fall in MSCI US 12m Fwd. EPS during past recessions and duration of fall

Peak in 12m Fwd EPS	Trough in 12m Fwd EPS	Peak	Trough	Peak to trough move	#months
Jan-91	May-91	28.8	24.7	-14%	3
Aug-00	Nov-01	62.4	48.2	-23%	15
Oct-08	Apr-09	98.1	59.2	-40%	6
Mar-20	Sep-20	172.7	146.0	-15%	6
Average				**-23%**	**8**
Median				**-19%**	**6**

Source: IBES

US earnings on average contracted by 23% in the last few recessions.

Table 8: Fall in MSCI UK 12m Fwd. EPS during past recessions and duration of fall

Peak in 12m Fwd EPS	Trough in 12m Fwd EPS	Peak	Trough	Peak to trough move	#months
Dec-90	May-92	70.4	56.2	-20%	17
May-01	Mar-02	98.7	92.1	-7%	10
Sep-08	Jun-09	182.0	109.0	-40%	9
Oct-11	Dec-12	181.6	161.5	-11%	14
Mar-20	Jun-20	161.4	113.1	-30%	3
Average				**-22%**	**11**
Median				**-20%**	**10**

Source: IBES

UK typically saw an earnings fall of 22%.

…we look for a milder earnings decline than in the past: 1) Nominal GDP growth will still be positive…

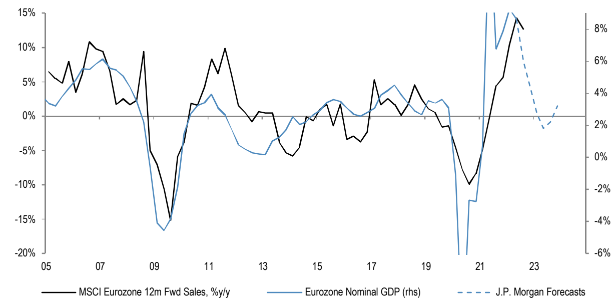
Table 9: Nominal and Real GDP growth projections

	JPM Real GDP forecasts (%y/y)			JPM Nominal GDP forecasts (%y/y)		
	United States	Eurozone	United Kingdom	United States	Eurozone	United Kingdom
2021	5.9	5.2	7.5	10.7	7.4	7.9
2022e	1.8	3.2	4.3	8.7	7.0	10.1
2023e	1.0	0.4	0.2	3.7	2.5	5.7
Median	2.3	1.6	2.6	4.1	2.8	4.1

Source: J.P. Morgan.

While we expect a mild downturn in Eurozone, nominal GDP growth will still likely be around the trend levels seen over the last decade. Earnings at the end of the day are nominal.

Figure 14: MSCI Eurozone 12m Fwd Sales vs GDP growth

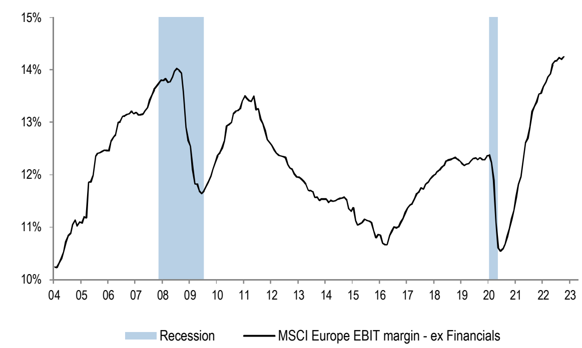


Source: IBES, JPMorgan

Topline growth has historically been closely linked to the level of nominal GDP growth.

…margins will be lower, but not by much

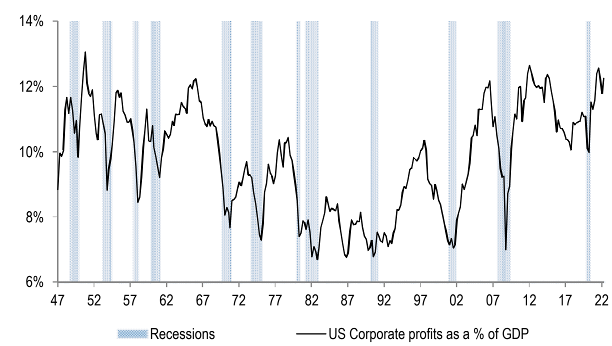
Figure 15: MSCI Europe EBIT margin - ex Financials



Source: Datastream

Profit margins are likely to move lower, from record high levels.

Figure 16: US corporate profit margins



Source: BEA

In the US, profit margins are close to historical highs.

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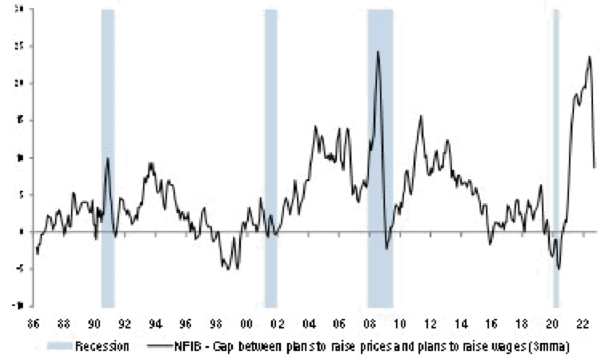
Figure 17: NFIB survey - Plans to increase prices minus plans to increase wages



Source: Bloomberg Finance L.P

Our profit margin proxy is pointing to a peaking out in margins going forward, driven by some loss in pricing power.

Table 10: Comments on pricing power

Ticker	Comments
CMG US	Chief Executive Officer Brian Niccol said the results demonstrate **the chain's customers are willing to pay more for their burritos.** In a statement, he said the results were positive amid "inflation and consumer uncertainty." The company is **planning to increase its prices in August.**
WMT US	Walmart is **absorbing some price increases rather than passing these on to consumers**
2330 TT	TSMC is resilient, and the **margin outlook shows the company's continued pricing power**
LEVI US	The Levi's brand **possesses pricing power** that should help mitigate and minimize any ongoing inflationary pressures throughout its operations.
FDX US	Since the pandemic hit, FedEx and other couriers have had the upper hand on shippers and aggressively raised delivery prices as package demand spiked. It's **unclear how long the pricing power will last as package volume begins to cool.** The company said it also gained from surcharges related to rising fuel costs.
LISN SW	Lindt & Spruengli is expected to show strong growth amid good demand for premium chocolate and its pricing power
RKT LN	Reckitt's improved agility is reflected in solid pricing power, resulting in a strong 1H beat. This underpins the substantial 2022 guidance hike in like-for-like (LFL) sales and adjusted Ebit margin -- with an expansion now expected vs. an unchanged margin seen before.
CALM US	Cal-Maine Foods stock ticks higher on record net income, pricing power
ITRK LN	Intertek Group PLC said Friday that pretax profit and revenue rose for the first half because of strong pricing power and disciplined cost management.
SIKA SW	Sika's 1H EBIT and margins were better than consensus had expected thanks to the specialty-chemicals company's pricing power,
ALV US	Autoliv stock accelerates as pricing power cushions profits
GT US	Goodyear Tire stock gains as pricing power outpaces inflation
HEIA NA	Heineken flexes pricing power to overcome inflation issues
PEP US	BofA's Estimate for 2Q 2022 of 7.4% growth reflects "**continued strong pricing power in key salty snack categories,** with y/y pricing up +9% in Frito Lay North America, and the know-how to take pricing against FX in emerging markets"
Staples	Regarding consumer staples, UBS Strategists say the firm's machine-learning model implies **better returns than utilities/REITs, and staples is cheaper; Strong pricing power and declining commodity prices are also seen as tailwinds for the sector**
Luxury	**When it comes to pricing power, luxury goods firms are in a good position thanks to solid demand**, according to Morgan Stanley, which says that Gucci-owner Kering SA hiked some prices last month by 7% versus February.
Luxury	Still, the **strong pricing power of luxury firms gives them an advantage at a time of spiraling inflation**, from which Morningstar analyst Jelena Sokolova says they are "insulated to an extent" due to affluent customers being less squeezed by surging living costs.
Semiconductors	**Semiconductor stocks have very good odds of rebounding as these companies have strong pricing power** and their valuations are reasonable, according to Robeco Hong Kong Ltd.
Autos	BlueBay's Yazgan says **"amazing pricing power over consumers" has allowed carmakers to pass on costs well so far.** "Now it will have to be tested if they can keep pricing at the same levels in a recessionary and inflationary environment with consumers a lot weaker," she says.
Building materials	Building Materials Pricing Power Aids Revenue, Offsets Inflation

Source: J.P. Morgan

In the last quarters we have had a number of companies highlight strong pricing power, but that is likely turning now, as inventories are on the rise, and final demand is more questionable.

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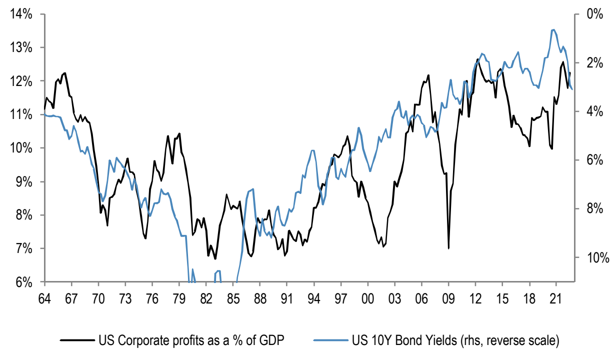
Figure 18: US corporate profit margins and US 10Y bond yield

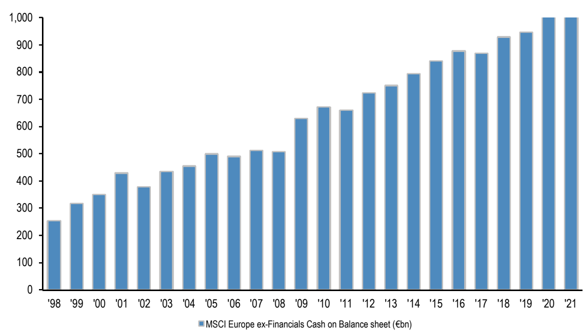


Source: BEA, Bloomberg Finance L.P.

We believe that bond yields will not move much higher from here over the next few quarters. If that view materializes, the pressure on corporate funding, and in turn on corporate profit margins might not get worse.

2) Stronger corporate balance sheets reduce the likelihood of dilutive recapitalizations…

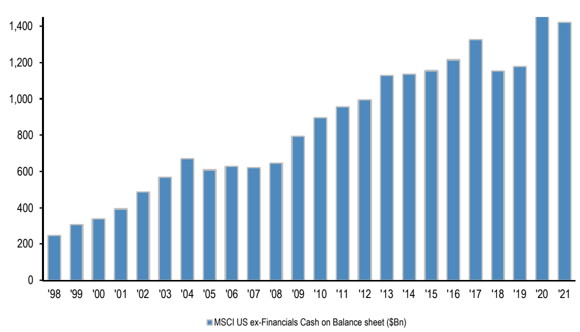
Figure 19: MSCI Europe Cash on Balance sheets



Source: Worldscope

Cash balances among European corporates are close to record levels.

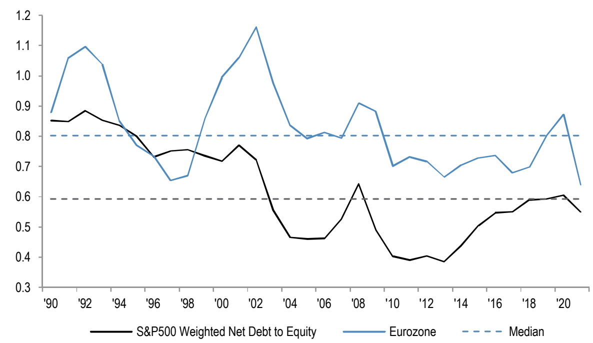
Figure 20: MSCI US Cash on Balance sheets



Source: Worldscope

Even in the US, corporate balance sheets are flush with cash.

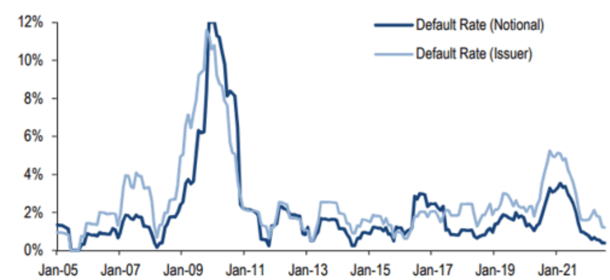
Figure 21: Net debt to equity ratio for US and Eurozone



Source: Worldscope

Leverage ratios remain below historical levels. Balance sheets resilience reduces the likelihood of any material recapitalizations.

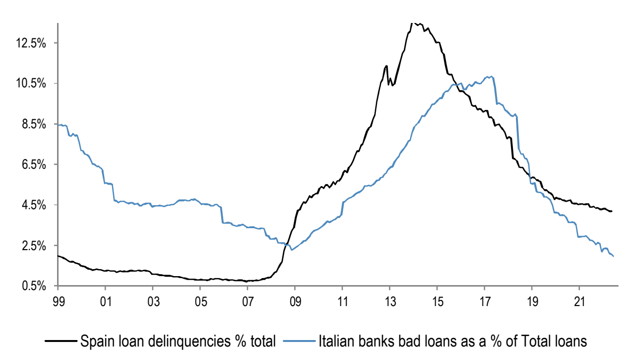
Figure 22: Trailing 12m European HY Default rates



Source: JPMorgan

We also note that the default rates are very low. Our European credit team expects default rates to nudge higher to 1% by the end of the year, but this is still well below historical average.

Figure 23: Italy and Spain loan delinquencies



Source: Banca d'Italia, Bloomberg Finance L.P.

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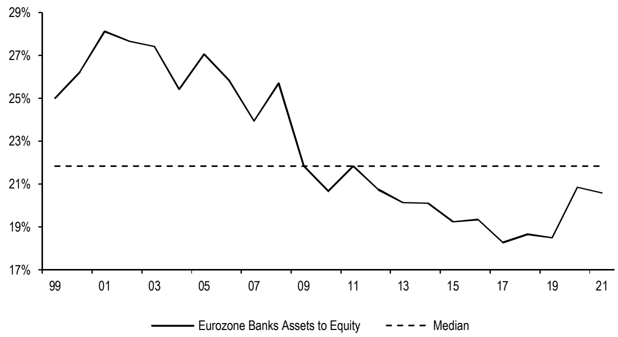
Delinquencies remain close to the bottom of the range. Our credit strategists aren't looking for a significant pick up in defaults.

Figure 24: Eurozone banks asset to equity

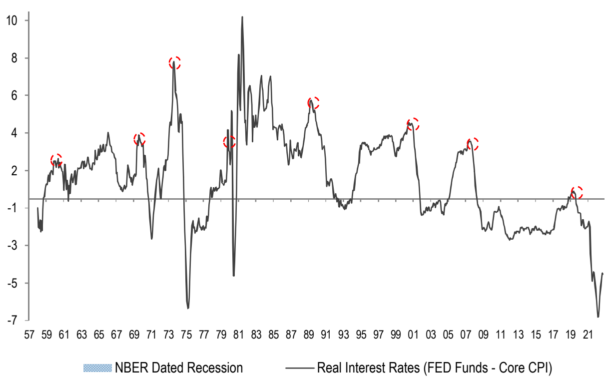


Source: Datastream

Banks balance sheets are also much healthier these days. We believe that credit supply will likely be more resilient this time around.

…real rates are still low, and balance sheet recession is unlikely

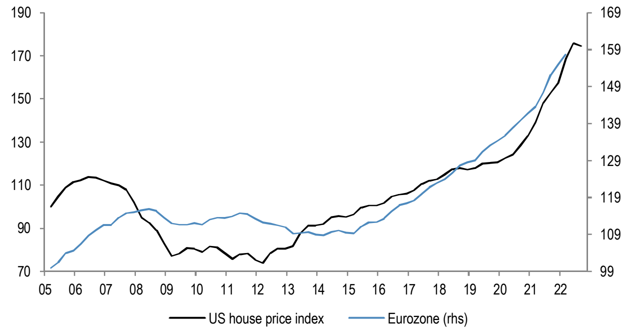
Figure 25: US Real rates



Source: Bloomberg Finance L.P.

The gap between inflation and nominal bond yields remains extreme, with real rates which are still very attractive in the long term context.

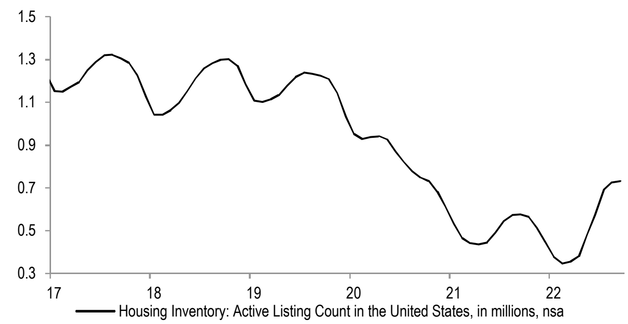
Figure 26: US and Eurozone house prices



Source: Bloomberg Finance L.P.

We do not see a need for a material adjustment in house prices, at least nothing on the scale of GFC, where US house prices fell 30% from the peak and Eurozone house prices saw a peak to trough drop of 4%.

Figure 27: US Housing Inventory

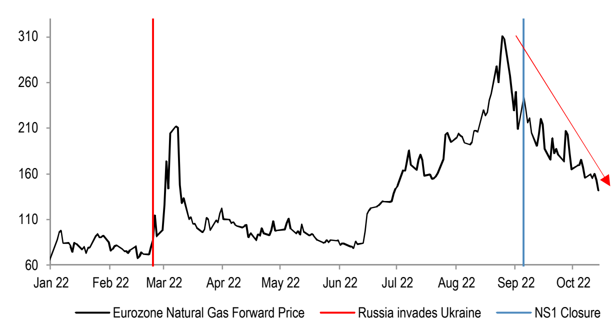


Source: Fred

Given the relatively low levels of housing inventory we do not expect any material downside in house prices this time around.

3) European natural gas storages are full and the risk of forced shutdowns remains low…

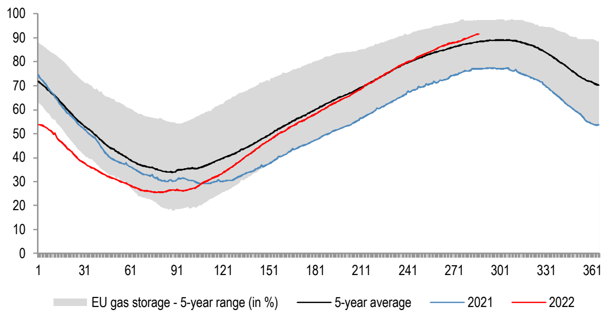
Figure 28: EU natural gas prices



Source: Bloomberg Finance L.P.

We keep the view that gas prices could come lower even as we are heading into the winter, and that forced shortages are unlikely. Natural gas prices are already down 50% from the highs.

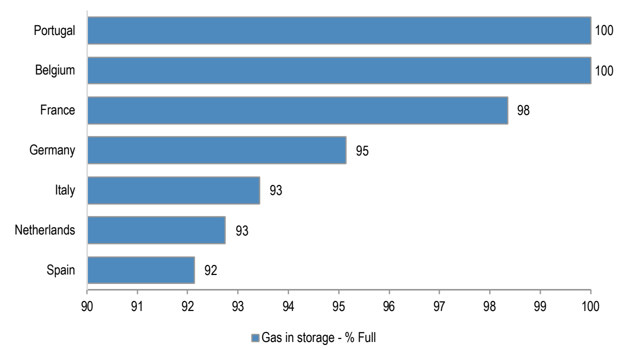
Figure 29: EU natural gas storage, % full



Source: J.P. Morgan. Commodities research

Storage facilities for natural gas across Europe are running close to capacity.

Figure 30: European countries gas storage, % full



Source: J.P. Morgan. Commodities research

The situation is particularly encouraging for the northern-European countries which were traditionally more reliant on Russian gas.

Table 11: Scenario analysis for natural gas with respect to the weather and Russian flows

Scenario	Winter weather	NS1 Flow level*	Full Reductions in Russian flows through Ukraine?	%NW Europe fills in for lost flows	End Sep'22	End Mar'23	End Sep'23
1	Normal	0%	No	N/A	92%	34%	83%
2	Normal	0%	Yes	50%	92%	27%	69%
3	Normal	0%	Yes	100%	92%	20%	62%
4	1 std colder	0%	No	N/A	92%	14%	63%
5	1 std colder	0%	Yes	50%	92%	7%	49%
6	1 std colder	0%	Yes	100%	92%	0%	42%

Source: JPMorgan Natural Gas Strategy, *NS1 flow level set from September 2022 through December 2023, **Flow reductions assumed to start in October 2022 through December 2023

Our commodity team does not expect gas availability to be an issue for Europe for this winter, except in the case of a colder than normal winter along with a complete loss of Russian gas flows.

We believe that gas supply issues are unlikely to lead to a forced shut-down during this winter.

…government intervention to shield consumer and industry will keep ramping up

Table 12: Measures announced by European countries to combat energy crisis

Country	Details
UK	Two-year plan to place a maximum annual cap of £2,500 for the average household on soaring energy bills for households from October 1 to address the country's cost-of-living crisis. Cover for businesses would be for 6 months, where the state will pay energy suppliers the difference between new cap and what energy retailers would charge their customers. Consumers also get a £400 subsidy that's already been announced.
France	Allow new wind and solar farms to sell their electricity directly on the market for 18 months before locking in their CfDs. The measure could increase investors' earnings tenfold compared to the CfD model. The government also intends to allow projects that have already won an auction to increase their capacity by up to 40% before completion. Government would help 12 million of France's poorer households cover their energy costs with one time checks of about 100-200 euros. Limit energy price increase to 15%.
Germany	Plans for continued cheaper public transport tickets and tax breaks for energy-intensive companies. Windfall taxes would likely be levied on energy companies to lower the price of gas, oil and coal for consumers. The two previous packages included a gasoline rebate, which expired at the end of August, the nine-euro transportation ticket and an energy price flat payment to workers. According to draft legislation, VAT on gas will drop to 7% from 19% from October until March 2024.
Spain	Spanish businesses, restaurants and museums will not be allowed to set air-conditioners below 27 degrees Celsius in summer or heaters above 19C in winter. Switching off store window lights after 10pm. Workers, the self-employed and the unemployed with incomes lower than €14,000 gross per year will receive direct aid of €200 to deal with rising living costs. Cabinet is set to approve a discount of 40% on energy bills for low income households.
Italy	30cents per litre cut to fuel duty. Reduction in VAT to 5% from 22%. Expected to push a new energy aid package to families and businesses worth about 13.5 billion euros.
Netherlands	The Netherlands has cut energy taxes for its 8 million households.
Austria	Chancellor Karl Nehammer said the cap should ease costs for an average household of three by about 500 euros (US$494) per year. The government will provide around 3-4 billion euros to finance the measure, which will come into effect in December and last through the end of June 2024.
Belgium	Belgium will also cut energy use in public buildings by, for example, requiring air conditioning use to be reduced and heating only be turned up to 19 degrees Celsius maximum. Lighting in public buildings will be switched off between 7 p.m. and 6 a.m. Belgium plans to extend other energy measures currently in force until the end of March 2023, such as a social tariff for low- income families; a 6 percent VAT on electricity, gas and heat; as well as reducing the excise tax on petrol and diesel. Belgium promises to put a price cap on Russian oil.

Source: Various news sources

At the same time, governments across Europe have been stepping up support measures to shield the consumer as

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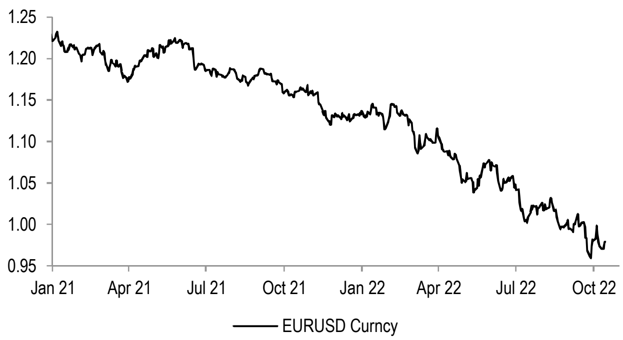
well as the industrial complex from bulk of the ongoing energy price spike.

4) FX weakness is a strong tailwind for European earnings…

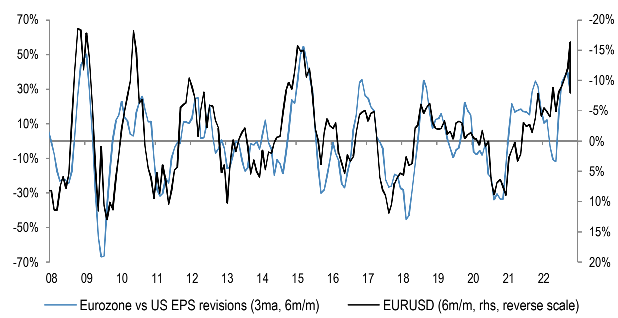
Figure 31: EUR/USD since Jan '21



Source: Bloomberg Finance L.P.

Euro has depreciated 20% against the dollar since the start of last year.

Figure 32: Eurozone vs US EPS revisions and EUR/USD

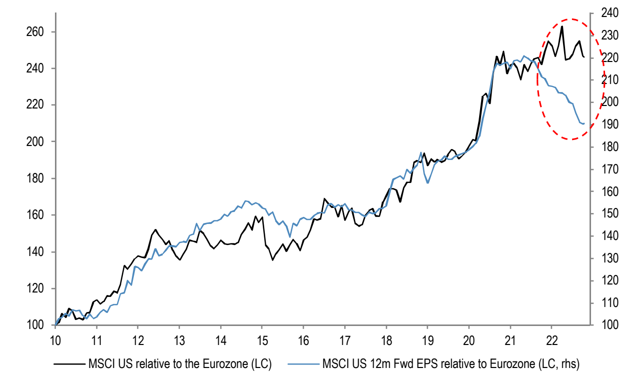


Source: Datastream

This has been a big tailwind for the relative earnings delivery in Europe.

…the gap has opened up between Europe and the US

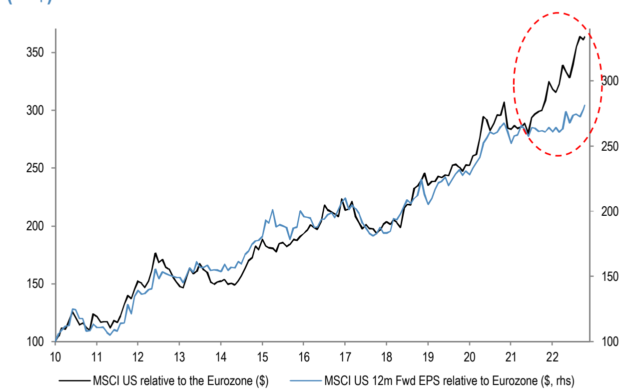
Figure 33: US EPS relative to Eurozone and relative performance (in LC)



Source: Datastream

Notably, the gap has opened up between regional prices and earnings relatives.

Figure 34: US EPS relative to Eurozone and relative performance (in $)



Source: Datastream

US is outperforming Europe given the weaker relative earnings delivery. This is the case in both local and common FX.

5) Europe could benefit next year from potential China reopening

Chinese growth has decelerated sharply in the last couple of years largely owing to increased regulatory uncertainty. This happened even as European and US growth trends were firming up over that timeframe, as these regions recovered earlier from the COVID fallout.

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Table 13: US, EMU and China GDP growth forecasts - Heatmap

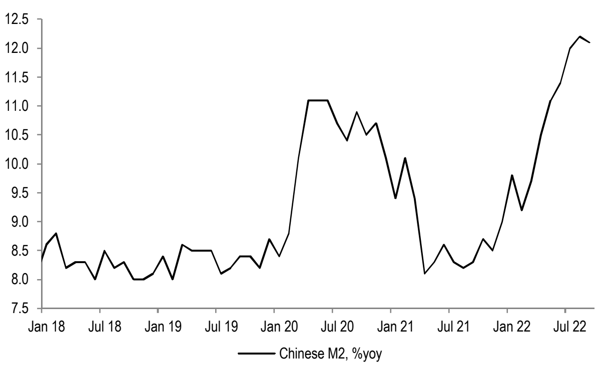
	Real GDP % over previous period, saar 2020	2021	2022E	2023E
United States	-2.8	5.9	1.8	1.0
Eurozone	-6.2	5.2	3.2	0.4
China	2.2	8.1	3.0	4.6

Source: J.P. Morgan.

We expect China to start reopening the economy in the coming months, leading to a strong recovery in growth prospects for the country. In some sense, China may once again prove to be counter-cyclical to the growth slowdown being witnessed in the western world.

China is on-course to release its own MRNA vaccine, one that has already been approved by Indonesia. We believe that could be a potential trigger for the country to ease COVID related restrictions.

Figure 35: Chinese M2



Source: Bloomberg Finance L.P.

Chinese money supply has already inflected higher.

Table 14: Key indices revenue exposure to different regions

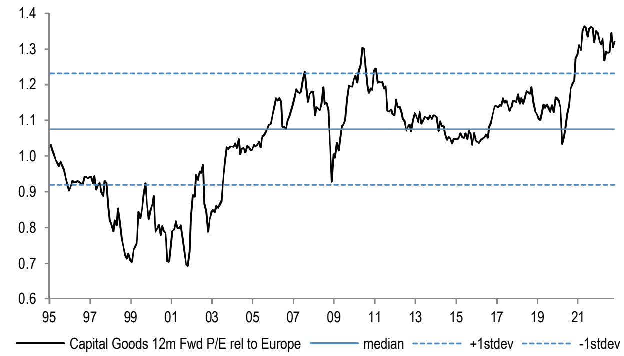
		% Sales North America	Western Europe ex UK	UK	EM	Others
US	SPX	65%	6%	1%	8%	20%
Eurozone	SX5E	24%	46%	1%	20%	9%
UK	FTSE100	22%	16%	28%	23%	10%

Source: JPMorgan

From a regional perspective, European equities are much more leveraged to the China / EM growth story as compared to the US.

At a sector level, Industrial and Chemical companies are likely to see a bigger contraction in margins…

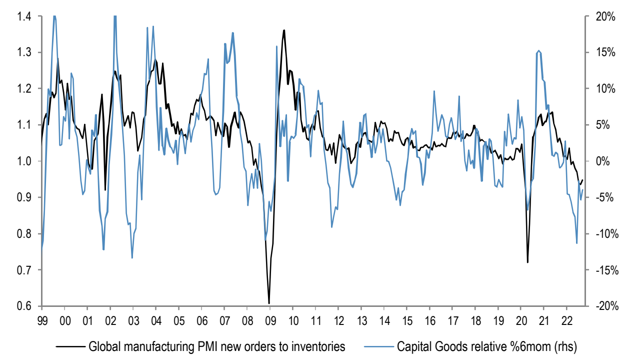
Figure 36: European Capital Goods 12m forward P/E relative



Source: IBES

Industrial goods sector has struggled this year, but still continues to trade at elevated valuations.

Figure 37: Capital Goods relative vs Manufacturing PMI New orders to inventories



Source: Datastream, S&P Global

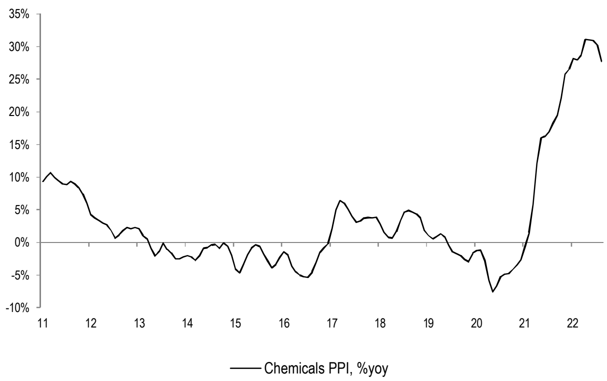
Weaker growth trends remain a problem for the sectors' performance.

Figure 38: European Chemicals 12m forward P/E relative

Source: IBES

Chemicals also look expensive in a historical context.

Figure 39: Chemicals PPI %yoy



Source: Bloomberg Finance L.P.

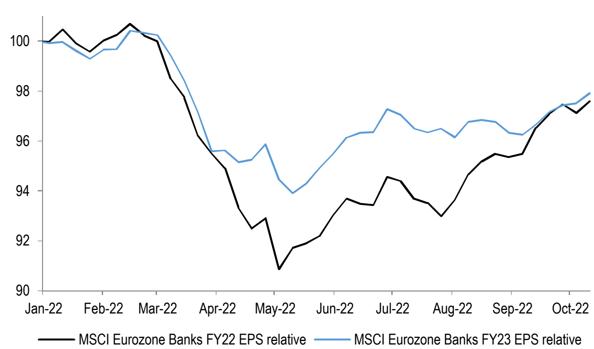
The sector benefitted from a strong pricing and volumes tailwind, but those seem to be behind us now. The sector is also relatively more sensitive to the ongoing energy crisis and could see significant deterioration in margins.

…Discretionary sector also looks vulnerable here

The Discretionary sector, in particular Retailers, are likely to see margins squeezed as costs pressures are further exacerbated by weakening currency and demand environment appears to be softening.

Financials earnings could continue to be resilient

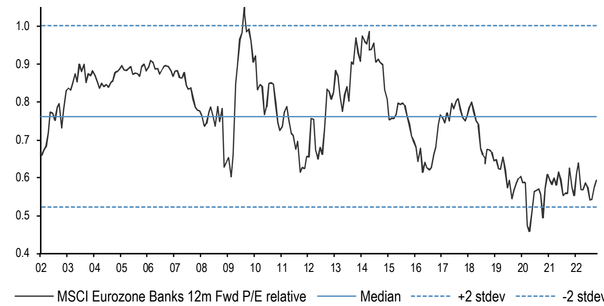
Figure 40: Eurozone Banks relative EPS momentum



Source: IBES

Earnings momentum has been quite strong for the Banking sector. Higher yields remain a tailwind for the sector's earnings.

Figure 41: Eurozone Banks 12m Fwd P/E relative

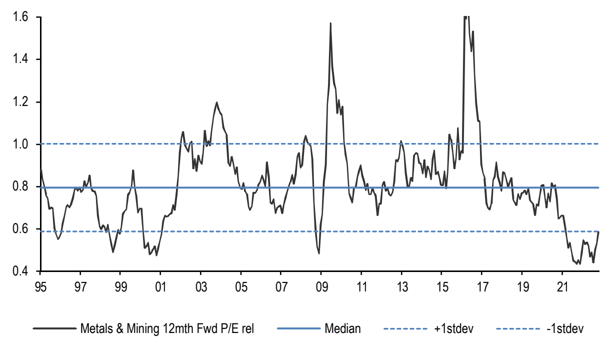


Source: IBES

Banking stocks also look extremely cheap on most valuation measures.

Commodity sector appears attractive

Figure 42: European Metals & Mining 12m Fwd P/E relative

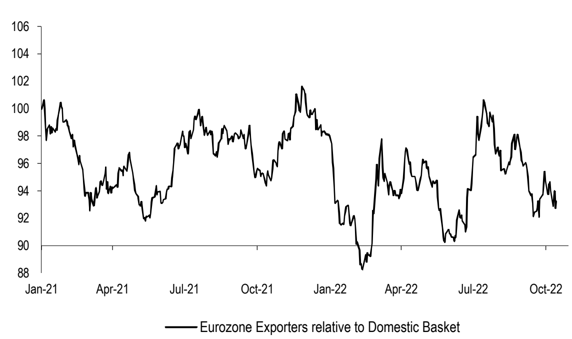


Source: IBES

Valuations for Miners still look compelling, despite outperformance ytd.

We prefer Exporters over Domestics

Figure 43: Eurozone exporters vs Eomestics



Source: Bloomberg Finance L.P.

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Exporters have outperformed Domestic stocks this year. We believe this trend should continue.

Table 15: Eurozone Exporters basket

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

Source: J.P. Morgan.

Our basket of European exporters comprises of 40 stocks with significant international exposure, sensitive to moves in Euro- (names and their revenue exposure to ex-Eurozone region).

Table 16: Eurozone Domestics basket

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

Source: J.P. Morgan.

Our basket of European domestics comprises of 40 stocks with significant Eurozone exposure, which are highly geared to the domestic recovery – (names and their revenue exposure to Eurozone region).

Figure 44: Q3 Earnings preview by JPM sector analysts

Sector	(+) / (-)	Comments
Energy	(+)	Sector analysts maintain their Energy Supercycle and bullish Energy equities views following our recent 'Joules' deep dive which underlined the EU Majors' pivotal role in solving for energy security in tandem with transition through portfolios set to deliver/sell ~10% of global energy demand to 2025. Nearer term, amidst ongoing recession-related concerns they look to the majors latest perspectives on the rate of change in demand as a key focus for 3Q updates after last month's Back to School seminar indicated trends holding firm into autumn with weakness limited to isolated pockets. With that in mind and OPEC+ 2mb/d quota cut putting a firmer floor under oil, they view valuations as highly attractive. At $102/$85 Brent 2022/23, they model EU Oils FCF yields at 24/18%, respectively, with FY22 now inclusive of estimated EU windfall levies. They estimate the sector is pricing in no more than $60/bbl LT Brent and model cash cycles substantially in-the-money at ~$65/bbl post-buybacks. While recent 3Q trading statements revealed mixed operational/trading datapoints, they ultimately expect reporting season to underline that accretive backdrop with 12M rolling CFFO pre- WC set to reach record levels >$250bn.
Construction Materials	(+)/(-)	European Building Materials: Sector analysts expect top-line growth across the sector driven by positive pricing momentum, with many companies noting that further actions have been taken in the quarter in light of cost inflation. From a volume perspective, they expect activity to be softening. With respect to profitability, they expect cost inflation to continue to weigh on EBITDA/EBIT, though to varying degrees across our coverage (similar to what we saw in H1). So far commentary from the corporates has been mixed, with Sika noting not much change in overall dynamics since H1 and Holcim CEO stating that he is confident on H2 despite the recessionary concerns, which he does not seen in Holcim's markets. In contrast, Heidelberg Management has been more cautious talking about how volatile trends have been from both a price/cost and volume perspective. UK Housebuilders: With a fairly solid forward orderbook which covers 6-9 months, the UK Housebuilding sector is unlikely to see impact on earnings during Q3/H2 for CY-2022. They note that house prices have held up well so far, offsetting build cost inflation which is likely to remain at high single-digit level, similar to H1. However, following the mini-budget and mortgage market reset, they expect commentary to start turning cautious and focus will be on recent trends reservation rates, with Barratt recently reporting cautious trend post mini-budget. European Infrastructure: They expect strong revenue growth in contracting, but anticipate more inflation risk at Ferrovial's Construction division. In toll roads they expect mixed performance with resilient revenues at French toll roads against tough comps YoY, and continued good trends in US Managed Lanes while the 407 in Toronto already reported softer than expected trend for Q3. For European Airports, they know Q3 traffic trends have been improving and expect strong performance in international portfolios to support revenue growth in the quarter although cost energy cost headwinds remains for airports not hedged, coupled with increasing opex in general.
Metals & Mining	(+)	Mining: The majority of Mining coverage will only report Q3 production/output, with no financials and/or conference calls. Sector analysts therefore would not expect significant changes to guidance, where this has been given (the opportunity for guidance updates will be the various CMD's towards Year End). Within their European Mining coverage, Norsk & Boliden are 2 of the few companies that will report a full set of financials (LUMI SS will, as well). Both companies are levered to power-intensive commodities (aluminium, zinc, respectively) but hedging / internally sourced power will help to mitigate cost headwinds (and potentially even allow the companies to sell spot power at a profit) & a weaker domestic FX vs the US$ will be a benefit QoQ. As such, they believe both can report a strong set of results vs current consensus. Any commentary on what these companies are seeing/expecting on cost/inflationary effects will be closely watched, but they expect weaker FX is proving a strong mitigating factor; any other comments on demand, cash flow and uses of surplus capital will also be watched. Steel: They expect Carbon steelmakers' earnings will unlikely trough until mid-2023, given the lagged effect of lower prices & higher costs hitting margins, as well as lower shipments on weak end-demand especially consumers such as automotive & construction (these segments account for combined ~50-60% cf. EU steel demand). On their updated forecasts, this means profitability over the next 3-4 quarters could test the 2020 COVID-19 lows . They now sit on avg >50% below Bloomberg consensus' Dec'Q EBITDA. An outlier is SSAB (only OW) where they are ~25-40% above Street forecasts over the next 2 qtrs given stronger plate price dynamics. A key push-back on our cautious message has been a working capital release offsetting lower earnings. But, with production continuing to track (or even outpace) shipments, this could limit the ability to unlock finished goods inventory, in their opinion.
Capital Goods	(+)	Sector analysts expect demand commentary to remain robust, reflecting a backdrop that appears little changed versus the Q2 as trading continues to defy deteriorating macro indicators. They see limited differentiation by end market and weakness only in specific and rare exceptions. They see the Q3 set-up similar to that ahead of the Q2. The Q2 saw the median company beat by 10%/4%/3% on orders/sales/earnings yet the median share price was only +1% on the day. They see the potential for the Q3 to follow this pattern; their Q3 earnings are on average ahead of consensus but they expect investors to quickly discount another solid quarter, instead focusing on an outlook where the macro has further deteriorated and looking for signs the companies are finally seeing the expected slowdown.
Aerospace & Defense	(+)	Civil Aero: In Q3 22, sector analysts expect Airbus to deliver 29% sales growth in its civil aircraft division, driven by 10% higher deliveries, a 10% FX benefit, and a better mix (i.e. more wide body planes). However, they expect its margin to be lower than in H1 22 as it invests in its business (mainly recruitment) ahead of a steep planned production ramp. Also in Q3 22, we expect Safran and MTU Aero to report robust organic aftermarket growth helped by airlines "pre-buying" spare parts ahead of double digit price increases coming into effect in Q4 22. For these three companies they do not expect any material changes to 2022-23 guidance as the positives of FX and strong pricing power offset challenges (weaker GDP growth, cost inflation, supply chain issues). Defence: They do not expect any major surprises from European Defence companies in Q3 22. However, in recent months most European Defence companies have cautioned that the expected large increases in European defence budgets will be a gradual, multi-year process. As a result, investors / analysts expecting very strong growth in 2023 may need to recalibrate those expectations. They still believe we are entering a decade-long upcycle in defence spending, but we also acknowledge

		that politicians often move more slowly than financial markets. Many defence stocks have pulled back over the last three months so they believe share prices largely reflect the more gradual pace of the expected upturn.
Automobile	(+)	Overall sector analysts are expecting a strong earnings season supported by production volumes which have started to recover thanks to stronger availability of semiconductors in the market globally. Pricing power in the automotive sector globally continues to show great discipline globally supporting earnings and free cash flow. Overall they expect a strong third quarter results season with all eyes set now into 2023
Luxury	(+)	• Q3 22 likely remained generally robust for the sector, supported by China's re-opening and tourists returning to Europe. • Sector analysts think a robust Q3 is well expected by the market, which instead continues to debate on the outlook for the luxury consumer going into Q4. • While, so far, the consumer at the higher price points seems to be holding steady, they continue to expect growing volatility in consumer behaviour, as they move into tougher comps, savings are spent and inflationary pressures continue to grow. • Hence, they would expect comments on exit rates and current trading to be closely scrutinised and to overshadow good Q3 numbers.
Media	(-)	Sector analysts expect ad agencies to see slower growth against tougher comps. Broadcasters are likely to see negative ad growth given comps and weaker macro although this will be partially / fully offset by growth in production / non ad revenues. Info Services and Publishers may see a marginal slowdown in transactional / residual print revenues – but this will only have a very marginal impact at the group level. Music subscriptions should be very robust but they are likely to see a slight softening of ad revenues and physical.
Retailing	(-)	In Q3, the focus for UK and European retailers continues to be around the impact of rising cost of living on topline and input cost and opex headwinds. In the sector analysts view the cost of living crisis for consumers has only just begun and retailers enter this, at best uncertain, environment with input costs & opex still much higher than pre-crisis levels. Amid the increasing inflationary pressures and low consumer confidence across the board, the risk and uncertainty around the top-line outlook remains. Gross margin also continues to be under pressure from still elevated freight and fabric prices, coupled with worsening FX headwinds in the second half. Whilst freight and cotton have more recently come down from peak levels which could provide some relief into next year (albeit remaining ahead of pre-COVID levels), USD strength is unhelpful meaning that external factors are likely to be a net headwind yoy into 2023. Below gross profit inflationary pressures continue to build in opex (energy/ final mile/ staff wages). An additional headwind for the pureplays especially has been worsening unit economics given the drag from smaller basket size and increasing return rates, albeit FX headwinds should be less severe in this space). Broadly, they are particularly mindful of those retailers with relatively low operating margins (in the LSD-MSD% range), therefore with high operational gearing exacerbating the magnitude of any potential downgrades. By category: clothing trends had started to slow through the summer as catch-up spend began to fade, albeit performance looks to have improved in September supported cooler and wetter weather (albeit in their view this could simply pull forward demand from subsequent weeks); within the home category, softer trends have continued albeit DIY has remained more resilient, likely supported by housing market tailwinds (although of course cracks already starting to appear here given the recent increase in mortgage rates). Looking ahead, they expect consumer discretionary spending to continue to deteriorate through Q4 as the "catch-up" effect wanes further and impacts on disposable income continue to bite more acutely.
Food & Tob	(+)	Sector analysts expect a set-up of top-line beats in Q322 – as was the case in Q1 and Q2 – buoyed by resilient volumes and accelerating pricing. This should lead to upside risks to LFL FY22/23E as pricing annualization and further price implementation in H123 are likely to support top lines into next year. While the market is geared to weakening volumes, they expect a fairly resilient set-up (also helped by strong EMs and category benefits from a good summer) offering limited evidence of consumption impact from higher costs of living. Softening Raw Materials and transport costs should also support further margin rebuilding in FY23E, which along with FX upgrades, add to positive EPS momentum in the sector
Beverages	(+)	Sector analysts expect top line momentum to continue across Beverages in Q3 with +12.0% organic sales. In Beer they anticipate +14.7% organic sales with good contribution from both volume (+5.5%) and price/mix (+9.2%) and in Spirits they expect double-digit organic sales growth for all three companies that report Q3. They expect the Beverage companies to show limited signs of volume elasticity in Q3, though questions remain on the sustainability of pricing into 2023 while cost inflation will remain a headwind through at least H123.
Medtech	(+)/(-)	• Q3 started quite slowly for most companies across the sector as July saw higher levels of vacations for Healthcare workers and patients, notably in the US. • August and September saw some recovery, although nurse shortages are still likely to act as a cap for some procedures. • Supply chains are improving slowly, but there are still pockets of disruption. • Sector analysts key concern is that guidance in most cases assumes improvement in H2, leaving more downside than upside risk to FY22 and FY23 forecasts. Cost inflation remains a key risk.
Banks	(-)	Sector analysts are cautious overall and see risk-reward requiring an assessment of the base-case soft landing alongside a downside stagflationary scenario. They see risk-reward unattractive in 'core' Euro area and do not include any German, French, Spanish or Italian banks exposure to their Top Picks portfolio. Market expectations for yield curves have become more hawkish through the quarter and are expected to drive the earnings profile in the medium term with deposit pass throughs still low. They also see a c2% refinancing earnings risk for the sector with regards to wholesale funding and rising CDS, although this will play out over the medium term with only a gradual debt maturity schedule. Key topical areas include: 1) The NII outlook/sensitivities considering loan growth in a slowing macro environment, higher yield curve, low deposit betas at present but expected to rise, and asset price competition. Tiering and remuneration of deposits/TLTRO will also be followed closely. 2) The outlook for Fees given economic pressures impacting sentiment and a further fall in equity markets impacting flows and AUM. 3) Inflationary impacts on the cost base remaining persistent which could impact any cost targets that banks have in place – particularly where we see absolute cost targets. 4) IFRS9 provisioning given the deterioration in the economic outlook (note concerns such as inflation, rising energy prices, geopolitical tensions, real estate price pressure (e.g. in the Nordics)) with provisioning expected to front-load any economic impact and macro scenarios updated; however, we note that actual defaults are likely to still remain low. 5) Discussions around the outlook for capital return given regulatory comments (e.g. ECB comments on restraints on pay/dividends) and the macro

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		environment, balanced with a more positive revenue/pre provision profit outlooks. 6) IB-geared stocks are expected to see trading revenue benefits from volatility, particularly those with Rates/FX/Commodities gearing over Credit, whilst IBD fees are expected to remain muted. Transaction Banking and Cash mgmt divisions are expected to see another strong quarter given higher rates and volatility.
Diversified Financials	(+)/(-)	Sector analysts expect the European exchanges to report resilient Q3 guided by strengthening USD, elevated volatility and increasing interest rates. LSEG is the most exposed to the appreciation of the USD, while DB1 will likely benefit from higher rates and elevated volatility. They see greater risk for wealth manager and D2C platforms, due to a negative mark-to-market impact on AUM, subdued net flows and lower customer growth, largely caused by the increase in the cost of living.
Insurance	(+)	Rising interest rates and inflation will continue to be at the top of the agenda for the insurance sector. The significant increases in yields in the quarter are likely to have driven Solvency levels to their highest levels since the European Solvency regime was introduced in 2016 and therefore sector analysts see the sector in aggregate being able to navigate market turbulence. Q3 on the non-life side of the insurance sector will see the impact of Hurricane Ian, which at this stage looks like being the costliest insured event in history. Therefore, they would expect this and the market reaction ahead of the January reinsurance renewals to be the key focus.
General Healthcare	(+)	For 3Q'22, sector analysts anticipate earnings to be broadly in-line with expectations, with the exception of Sanofi and GSK, where they see the potential for upside to Consensus numbers. They see the sector continuing to benefit from a positive FX tailwind due to dollar strength, with the exception of AZN and NOVN, which are dollar reporters. For FY22 guidance, they see potential for a guidance raise in Sanofi, GSK and Novo.
Telecoms	(-)	Expectations have rebased on energy cost fears. Sector analysts believe current consensus is now credible
Utilities	(+)/(-)	Sector analysts expect another round of solid earnings across the Southern European utilities, as the P&L should continue to benefit from the gradual repricing of retail contracts as they roll off, while the comps are in general relatively easy and the hydro shortfall should have a small impact on earnings given the low absolute output levels under normal weather conditions in Q3 due to seasonality. Overseas activities should continue to benefit from a robust performance in local currency as well as from the forex tailwind. On the other hand, they expect a more negative performance of net debt figures, given the high amount of dividends paid in the quarter and the negative moves in working capital, which together with the negative side of the Euro weakness should mean rising net debts at a time when refinancing costs are surging. In the UK, reported earnings will be suppressed by higher opex and higher net finance costs due to inflation on index-linked debt, although this will be recovered in future years as inflation drives higher revenues in future years. Sterling weakness will be a tailwind for those companies with US businesses, or exposed to commodities priced in USD.

Source: J.P. Morgan.

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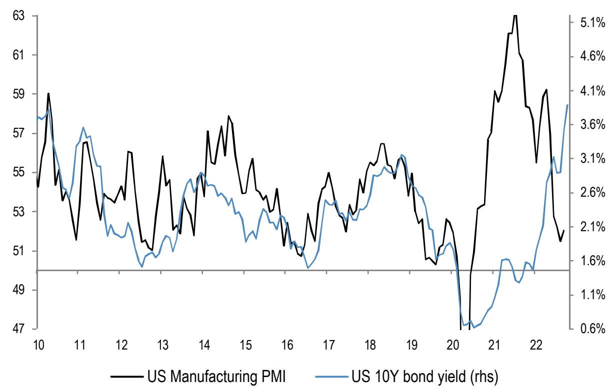
Our recent call is that bond yields are in the process of peaking

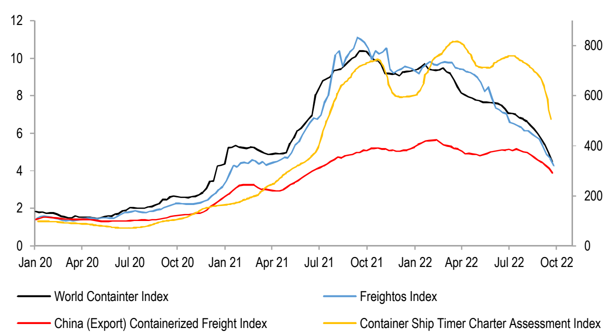
Figure 45: US 10Y bond yields and US manufacturing PMI



Source: Bloomberg Finance L.P.

We argued 2 weeks ago that bond yields are likely to stall, given the weaker activity momentum, as well as the signs of disinflation popping up.

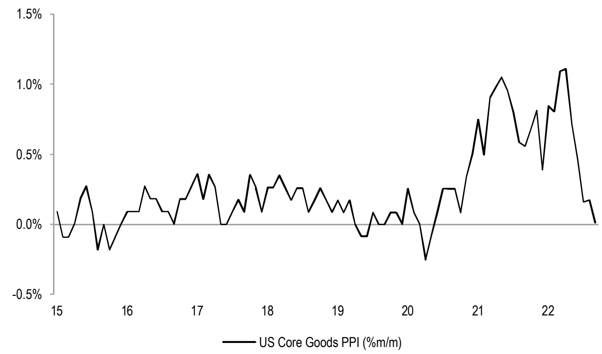
Figure 46: Global container shipping rates



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

A number of indicators are pointing to a softer pricing environment down the line, as well as to past dislocations easing.

Figure 47: US Core Goods PPI (%m/m)



Source: Bloomberg Finance L.P.

Stylized, we find 4 stages to inflation process: commodities first, then goods, then services, and finally labour market, which is last and very lagging. Commodity prices have already stalled in the past 4-5 months, now is the time for goods inflation to move lower, as inventories are picking up. Next will be services, and that could leave wages without much impetus to start creating a vicious cycle.

If our call of peaking bond yields comes through, that will go a long way to support overall market valuations, in our view.

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Equity Strategy Key Calls and Drivers

Over past weeks, we have fielded numerous calls by global/US investors, who are bearish on Europe, with one of the key questions being: why is Europe not lagging much more relative to the US? Reports of much more significant size of short positions in Europe than in other regions are frequent in the media, as well as of the biggest UW on the region ever, vs global benchmark. In light of all of this, it is interesting to note that in local FX SXXP ytd is down 16%, vs SPX down 18%. So, is Europe a clear short? Our base case is for a Eurozone recession, but we do not think that Europe offers only downside, as: 1) Our view remains that natural gas prices will move lower, given the good progress on refilling of storages, new LNG coming in, as well as already reduced consumption, and therefore that forced shutdowns are unlikely. 2) Eurozone is historically high beta on the way down, partly as Banks and periphery would act as a weak link. This time around, Eurozone Banks are well capitalized, and peripheral spreads are not expected to have a disorderly widening, courtesy of the ECB backstop. 3) Earnings could be acting better than typically, and a potential recession might be shallow, given resilient house prices and an EU labour market that has never been this strong. 4) Fiscal impulse is expected to be bigger in Europe than elsewhere. 5) ECB is expected to be less aggressive than the Fed. 6) P/E discount of Eurozone to the US has never been as large as it is currently, with very light positioning. From the broad market perspective, last week's CPI print was disappointing, but we don't think the call of inflation peaking, and consequently of the Fed likely becoming more balanced post the September hike, is off. PPIs are down, and compared to what is currently priced in futures, the Fed is unlikely to get more hawkish.

Table 17: J.P. Morgan Equity Strategy — Factors driving our medium-term views

Driver	Impact	Our Core Working Assumptions	Recent Developments
Global Growth	Positive	The pace of growth is likely above trend in 2022	Global composite PMI is at 49.7
European Growth	Neutral	Eurozone real GDP expected to contract in Q4 '22 and Q1 '23	
Monetary Policy	Neutral	Fed is close to peak hawkishness, at least relative to what is priced in currently	
Currency	Neutral	USD is close to peak and positioning on the $ is stretched.	
Earnings	Positive	Continue to see gains for earnings, ~15% y/y in Eurozone	Consensus projects 16.9% EPS growth for Eurozone in 2022
Valuations	Neutral	P/E multiples have derated materially and could find some support.	MSCI Europe on 10.3x Fwd P/E
Technicals	Neutral	Sentiment is cautious, and technicals have improved.	AAII Bull-Bear is at all time low range

Source: J.P. Morgan estimates6

Table 18: Base Case and Risks

Scenario	Assumption
Upside scenario	Strong rebound in China. Ne further hawkish tilt by the Fed. Inflation to soften quickly.
Base-case scenario	Inflation to soften. Growth-Policy trade-off remains supportive
Downside scenario	Aggressive Fed tightening – policy mistake, in addition to no clear rebound in China

Source: J.P. Morgan estimates.

Table 19: Index levels

	Dec '22 Target	12-Oct-22	% upside
MSCI EMU	230	208	11%
FTSE 100	7,300	6,826	7%
MSCI EUROPE	1,680	1,560	8%
DJ EURO STOXX 50	3,620	3,332	9%
DJ STOXX 600 E	430	386	11%

Source: J.P. Morgan.

Table 20: Key Global sector calls

Overweight	Neutral	Underweight
Financials	Technology	Staples
Communication Services	Industrials	Healthcare
Energy	Discretionary	Real Estate
Materials	Utilities	

Source: J.P. Morgan

Table 21: J.P. Morgan Equity Strategy — Key sector calls*

Sector	Recommendations	Key Drivers
Financials	Overweight	Sector looks cheap, earnings are improving, and it stands to benefit from rising bond yields.
Energy and Mining	Overweight	Both sectors have lagged the move in spot commodity prices, and should benefit from a weaker DXY, and better China liquidity
Healthcare	Underweight	Shows clear negative correlation to bond yields

Source: J.P. Morgan estimates. * Please see the last page for the full list of our calls and sector allocation.

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Table 22: J.P. Morgan Equity Strategy — Key regional calls

Region	Recommendations	J.P. Morgan Views
EM	Overweight	EM equities could perform better in 2H. The potentially improving relative growth would be a tailwind
DM	Underweight	
US	Neutral	US had a renewed period of outperformance since March, as FANG dominated, but this could stall.
Japan	Neutral	Japan is cheap and will undergo reopening, but political backdrop is not very supportive for the equity market.
Eurozone	Overweight	Global Cycle & Value play, trading cheap, beneficiary of stable peripheral spreads
UK	Overweight	Valuations look very attractive post 6 years of underperformance.
Others	Underweight	Cautious on Switzerland, HK and Australia.

Source: J.P. Morgan estimates

Top Picks

Table 23: J.P. Morgan European Strategy: Top European picks

							EPS Growth			Dividend Yield	12m Fwd P/E			Performance	
Name	Ticker	Sector	Rating	Price	Currency	Market Cap (€ Bn)	21e	22e	23e	22e	Current	10Y Median	% Premium	-3m	-12m
BP	BP/ LN	Energy	N	449	£	95.5	-	110%	-22%	4.6%	4.4	11.7	-62%	19%	25%
ENI	ENI IM	Energy	OW	11	E	40.7	-	157%	-28%	7.3%	4.3	12.7	-66%	2%	-5%
BASF	BAS GR	Materials	OW	42	E	38.5	111%	-5%	-21%	8.2%	7.8	13.1	-40%	0%	-35%
SAINT GOBAIN	SGO FP	Industrials	OW	38	E	19.5	95%	13%	-8%	4.9%	6.7	12.9	-48%	-8%	-36%
GLENCORE	GLEN LN	Materials	OW	486	£	71.5	258%	127%	-39%	10.4%	4.9	12.0	-59%	15%	31%
ARCELORMITTAL	MT NA	Materials	N	21	E	18.8	-	-16%	-62%	2.4%	3.4	10.3	-67%	-3%	-19%
SSAB A	SSABA SS	Materials	OW	54	SK	4.9	-	48%	-63%	14.4%	4.8	16.6	-71%	17%	23%
SANDVIK	SAND SS	Industrials	OW	155	SK	17.5	24%	7%	7%	3.5%	12.3	15.8	-23%	-8%	-23%
ROLLS-ROYCE HOLDINGS	RR/ LN	Industrials	UW	66	£	6.3	-	1005%	214%	0.0%	20.9	23.1	-9%	-25%	-54%
AIRBUS	AIR FP	Industrials	OW	93	E	73.7	249%	4%	32%	1.9%	15.2	17.6	-14%	-7%	-18%
SAFRAN	SAF FP	Industrials	OW	97	E	41.7	-10%	113%	36%	1.6%	20.8	18.8	11%	-4%	-14%
MARKS & SPENCER GROUP	MKS LN	Staples	N	93	£	2.1	-92%	1393%	-24%	0.0%	5.8	11.6	-50%	-31%	-47%
HENNES & MAURITZ B	HMB SS	Discretionary	UW	110	SK	16.5	787%	-17%	8%	5.8%	18.7	20.7	-10%	-18%	-33%
JERONIMO MARTINS	JMT PL	Staples	OW	19	E	11.7	48%	29%	9%	2.8%	18.2	20.8	-12%	-9%	2%
L'OREAL	OR FP	Staples	OW	329	E	174.8	21%	25%	7%	1.7%	28.4	26.0	9%	-3%	-8%
HEINEKEN	HEIA NA	Staples	OW	91	E	52.2	77%	35%	11%	1.8%	17.6	19.9	-12%	-3%	1%
MERCK & COMPANY	MRK GR	Health Care	OW	164	E	70.6	30%	18%	5%	1.2%	15.3	15.9	-3%	-6%	-13%
BAYER	BAYN GR	Health Care	OW	49	E	48.2	2%	18%	5%	4.6%	6.2	12.3	-50%	-13%	2%
SMITH & NEPHEW	SN/ LN	Health Care	N	987	£	9.7	25%	-4%	14%	3.1%	12.8	18.4	-31%	-13%	-21%
LLOYDS BANKING GROUP	LLOY LN	Financials	OW	39	£	29.7	268%	-11%	-3%	6.3%	5.6	9.0	-39%	-8%	-19%
UNICREDIT	UCG IM	Financials	OW	11	E	21.4	209%	2%	18%	5.9%	5.3	9.9	-46%	18%	-10%
INTESA SANPAOLO	ISP IM	Financials	OW	2	E	32.0	10%	-2%	30%	8.9%	6.3	10.4	-39%	-2%	-33%
CAIXABANK	CABK SM	Financials	N	3	E	26.7	48%	11%	13%	6.1%	8.8	11.1	-20%	24%	22%
DEUTSCHE BOERSE	DB1 GR	Financials	OW	163	E	31.1	0%	20%	12%	2.2%	18.9	18.3	3%	-1%	10%
DASSAULT SYSTEMES	DSY FP	IT	OW	34	E	44.3	26%	16%	6%	0.5%	28.9	30.2	-4%	-9%	-23%
NOKIA	NOKIA FH	IT	OW	5	E	25.6	42%	11%	11%	2.3%	10.2	17.2	-41%	-2%	-10%
ASML HOLDING	ASML NA	IT	NR	414	E	164.9	69%	-6%	46%	1.4%	22.9	25.0	-8%	-5%	-34%
BT GROUP	BT/A LN	Telecoms	NR	120	£	13.4	-20%	6%	6%	6.5%	5.9	9.6	-38%	-39%	-18%
BOUYGUES	EN FP	Industrials	OW	26	E	9.9	61%	-14%	26%	6.9%	8.6	12.9	-33%	-8%	-24%
ITV	ITV LN	Telecoms	OW	60	£	2.7	39%	-10%	-19%	8.5%	5.1	10.9	-53%	-9%	-42%
EDF	EDF FP	Utilities	N	12	E	46.3	122%	-384%	-	4.6%	-65.7	11.7	-	16%	0%
FORTUM	FORTUM FH	Utilities	OW	13	E	11.6	14%	-262%	-	7.6%	48.4	15.8	206%	3%	-53%

Source: Datastream, MSCI, IBES, J.P. Morgan, Prices and Valuations as of COB 12th Oct, 2022. Past performance is not indicative of future returns.

Please see the most recent company-specific research published by J.P. Morgan for an analysis of valuation methodology and risks on companies recommended in this report. Research is available at http://www.jpmorganmarkets.com, or you can contact the covering analyst or your J.P. Morgan representative.

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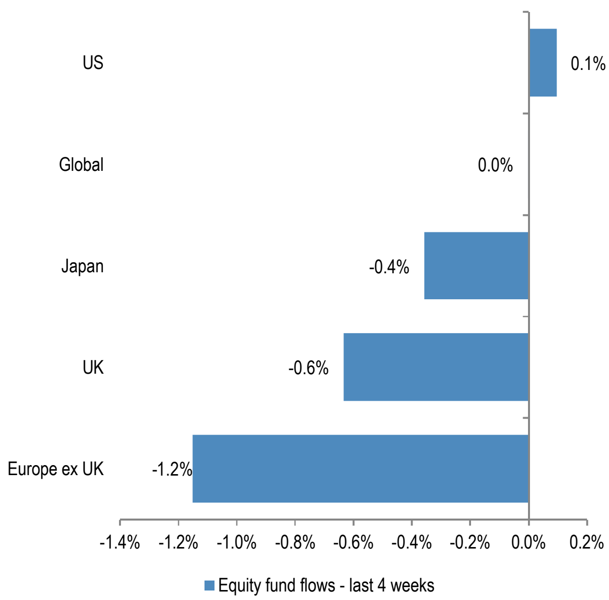
Equity Flows Snapshot

Table 24: DM Equity Fund Flows Summary

	Regional equity fund flows									
	$mn					% AUM				
	1w	1m	3m	YTD	12m	1w	1m	3m	YTD	12m
Global	797	-117	191	58,096	189,223	0.0%	0.0%	0.0%	1.3%	4.5%
Europe ex UK	-1,105	-3,198	-9,365	-29,746	-21,194	-0.4%	-1.2%	-3.1%	-7.6%	-5.6%
UK	-789	-1,683	-7,392	-18,878	-22,422	-0.3%	-0.6%	-2.5%	-5.4%	-6.6%
US	9,460	7,382	45,833	139,998	297,327	0.1%	0.1%	0.6%	1.5%	3.5%
Japan	-1,543	-2,254	-595	-3,004	773	-0.2%	-0.4%	-0.1%	-0.4%	0.1%

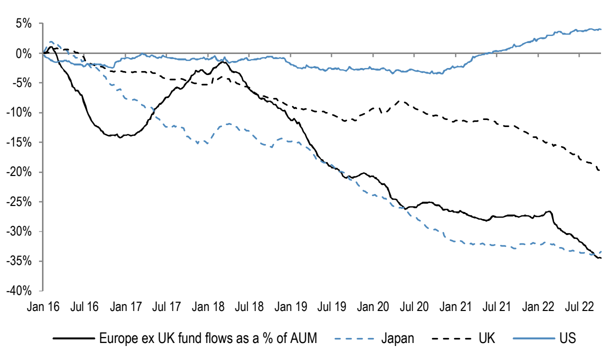
Source: EPFR, as of 05th Oct, 2022

Figure 48: DM Equity Fund flows – last month



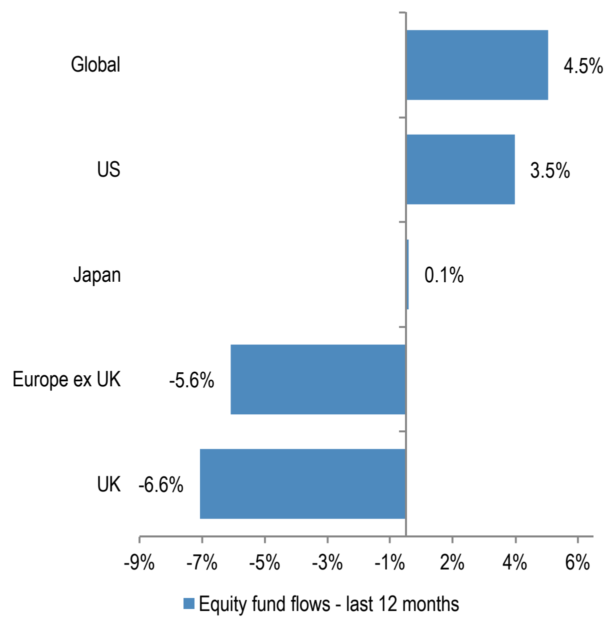
Source: EPFR, Japan includes BoJ purchases.

Figure 49: Cumulative fund flows into regional funds as a percentage of AUM



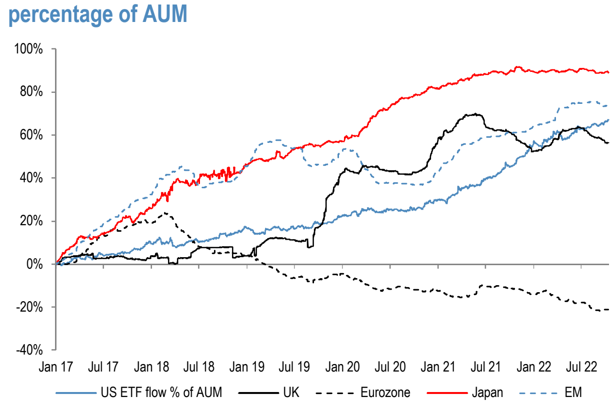
Source: EPFR, as of 05th Oct, 2022. Japan includes Non-ETF purchases only.

Figure 50: DM Equity Fund flows – last 12 months



Source: EPFR, Japan includes BoJ purchases.

Figure 51: Cumulative fund flows into regional equity ETFs as a percentage of AUM



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

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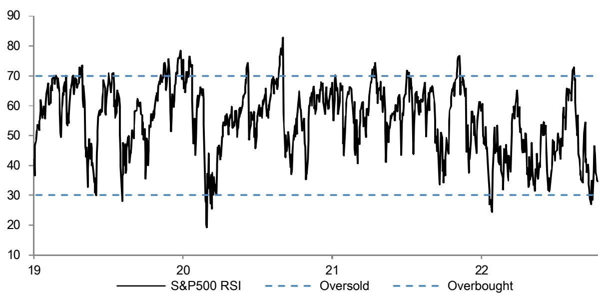
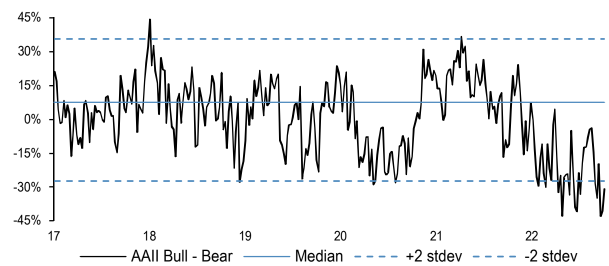
Technical Indicators

Figure 52: S&P500 RSI



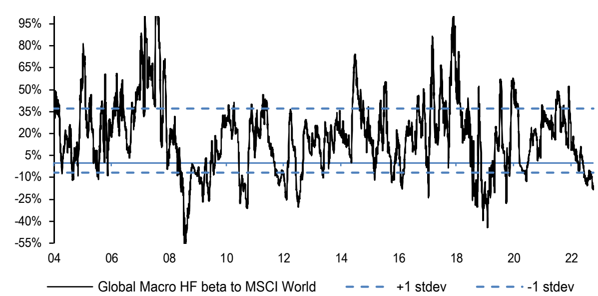
Source: Bloomberg Finance L.P.

Figure 53: AAII Bull-Bear



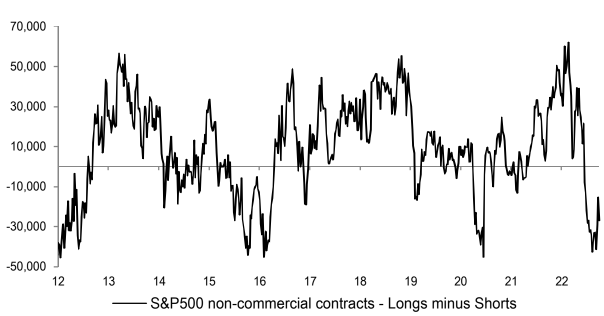
Source: Bloomberg Finance L.P

Figure 54: Hedge Fund Beta



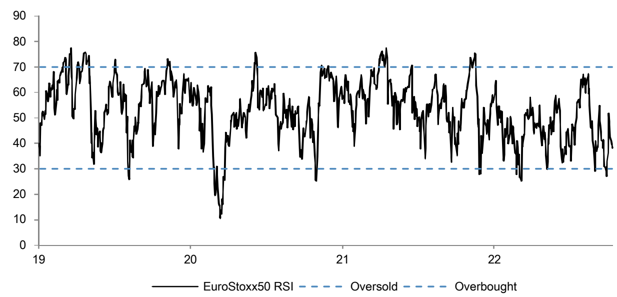
Source: Bloomberg Finance L.P.

Figure 55: Speculative positions in S&P500 futures contracts



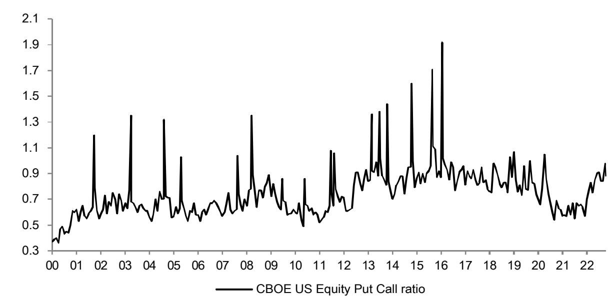
Source: Bloomberg Finance L.P.

Figure 56: Eurostoxx50 RSI



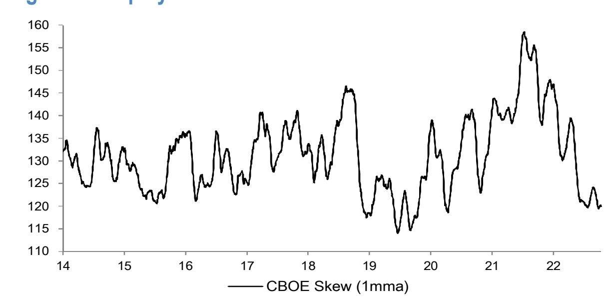
Source: Bloomberg Finance L.P.

Figure 57: Put-call ratio



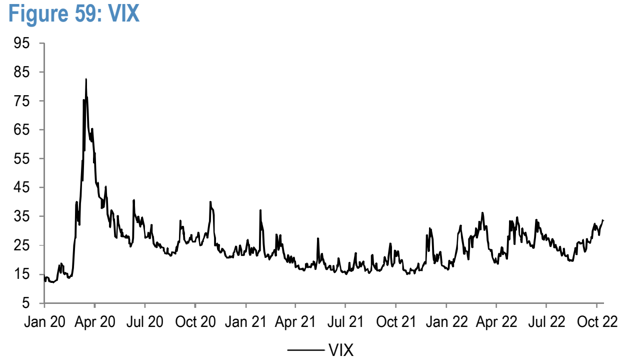
Source: Bloomberg Finance L.P.

Figure 58: Equity Skew



Source: Bloomberg Finance L.P.

Figure 59: VIX



Source: Bloomberg Finance L.P.

Performance

Table 25: Sector Index Performances — MSCI Europe

(%change)		Local currency		
Industry Group		**4week**	**12m**	**YTD**
Europe		**(6.7)**	**(14.6)**	**(19.4)**
Energy		**(3.2)**	**20.7**	**25.7**
Materials		**(4.1)**	**(14.9)**	**(20.5)**
	Chemicals	(4.0)	(25.9)	(31.4)
	Construction Materials	(9.4)	(17.2)	(24.3)
	Metals & Mining	(1.8)	4.2	(0.2)
Industrials		**(5.9)**	**(20.4)**	**(27.0)**
	Capital Goods	(5.6)	(21.1)	(27.4)
	Transport	(10.1)	(27.0)	(32.3)
	Business Svs	(4.1)	(11.0)	(20.0)
Consumer Discretionary		**(8.5)**	**(23.0)**	**(27.7)**
	Automobile	(10.0)	(25.7)	(26.8)
	Consumer Durables	(7.4)	(16.2)	(27.2)
	Media	(6.7)	(21.2)	(22.2)
	Retailing	(12.2)	(41.7)	(40.6)
	Hotels, Restaurants & Leisure	(5.9)	(16.5)	(13.1)
Consumer Staples		**(3.9)**	**(4.6)**	**(12.5)**
	Food & Drug Retailing	(12.3)	(27.9)	(31.1)
	Food Beverage & Tobacco	(3.3)	(2.1)	(10.8)
	Household Products	(3.4)	(2.9)	(10.4)
Healthcare		**(2.7)**	**(6.8)**	**(12.4)**
Financials		**(10.1)**	**(18.3)**	**(19.5)**
	Banks	(10.6)	(18.1)	(17.2)
	Diversified Financials	(10.3)	(24.6)	(27.6)
	Insurance	(9.3)	(13.3)	(16.4)
Real Estate		**(19.5)**	**(47.6)**	**(48.0)**
Information Technology		**(9.2)**	**(29.8)**	**(35.4)**
	Software and Services	(6.4)	(29.2)	(31.9)
	Technology Hardware	(7.8)	(25.5)	(29.0)
	Semicon & Semicon Equip	(12.3)	(31.8)	(40.4)
Telecommunications Services		**(9.9)**	**(15.0)**	**(16.1)**
Utilities		**(15.3)**	**(15.3)**	**(22.9)**

Source: MSCI, Datastream, as at COB 12th Oct, 2022.

Table 26: Country and Region Index Performances

(%change)		Local Currency			US$		
Country	**Index**	**4week**	**12m**	**YTD**	**4week**	**12m**	**YTD**
Austria	ATX	(9.5)	(28.2)	(30.5)	(12.2)	(39.7)	(40.7)
Belgium	BEL 20	(8.1)	(20.3)	(23.1)	(10.8)	(33.1)	(34.4)
Denmark	KFX	(5.4)	(7.6)	(15.5)	(8.2)	(22.3)	(27.9)
Finland	HEX 20	(5.4)	(20.2)	(22.9)	(8.2)	(33.0)	(34.2)
France	CAC 40	(6.5)	(11.1)	(18.7)	(9.3)	(25.4)	(30.6)
Germany	DAX	(6.6)	(19.6)	(23.4)	(9.3)	(32.5)	(34.6)
Greece	ASE General	(2.3)	(8.2)	(8.5)	(5.2)	(22.9)	(21.9)
Ireland	ISEQ	(8.0)	(24.1)	(25.0)	(10.8)	(36.3)	(36.0)
Italy	FTSE MIB	(8.7)	(21.3)	(25.2)	(11.4)	(33.9)	(36.2)
Japan	Topix	(4.0)	(5.7)	(6.2)	(6.7)	(27.0)	(26.4)
Netherlands	AEX	(7.3)	(18.2)	(20.9)	(10.1)	(31.3)	(32.5)
Norway	OBX	(8.1)	(6.2)	(7.5)	(13.9)	(25.5)	(24.2)
Portugal	BVL GEN	(16.1)	(6.0)	(7.9)	(18.6)	(21.1)	(21.4)
Spain	IBEX 35	(9.9)	(18.7)	(16.7)	(12.5)	(31.8)	(28.9)
Sweden	OMX	(4.3)	(18.5)	(24.2)	(9.7)	(36.9)	(39.4)
Switzerland	SMI	(5.2)	(13.2)	(20.8)	(8.8)	(19.3)	(27.7)
United States	S&P 500	(9.4)	(17.8)	(24.9)	(9.4)	(17.8)	(24.9)
United States	NASDAQ	(11.1)	(28.0)	(33.4)	(11.1)	(28.0)	(33.4)
United Kingdom	FTSE 100	(6.2)	(4.3)	(7.6)	(10.3)	(22.1)	(24.4)
EMU	MSCI EMU	(7.8)	(20.2)	(24.3)	(10.5)	(32.9)	(35.3)
Europe	**MSCI Europe**	**(6.7)**	**(14.6)**	**(19.4)**	**(10.1)**	**(28.0)**	**(31.5)**
Global	MSCI AC World	(8.5)	(17.5)	(23.0)	(9.6)	(21.7)	(26.7)

Source: MSCI, Datastream, as at COB 12th Oct, 2022.

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Earnings

Table 27: IBES Consensus EPS Sector Forecasts — MSCI Europe

	EPS Growth (%)			
	2021	2022E	2023E	2024E
Europe	**66.1**	**17.9**	**1.7**	**5.6**
Energy	**1142.4**	**113.1**	**(14.7)**	**(16.1)**
Materials	**108.3**	**4.9**	**(21.4)**	**0.0**
Chemicals	58.7	5.4	(9.4)	9.2
Construction Materials	31.9	5.5	(4.8)	10.3
Metals & Mining	183.4	2.9	(31.2)	(8.6)
Industrials	**129.5**	**21.0**	**(0.8)**	**8.4**
Capital Goods	88.8	8.3	15.4	12.5
Transport	-	77.3	(44.0)	(12.1)
Business Svs	24.6	13.1	7.8	8.5
Discretionary	**200.7**	**18.2**	**3.5**	**11.2**
Automobile	416.4	15.3	(6.4)	8.5
Consumer Durables	111.8	16.7	7.9	9.2
Media	(0.7)	27.4	17.5	12.3
Retailing	3.9	11.4	47.0	28.3
Hotels, Restaurants & Leisure	201.2	89.6	35.2	19.1
Staples	**10.7**	**9.5**	**9.3**	**9.5**
Food & Drug Retailing	23.7	(1.6)	7.6	11.4
Food Beverage & Tobacco	11.8	13.2	9.7	9.2
Household Products	2.6	3.5	8.6	9.7
Healthcare	**10.9**	**7.3**	**9.2**	**11.2**
Financials	**56.1**	**(0.6)**	**13.1**	**11.2**
Banks	107.2	1.3	8.1	12.0
Diversified Financials	9.3	(14.9)	24.4	14.2
Insurance	24.7	4.4	17.7	8.3
Real Estate	**(4.0)**	**16.1**	**1.3**	**2.8**
IT	**38.2**	**4.8**	**18.8**	**12.2**
Software and Services	27.9	(5.3)	18.1	14.3
Technology Hardware	17.9	1.9	12.4	6.9
Semicon & Semicon Equip	73.8	18.9	22.9	12.7
Telecoms	**(10.1)**	**21.4**	**9.0**	**10.9**
Utilities	**18.4**	**(7.2)**	**21.3**	**6.0**

Source: IBES, MSCI, Datastream. As at COB 12th Oct, 2022.

Table 28: IBES Consensus EPS Country Forecasts

		EPS Growth (%)			
Country	**Index**	**2021**	**2022E**	**2023E**	**2024E**
Austria	ATX	151.8	12.0	(8.3)	1.3
Belgium	BEL 20	57.6	(0.7)	2.2	13.6
Denmark	Denmark KFX	79.4	38.5	(27.1)	(1.8)
Finland	MSCI Finland	77.2	(22.6)	29.1	6.6
France	CAC 40	117.2	30.5	(3.7)	5.3
Germany	DAX	51.5	5.8	4.6	10.0
Greece	MSCI Greece	22.4	13.5	42.9	11.9
Ireland	MSCI Ireland	16.5	12.2	5.2	11.8
Italy	MSCI Italy	100.9	24.2	(3.2)	5.8
Netherlands	AEX	75.6	35.4	(0.8)	1.8
Norway	MSCI Norway	78.2	73.0	(13.1)	(14.2)
Portugal	MSCI Portugal	31.5	52.3	10.3	6.1
Spain	IBEX 35	141.8	31.8	2.1	9.4
Sweden	OMX	43.9	3.0	7.9	8.0
Switzerland	SMI	10.3	4.1	13.8	9.9
United Kingdom	FTSE 100	170.4	23.5	(1.2)	1.3
EMU	MSCI EMU	75.7	16.9	3.4	8.5
Europe ex UK	MSCI Europe ex UK	57.0	16.1	3.1	7.8
Europe	MSCI Europe	66.1	17.9	1.7	5.6
United States	S&P 500	50.2	9.0	7.0	9.0
Japan	Topix	51.1	13.2	3.9	7.5
Emerging Market	MSCI EM	52.7	9.9	4.5	11.6
Global	MSCI AC World	54.7	10.9	5.5	8.3

Source: IBES, MSCI, Datastream. As at COB 12th Oct, 2022** Japan refers to the period from March in the year stated to March in the following year – EPS post-goodwill

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Valuations

Table 29: IBES Consensus European Sector Valuations

	P/E			Dividend Yields			EV/EBITDA			Price to Book		
	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e
Europe	**10.5**	**10.3**	**9.8**	**2.8%**	**3.5%**	**3.9%**	**10.2**	**9.2**	**6.7**	**1.8**	**1.7**	**1.6**
Energy	**4.1**	**4.9**	**5.8**	**3.6%**	**4.1%**	**5.3%**	**7.2**	**4.0**	**2.1**	**1.5**	**1.4**	**1.1**
Materials	**7.6**	**9.7**	**9.7**	**3.9%**	**5.9%**	**5.8%**	**8.3**	**6.0**	**4.7**	**1.7**	**1.6**	**1.4**
Chemicals	13.2	14.5	13.3	3.3%	3.5%	3.9%	13.2	11.2	8.0	2.6	2.3	2.0
Construction Materials	8.2	8.7	7.9	4.5%	4.9%	5.1%	7.1	7.0	5.3	1.0	0.9	0.8
Metals & Mining	4.5	6.5	7.1	4.9%	10.0%	8.9%	5.6	3.5	2.9	1.4	1.3	1.1
Industrials	**13.1**	**13.2**	**12.2**	**2.0%**	**2.7%**	**3.3%**	**14.4**	**11.5**	**7.8**	**3.3**	**2.8**	**2.5**
Capital Goods	15.3	13.3	11.8	2.0%	2.4%	2.9%	12.5	12.5	9.3	3.0	2.6	2.4
Transport	-	9.3	10.5	1.5%	4.2%	6.2%	21.7	7.7	3.9	3.1	2.5	1.8
Business Svs	18.9	17.5	16.2	2.2%	2.4%	2.6%	15.0	15.4	12.5	7.3	6.6	5.7
Discretionary	**10.3**	**10.0**	**9.0**	**1.2%**	**2.4%**	**3.2%**	**8.6**	**7.4**	**4.8**	**2.2**	**1.9**	**1.6**
Automobile	4.2	4.5	4.1	2.3%	5.5%	6.6%	3.3	2.6	1.3	0.8	0.7	0.6
Consumer Durables	16.9	15.7	14.4	1.2%	1.6%	2.2%	20.3	17.1	11.6	5.7	5.0	4.3
Media & Entertainment	14.7	12.5	11.2	2.2%	1.9%	2.4%	12.0	15.3	10.0	1.6	1.8	1.5
Retailing	23.4	15.9	12.4	0.6%	1.3%	2.1%	23.7	30.6	16.2	2.8	2.5	2.0
Hotels, Restaurants & Leisure	24.3	18.0	15.1	0.3%	0.9%	1.7%	22.5	24.4	14.3	3.4	3.3	3.2
Staples	**17.9**	**16.4**	**15.0**	**2.6%**	**2.7%**	**2.9%**	**11.9**	**13.6**	**11.8**	**3.2**	**3.1**	**2.9**
Food & Drug Retailing	11.8	11.0	9.8	3.6%	3.5%	3.9%	6.8	8.0	6.7	1.7	1.6	1.5
Food Beverage & Tobacco	18.2	16.6	15.2	2.7%	2.8%	3.0%	14.0	14.0	11.9	3.0	2.9	2.7
Household Products	19.4	17.8	16.3	2.3%	2.4%	2.4%	10.0	16.2	14.4	4.9	4.9	4.3
Healthcare	**15.5**	**14.2**	**12.7**	**2.5%**	**2.7%**	**2.7%**	**12.4**	**14.2**	**11.9**	**3.8**	**3.4**	**3.2**
Financials	**7.6**	**6.7**	**6.1**	**3.7%**	**5.7%**	**6.1%**	**-**	**-**	**-**	**0.7**	**0.7**	**0.7**
Banks	6.2	5.7	5.1	2.9%	6.7%	7.1%	-	-	-	0.6	0.6	0.6
Diversified Financials	10.7	8.6	7.7	3.0%	3.2%	3.5%	-	-	-	1.0	0.9	0.9
Insurance	9.2	7.8	7.2	5.6%	6.1%	6.4%	-	-	-	0.9	0.9	1.1
Real Estate	**9.6**	**9.5**	**9.2**	**6.5%**	**5.5%**	**6.1%**	**-**	**-**	**-**	**0.5**	**0.5**	**0.5**
IT	**19.1**	**16.0**	**14.3**	**1.0%**	**1.1%**	**1.5%**	**19.3**	**21.8**	**13.1**	**4.9**	**4.3**	**3.4**
Software and Services	21.2	18.0	15.7	1.2%	1.2%	1.5%	20.6	23.1	14.3	4.6	4.0	3.0
Technology Hardware	12.9	11.4	10.7	1.2%	1.3%	2.2%	10.4	12.0	8.7	3.0	2.4	2.0
Semicon & Semicon Equip	20.3	16.5	14.6	0.7%	0.9%	1.3%	24.9	27.0	14.3	6.9	6.9	6.2
Communication Services	**12.6**	**11.5**	**10.4**	**4.8%**	**4.3%**	**4.7%**	**6.2**	**6.5**	**6.5**	**1.3**	**1.3**	**1.3**
Utilities	**13.3**	**11.0**	**10.4**	**4.7%**	**5.2%**	**5.5%**	**9.0**	**9.3**	**9.3**	**1.6**	**1.5**	**1.5**

Source: IBES, MSCI, Datastream. As at COB 12th Oct, 2022.

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Table 30: IBES Consensus P/E and 12-Month Forward Dividend Yields — Country Forecasts

Country	Index	P/E 12mth Fwd	P/E 2022E	P/E 2023E	P/E 2024E	Dividend Yield 12mth Fwd
Austria	ATX	6.1	5.8	6.3	6.2	5.6%
Belgium	BEL 20	13.7	13.9	13.6	12.0	3.1%
Denmark	Denmark KFX	16.0	12.4	17.0	17.3	2.7%
Finland	MSCI Finland	14.0	17.4	13.5	12.7	4.2%
France	CAC 40	9.7	9.4	9.7	9.2	3.9%
Germany	DAX	9.6	10.0	9.6	8.7	4.0%
Greece	MSCI Greece	55.6	75.6	52.9	47.2	1.1%
Ireland	MSCI Ireland	13.0	13.6	12.9	11.6	2.6%
Italy	MSCI Italy	7.0	6.8	7.0	6.7	6.0%
Netherlands	AEX	10.6	10.5	10.5	10.3	2.8%
Norway	MSCI Norway	7.6	6.8	7.8	9.1	5.7%
Portugal	MSCI Portugal	14.1	15.4	13.9	13.1	3.3%
Spain	IBEX 35	9.4	9.6	9.4	8.6	5.0%
Sweden	OMX	12.8	13.6	12.6	11.7	4.1%
Switzerland	SMI	14.4	16.1	14.1	12.9	3.5%
United Kingdom	FTSE 100	8.8	8.7	8.8	8.7	4.5%
EMU	MSCI EMU	10.2	10.5	10.2	9.4	4.0%
Europe ex UK	MSCI Europe ex UK	11.2	11.4	11.1	10.3	3.8%
Europe	**MSCI Europe**	**10.3**	10.5	10.3	9.8	**4.0%**
United States	S&P 500	15.3	16.2	15.2	13.9	1.8%
Japan	Topix	11.6	11.9	11.5	10.7	2.7%
Emerging Market	MSCI EM	10.5	10.8	10.0	9.2	3.6%
Global	MSCI AC World	14.0	14.7	13.1	12.8	2.5%

Source: IBES, MSCI, Datastream. As at COB 12th Oct, 2022; ** Japan refers to the period from March in the year stated to March in the following year – P/E post goodwill.

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Economic, Interest Rate and Exchange Rate Outlook

Table 31: Economic Outlook in Summary

	Real GDP % oya			Real GDP % over previous period, saar						Consumer prices % oya			
	2021	2022E	2023E	4Q21	1Q22	2Q22E	3Q22E	4Q22E	1Q23E	2Q22	4Q22	2Q23	4Q23
United States	5.9	1.8	1.0	7.0	-1.6	-0.6	2.0	1.5	1.0	8.6	7.0	3.7	2.9
Eurozone	5.2	3.2	0.4	2.0	2.7	3.1	0.5	-1.8	-1.0	8.0	10.2	6.4	2.4
United Kingdom	7.5	4.3	0.2	6.6	2.8	0.9	-0.5	-1.0	0.7	9.2	10.3	6.3	3.4
Japan	1.7	1.8	2.0	3.9	0.2	3.5	2.0	3.5	2.0	2.4	3.0	2.4	1.9
Emerging markets	7.2	3.3	3.2	7.9	5.9	-3.4	5.4	3.1	3.6	3.4	3.7	2.8	2.8
Global	6.0	2.8	1.9	6.4	2.6	-0.5	3.0	1.6	1.8	7.4	7.4	4.4	3.1

Source: J.P. Morgan economic research J.P. Morgan estimates, as of COB 07th Oct, 2022

Table 32: Official Rates Outlook

%	Official interest rate	Current	Last change (bp)	Forecast next change (bp)	Forecast for Dec 22	Mar 23	Jun 23	Sep 23
United States	Federal funds rate	3.25	21 Sep 22 (+75bp)	Nov 22 (+75bp)	4.50	4.75	4.75	4.75
Eurozone	Depo rate	0.75	8 Sep 22 (+75bp)	Oct 22 (+75bp)	2.00	2.00	2.00	2.00
United Kingdom	Repo rate	2.25	22 Sep 22 (+50bp)	Nov 22 (+75bp)	3.50	4.25	4.25	4.25
Japan	Overnight call rate	-0.10	Jan 16 (-20bp)	On hold	-0.10	-0.10	-0.10	-0.10

Source: J.P. Morgan estimates, Datastream, as of COB 07th Oct, 2022.

Table 33: 10-Year Government Bond Yield Forecasts

10Yr Govt BY	12-Oct-22	Forecast for end of Dec 22	Mar 23	Jun 23	Sep 23
US	3.92	3.75	3.65	3.60	3.55
Euro Area	2.32	1.50	1.35	1.25	1.15
United Kingdom	4.43	3.00	3.00	2.80	2.65
Japan	0.25	0.25	0.25	0.25	0.25

Source: J.P. Morgan estimates, Datastream, forecasts as of COB 30th Sep, 2022.

Table 34: Exchange Rate Forecasts vs. US Dollar

Exchange rates vs US$	12-Oct-22	Forecast for end of Dec 22	Mar 23	Jun 23	Sep 23
EUR	0.97	0.95	0.98	1.02	1.03
GBP	1.11	1.05	1.08	1.10	1.11
CHF	1.00	0.99	0.94	0.88	0.85
JPY	147	147	145	142	140
DXY	113.3	115.0	112.1	108.5	107.2

Source: J.P. Morgan estimates, Datastream, forecasts as of COB 30th Sep, 2022.

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Sector, Regional and Asset Class Allocations

Table 35: J.P. Morgan Equity Strategy — European Sector Allocation

		MSCI Europe Weights	J.P. Morgan Allocation	Deviation From MSCI	J.P. Morgan 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**
		100.0%	**100.0%**	**0.0%**	**Balanced**

Source: MSCI, Datastream, J.P. Morgan.

Table 36: J.P. Morgan Equity Strategy — Global Regional Allocation

	MSCI Weights	Allocation	Deviation	Recommendation
EM	11.3%	14.0%	2.7%	Overweight
DM	88.7%	86.0%	-2.7%	Underweight
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
Other*	11.3%	7.0%	-4.3%	Underweight
	100.0%	**100.0%**	**0.0%**	**Balanced**

Source: MSCI, J.P. Morgan *Other includes Denmark, Switzerland, Australia, Canada, Hong Kong SAR, Sweden, Singapore, New Zealand, Israel and Norway

Table 37: J.P. Morgan Equity Strategy — European Regional Allocation

	MSCI Europe Weights	Allocation	Deviation	Recommendation
Eurozone	51.1%	55.0%	3.9%	Overweight
United Kingdom	22.1%	26.0%	3.9%	Overweight
Other**	26.8%	19.0%	-7.8%	Underweight
	100.0%	**100.0%**	**0.0%**	**Balanced**

Source: MSCI, J.P. Morgan **Other includes Denmark, Switzerland, Sweden and Norway

Table 38: J.P. Morgan Equity Strategy — Asset Class 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

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