



MARKET INSIGHTS

After the Storm: Investing in 2021 and Beyond

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J.P. Morgan Asset Management
March 2021

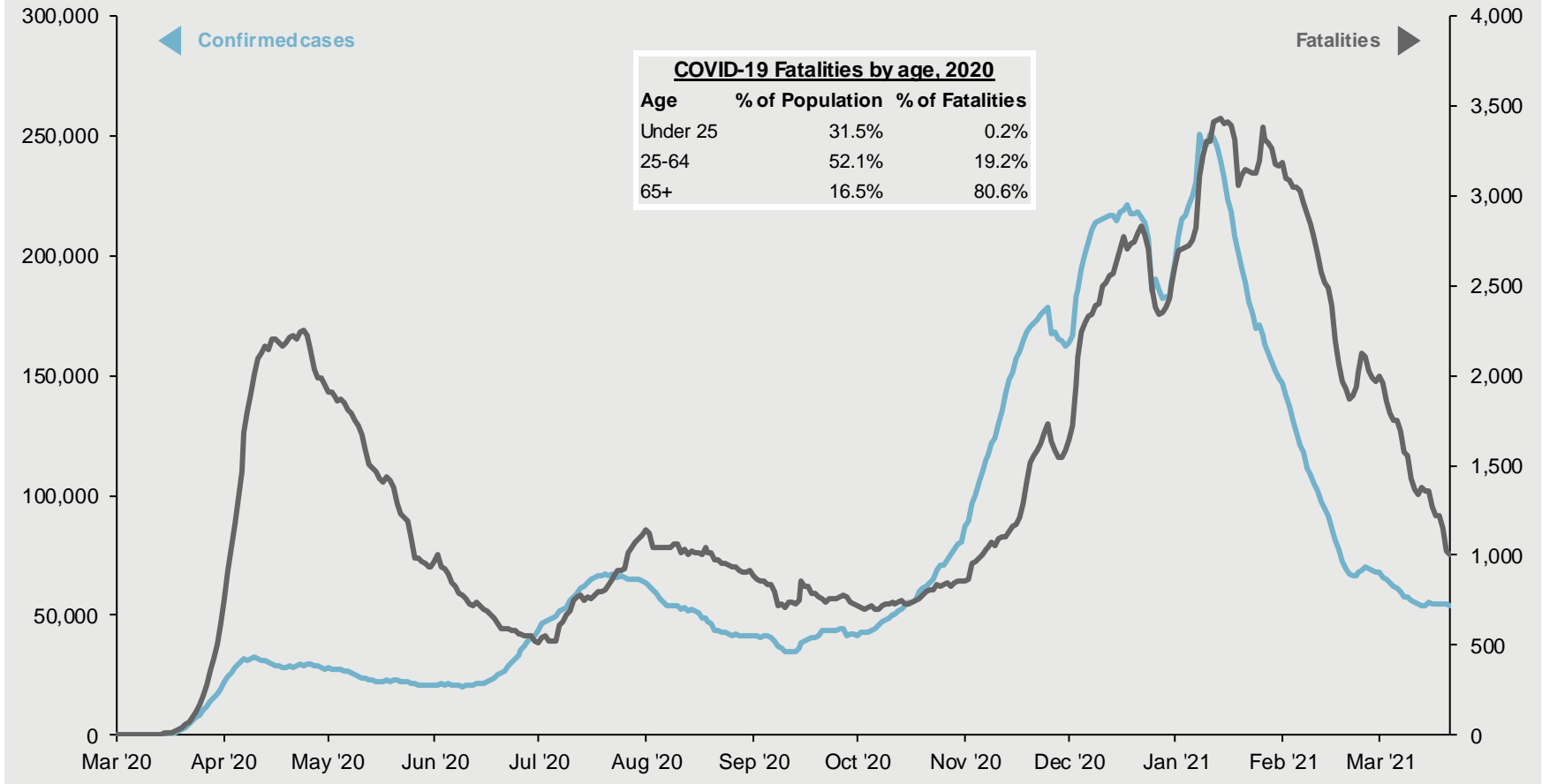


After the Storm: Investing in 2021 and Beyond

- **After a terrible toll, vaccines will end the pandemic in 2021.**
- GDP growth will surge in late 2021 and early 2022 before slowing as the economy approaches full employment.
- Fiscal and monetary policy will remain very easy in 2021 although higher interest rates and taxes are likely by the middle of the decade.
- Lofty valuations and the threat of inflation are the most obvious risks...but the greatest risks are usually unanticipated.
- Diversification should continue to manage risks and capture opportunities.

Change in confirmed cases and fatalities in the U.S.

7-day moving average, as of March 21, 2021



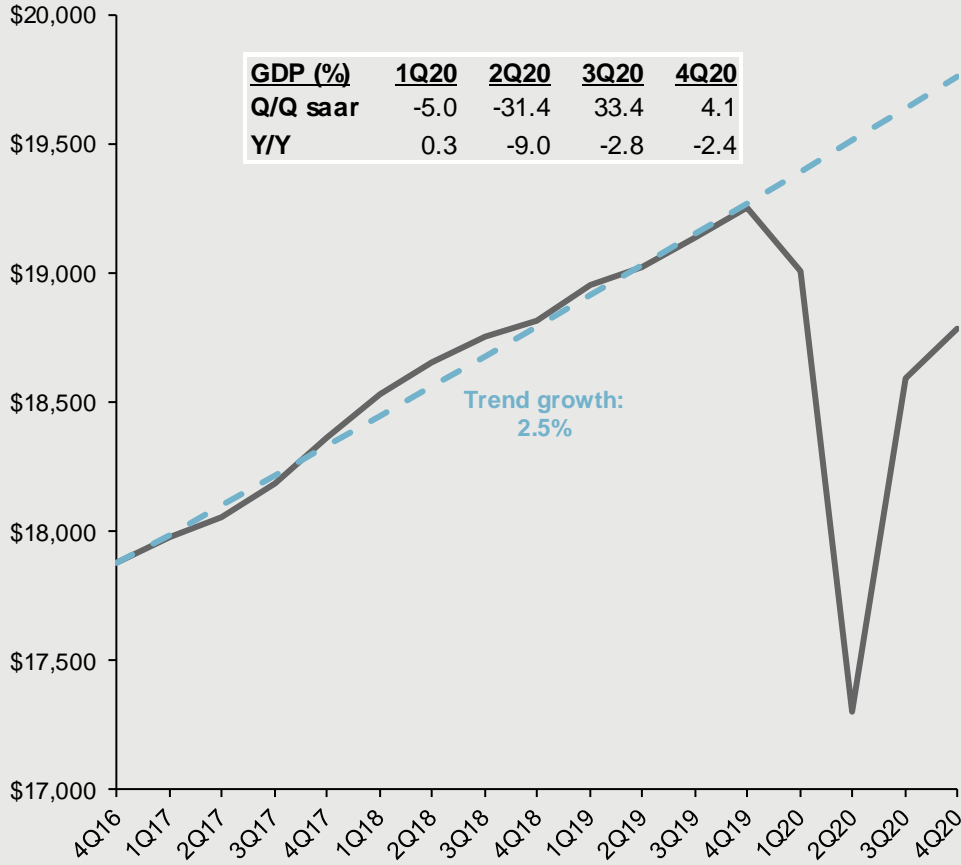
Source: Centers for Disease Control and Prevention, Johns Hopkins CSSE, J.P. Morgan Asset Management.
 Guide to the Markets – U.S. Data are as of March 22, 2021.

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Real GDP

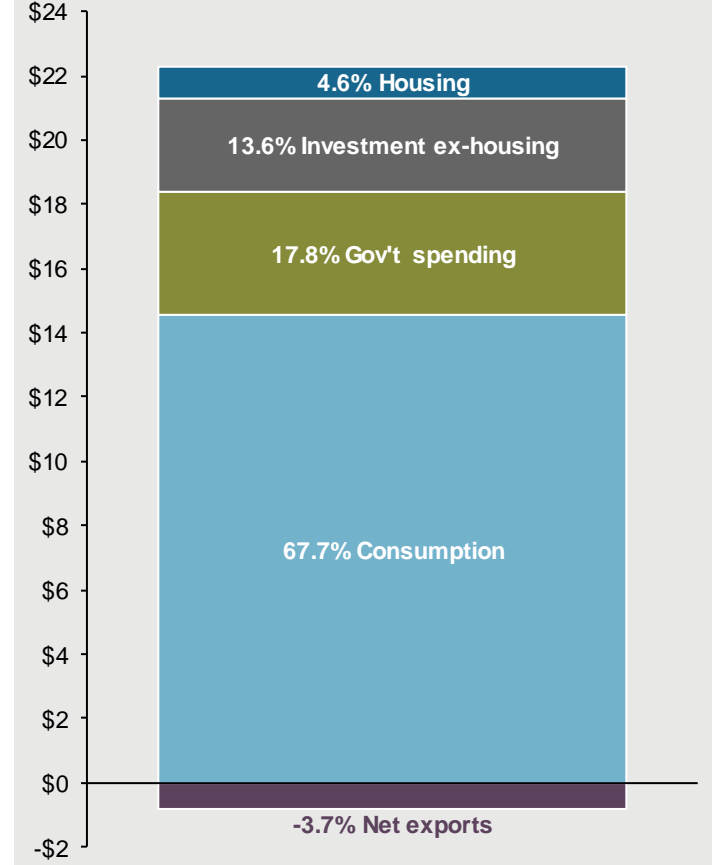
Billions of chained (2012) dollars, seasonally adjusted at annual rates



Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding. Guide to the Markets – U.S. Data are as of March 22, 2021.

Components of GDP

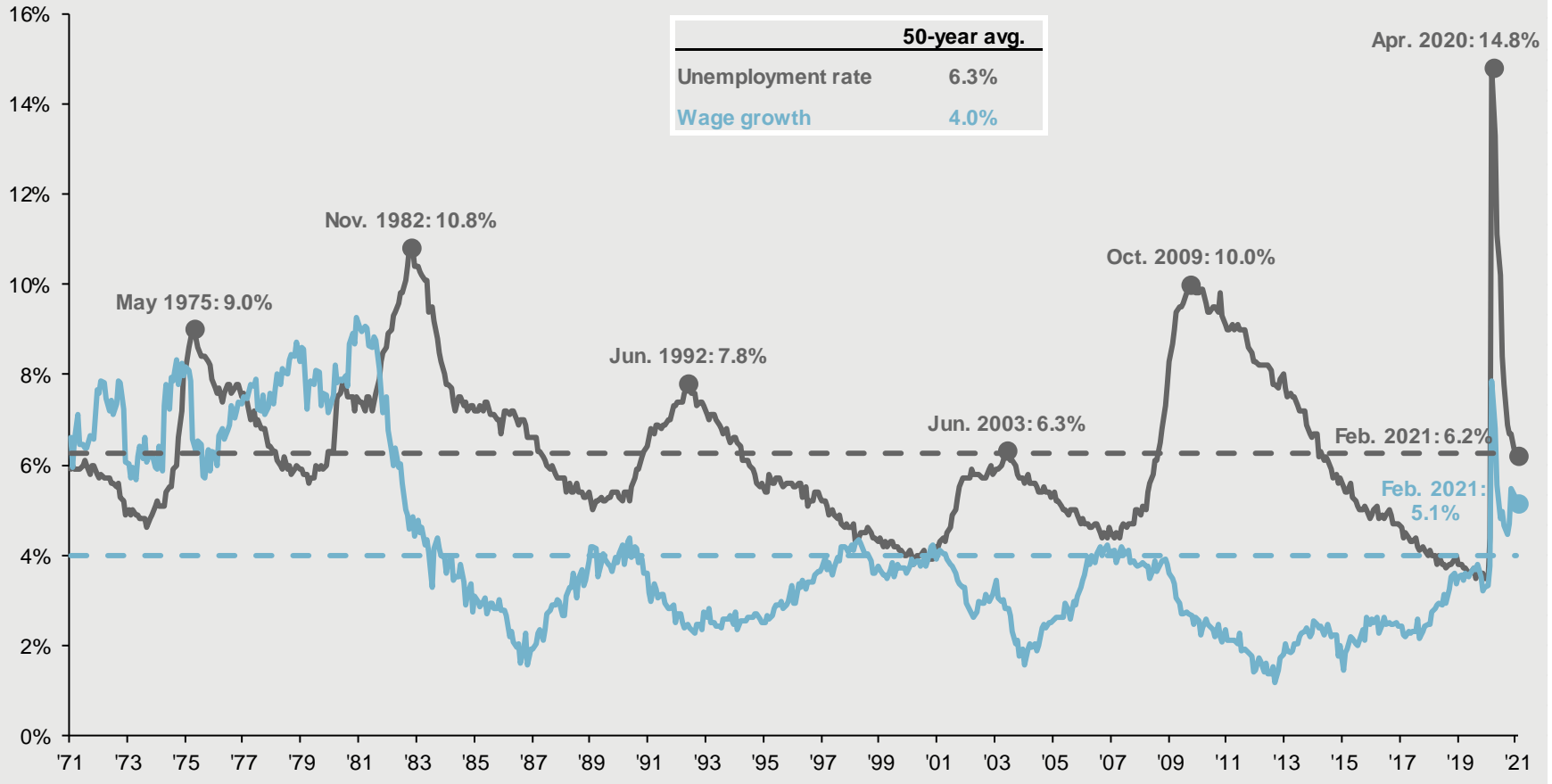
4Q20 nominal GDP, USD trillions



The U.S. should recover its pandemic job losses by late 2022 and the unemployment rate could hit 4% by late 2022.

Civilian unemployment rate and year-over-year wage growth for private production and non-supervisory workers

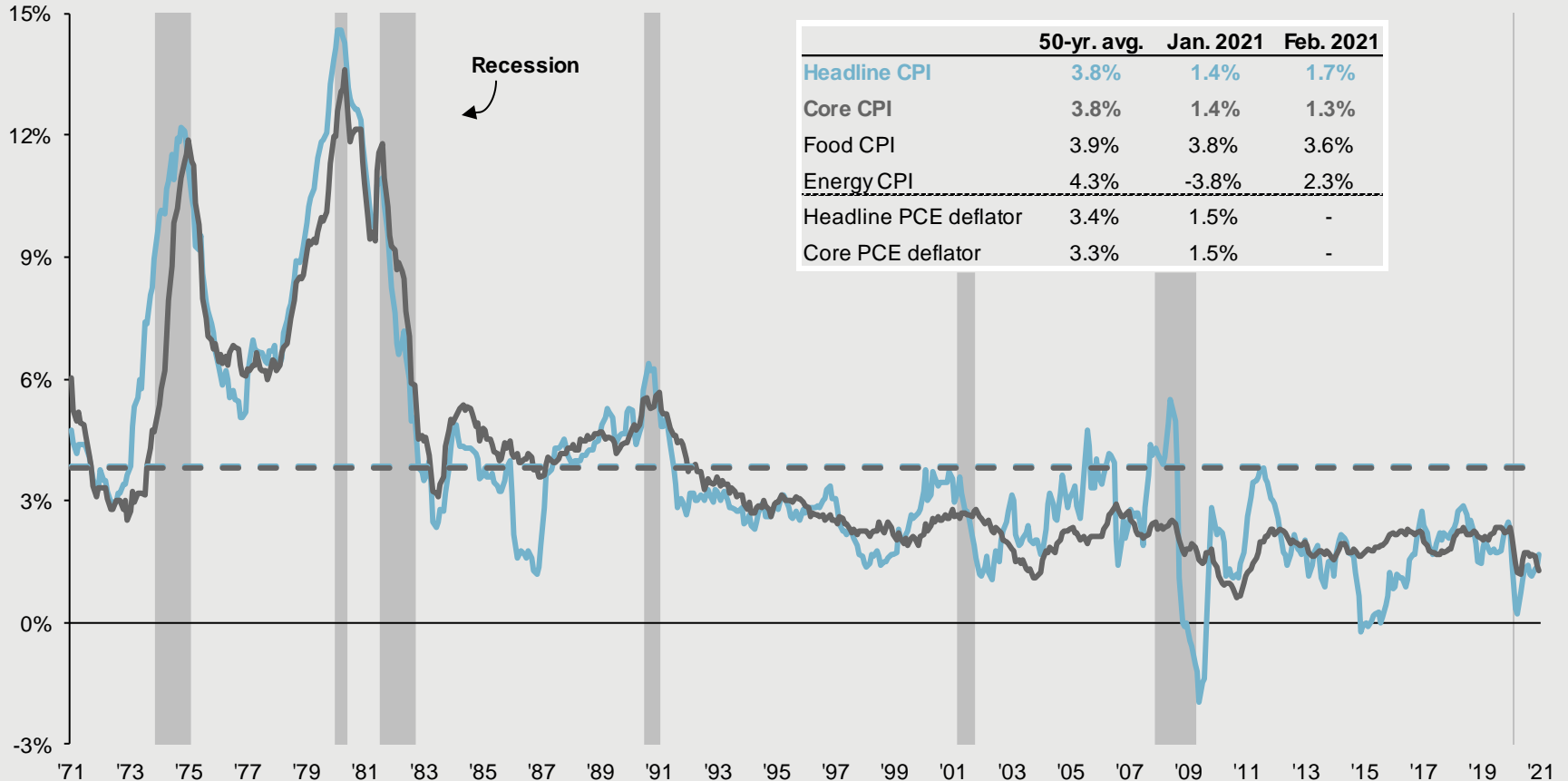
Seasonally adjusted, percent



Source: BLS, FactSet, J.P. Morgan Asset Management.
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CPI and core CPI

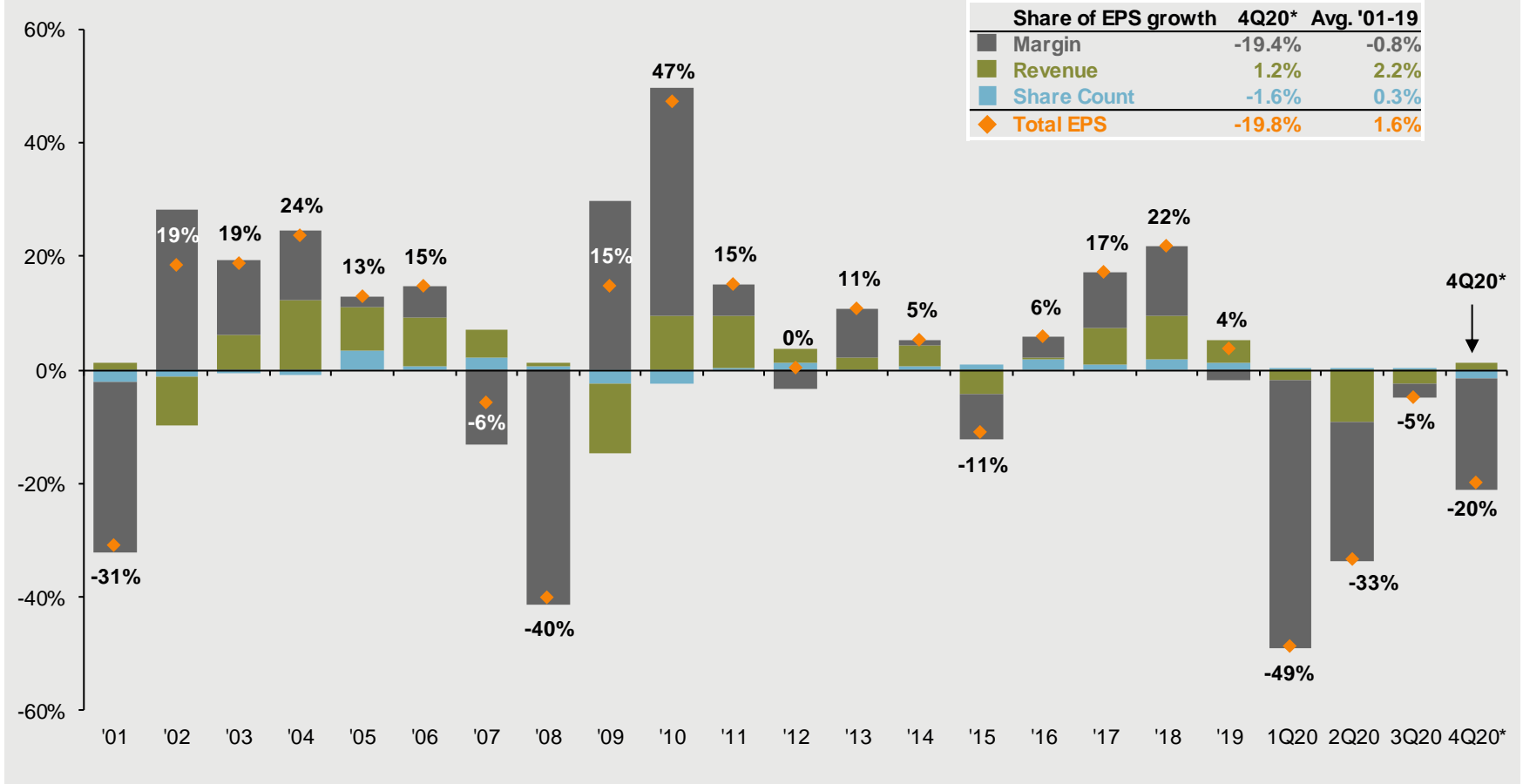
% change vs. prior year, seasonally adjusted



Source: BLS, FactSet, J.P. Morgan Asset Management. CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations. Guide to the Markets – U.S. Data are as of March 22, 2021.

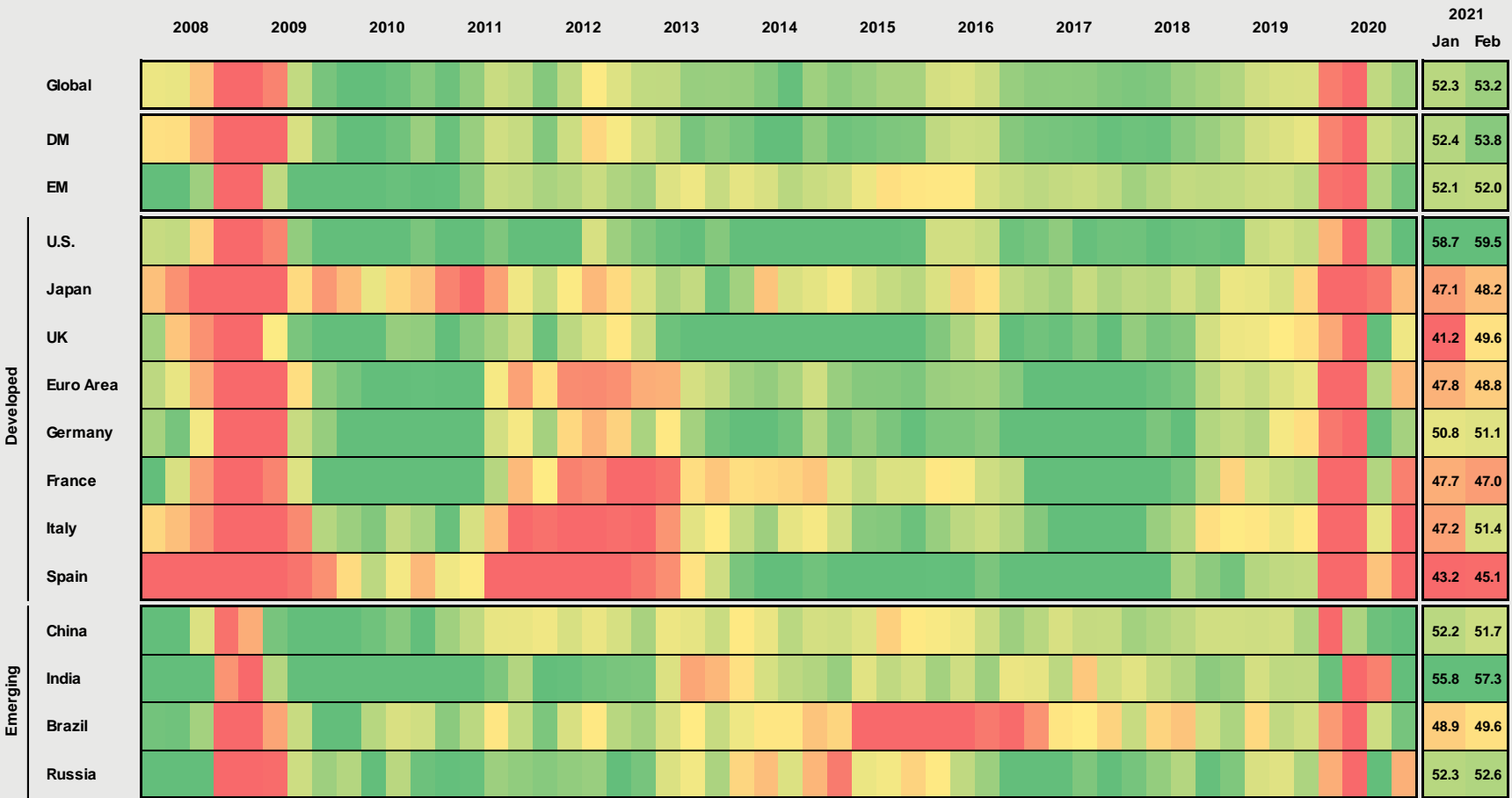
S&P 500 year-over-year operating EPS growth

Annual growth broken into revenue, changes in profit margin & changes in share count



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management. EPS levels are based on annual operating earnings per share. Percentages may not sum due to rounding. Past performance is not indicative of future returns. *4Q20 earnings are calculated using actual earnings for 98.1% of S&P 500 market cap and earnings estimates for the remaining companies. Guide to the Markets – U.S. Data are as of March 22, 2021.

Global Composite Purchasing Managers' Index, quarterly



International

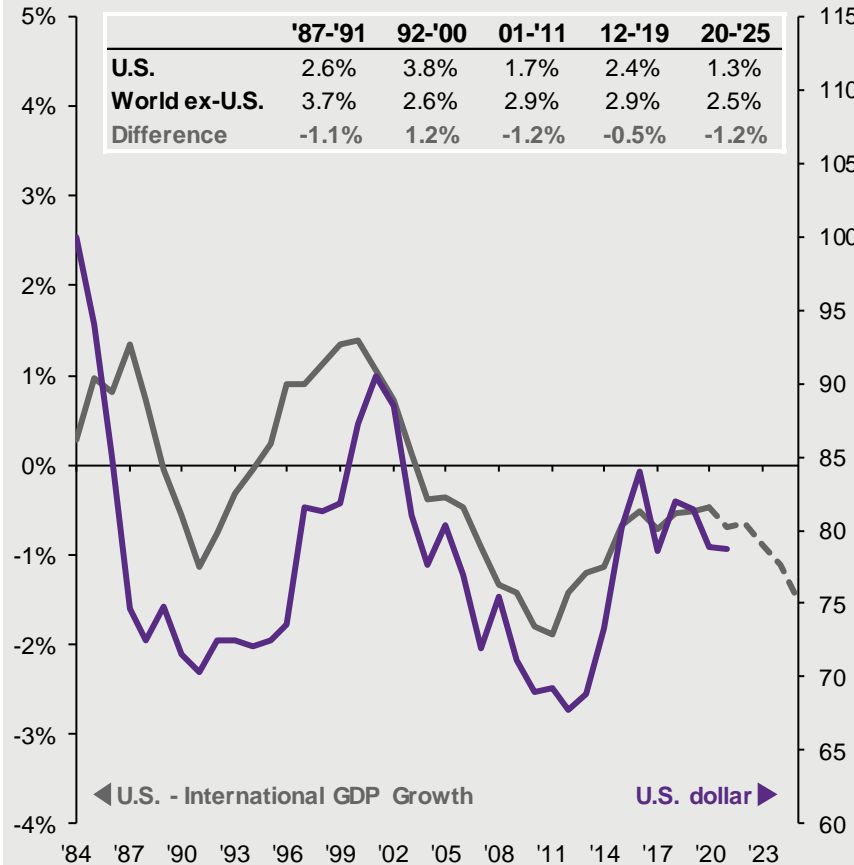
Source: Markit, J.P. Morgan Asset Management.

The Composite PMI includes both manufacturing and services subindices. Heatmap colors are based on PMI relative to the 50 level, which indicates acceleration or deceleration of the sector, for the time period shown. Heat map is based on quarterly averages, with the exception of the two most recent figures, which are single month readings. Data for the U.S. are back-tested and filled in from December 2007 to September 2009 due to lack of existing PMI figures. DM and EM represent developed markets and emerging markets, respectively.

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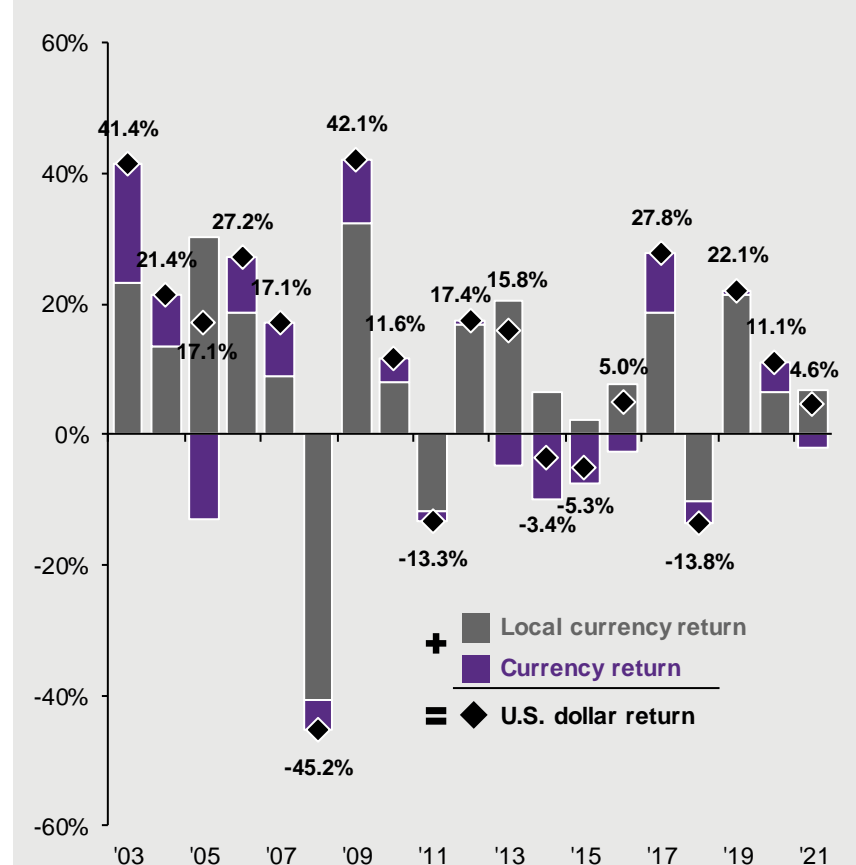
U.S. dollar and international GDP growth

Real GDP growth: U.S.-intl. (5-year moving avg.); U.S. dollar: 100 = 1984



Currency impact on international returns

MSCI All Country World ex-U.S. Index, total return



Source: J.P. Morgan Asset Management; (Left) IMF, J.P. Morgan Global Economic Research; (Right) MSCI. Global GDP growth is based on GDP at market exchange rates as weights. U.S. dollar is the J.P. Morgan Global Economic Research real broad effective exchange rate (CPI), calculated as year-end moves versus the prior year-end. Past performance is not a reliable indicator of current and future results.

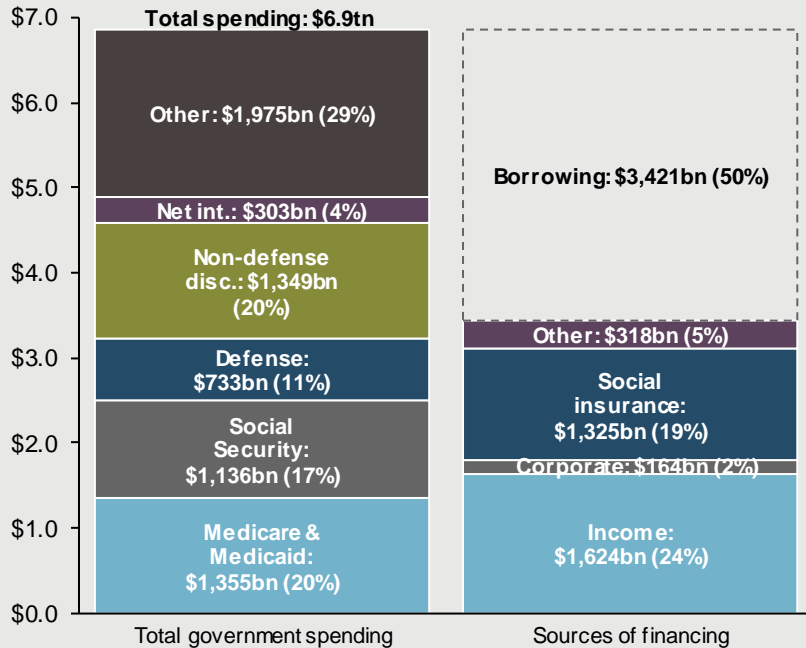
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The 2021 federal budget

Adj. CBO Baseline forecast, USD trillions

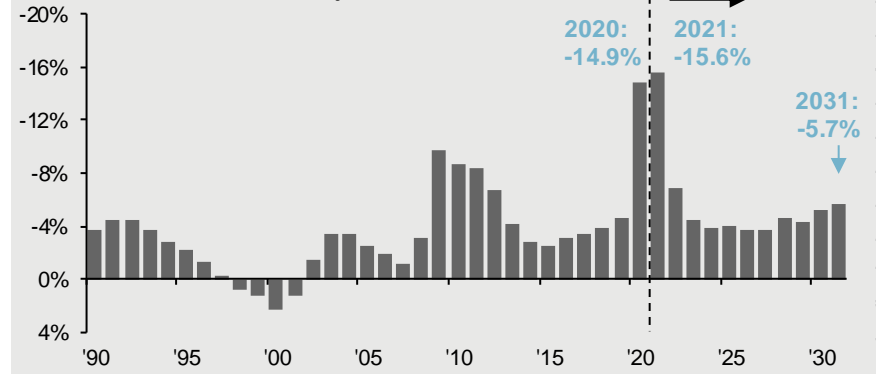


CBO's Baseline economic assumptions

	2021	'22-'23	'24-'25	'26-'31
Real GDP growth	3.1%	2.7%	2.3%	1.7%
10-year Treasury	1.0%	1.4%	1.9%	3.0%
Headline inflation (CPI)	1.7%	2.1%	2.3%	2.4%
Unemployment	6.1%	4.9%	4.3%	4.1%

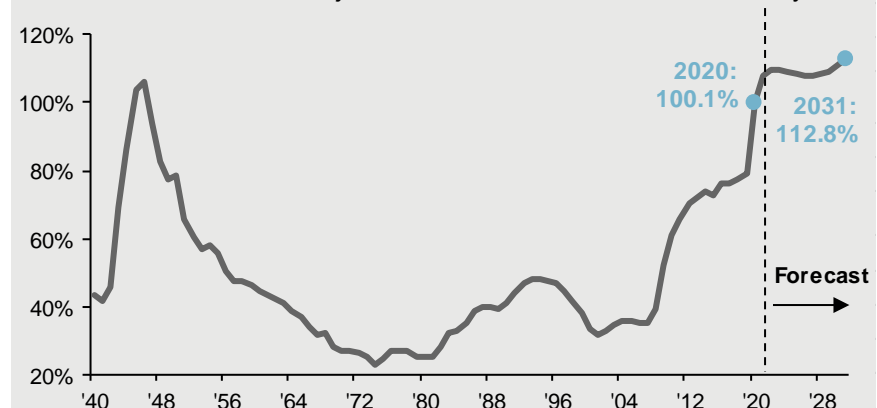
Federal budget surplus/deficit

% of GDP, 1990 – 2030, Adj. CBO Baseline Forecast



Federal net debt (accumulated deficits)

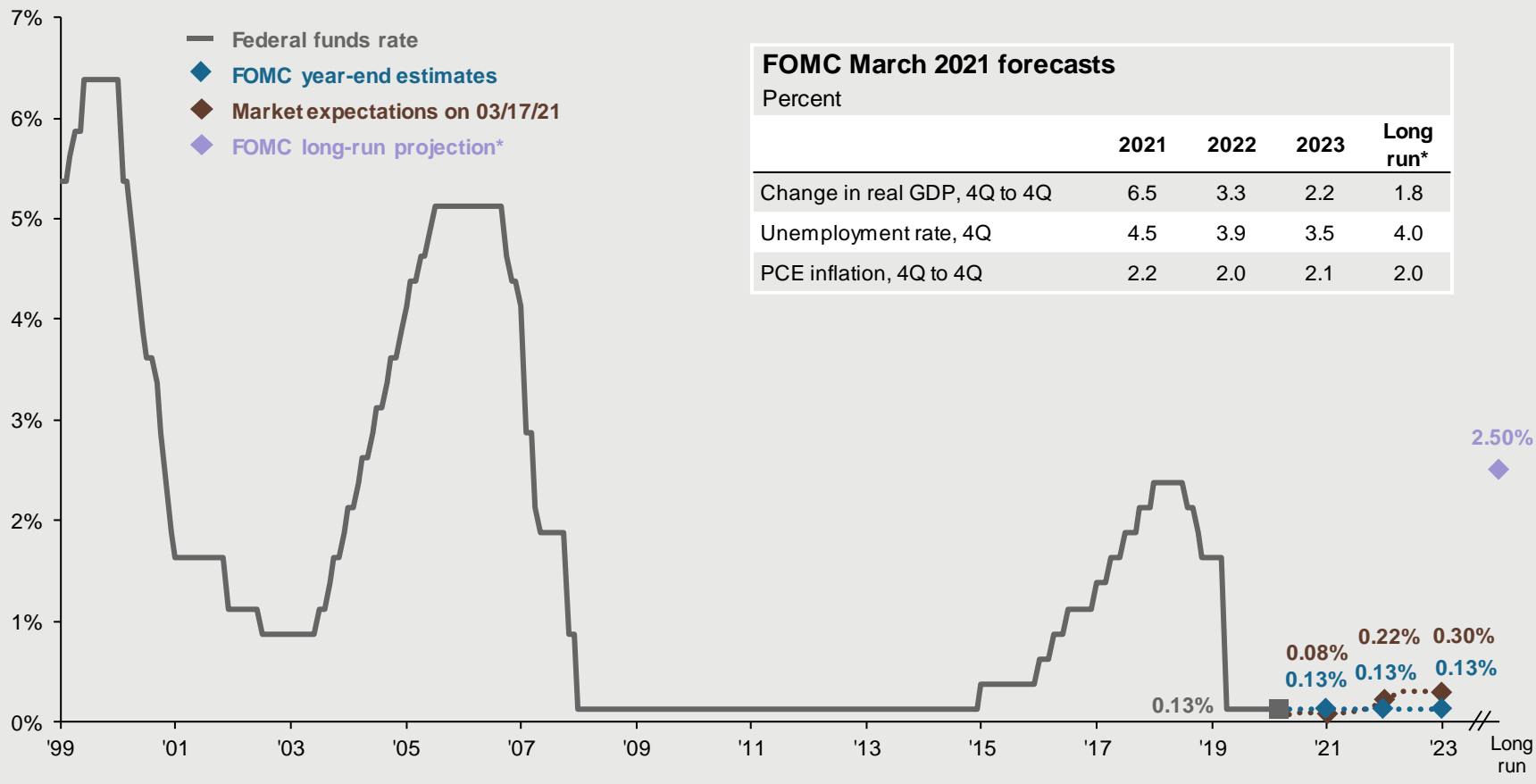
% of GDP, 1940 – 2030, Adj. CBO Baseline Forecast, end of fiscal year



Source: CBO, J.P. Morgan Asset Management; (Top and bottom right) BEA, Treasury Department. Estimates are based on the Congressional Budget Office (CBO) February 2021 Baseline Budget Forecast adjusted to account for the impact of the American Rescue Plan Act of 2021. CBO Baseline economic assumptions are based on the Congressional Budget Office (CBO) February 2021 Update to Economic Outlook. Other spending includes, but is not limited to, health insurance subsidies, income security and federal civilian and military retirement. Note: Years shown are fiscal years (Oct. 1 through Sep. 30). *Guide to the Markets – U.S.* Data are as of March 22, 2021.

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



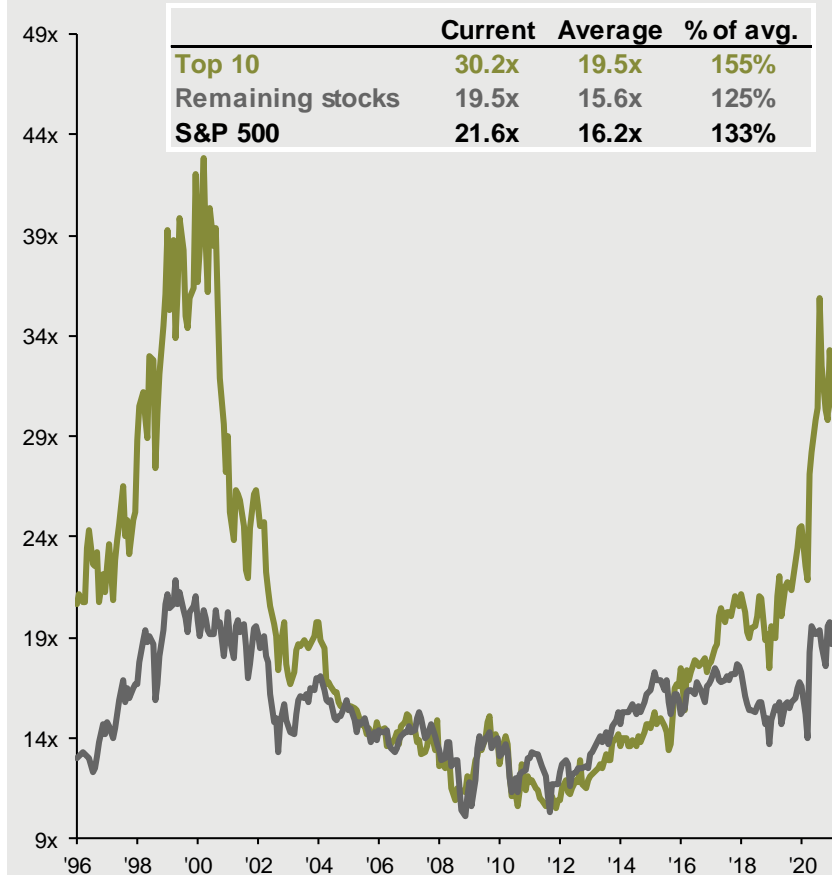
Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management. Market expectations are the federal funds rates priced into the fed futures market as of the following date of the March 2021 FOMC meeting and are through December 2023. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. *Guide to the Markets – U.S.* Data are as of March 22, 2021.

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P/E ratio of the top 10 and remaining stocks in the S&P 500

Next 12 months



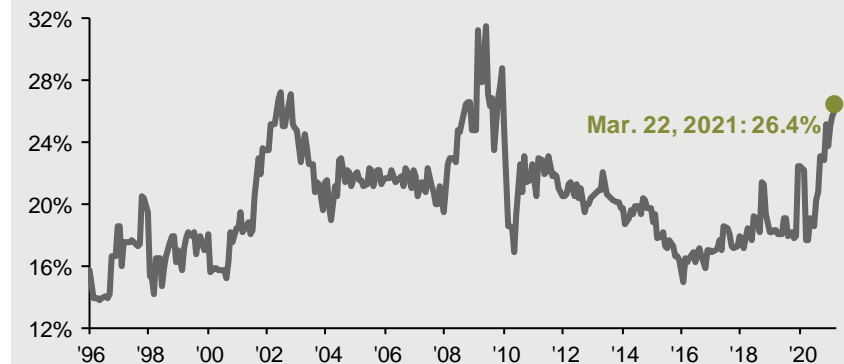
Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500



Earnings contribution of the top 10 in the S&P 500

Based on last 12 months' earnings



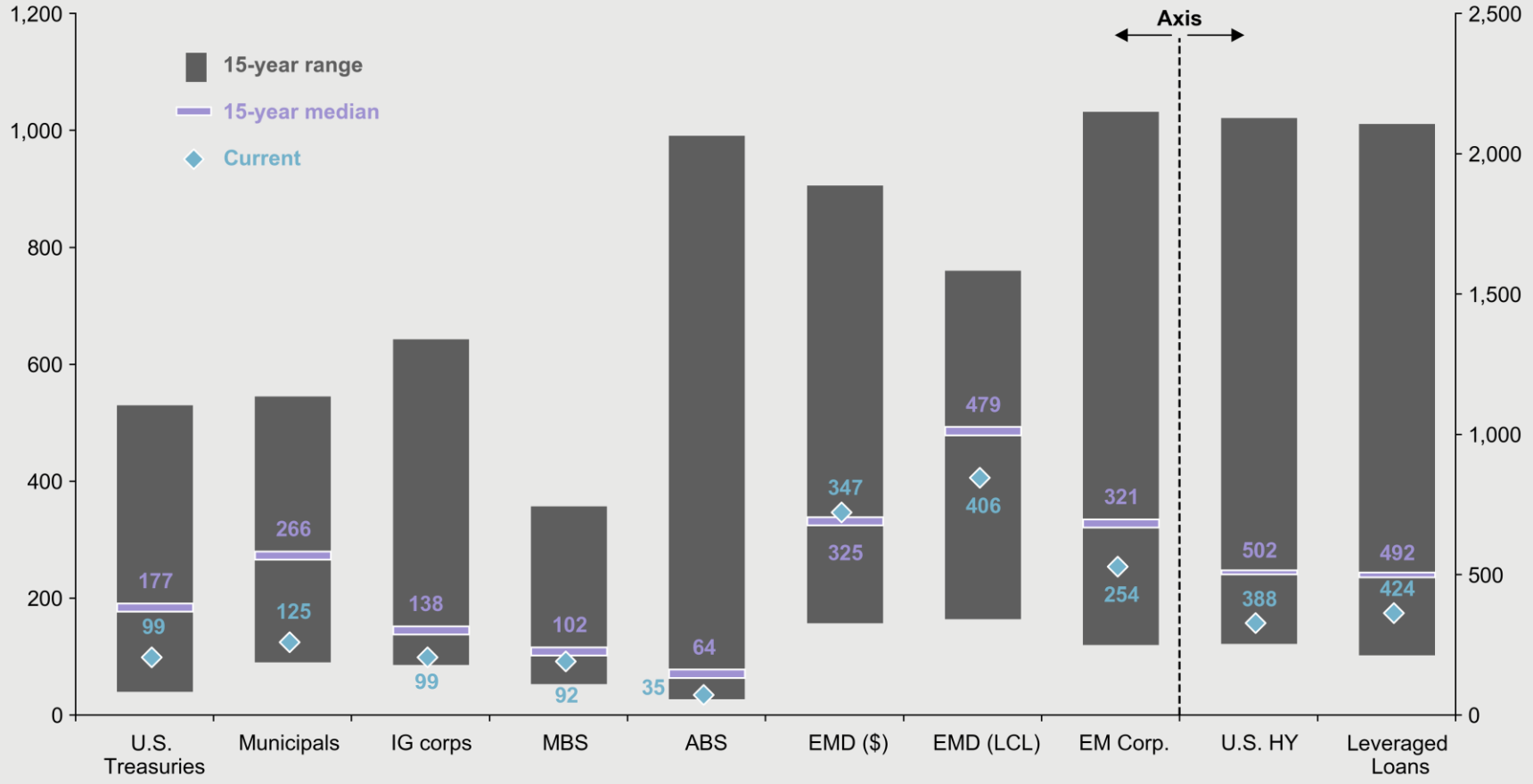
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

The top 10 S&P 500 companies are based on the 10 largest index constituents at the beginning of each month. The weight of each of these companies is revised monthly. As of March 22, 2021, the top ten companies in the index were AAPL (5.8%), MSFT (5.4%), AMZN (4.0%), FB (1.9%), GOOGL (1.9%), GOOG (1.8%), TSLA (1.6%), BRK.B (1.5%), JPM (1.4%), JNJ (1.3%) and V (1.1%). The remaining stocks represent the rest of the 494 companies in the S&P 500.

Guide to the Markets – U.S. Data are as of March 22, 2021.

Spread-to-worst across fixed income sectors

Basis points, past 15 years



Source: Barclays, Bloomberg, FactSet, J.P. Morgan Credit Research, J.P. Morgan Asset Management. Indices used are Barclays except for emerging market debt and leveraged loans: EMD (\$): J.P. Morgan EMIGLOBAL Diversified Index; EMD (LCL): J.P. Morgan GBI-EM Global Diversified Index; EM Corp.: J.P. Morgan CEMBI Broad Diversified; Leveraged loans: JPM Leveraged Loan Index. Spread-to-worst indicated is the difference between the yield-to-worst of a bond and yield-to-worst of a U.S. Treasury security with a similar duration. All sectors shown are spread-to-worst except for Treasuries and Municipals, which are based on yield-to-worst, and Leveraged loans, which are based on spread to 3Y takeout. EM (LCL) spread-to-worst is calculated using the index yield less the YTM on the 5-year US Treasury bellwether index. Guide to the Markets – U.S. Data are as of March 22, 2021.

Longer term, the rise in financial assets relative to GDP looks troubling.

GTM – U.S. |

Economy

U.S. financial assets to GDP



Sources: Federal Reserve, Bureau of Economic Analysis. 4Q20 estimates from J.P. Morgan Asset Management. U.S. financial assets includes U.S. financial assets held by rest of world and excludes rest of world assets held by U.S. entities.
Guide to the Markets – U.S. Data are as of December 31, 2020.

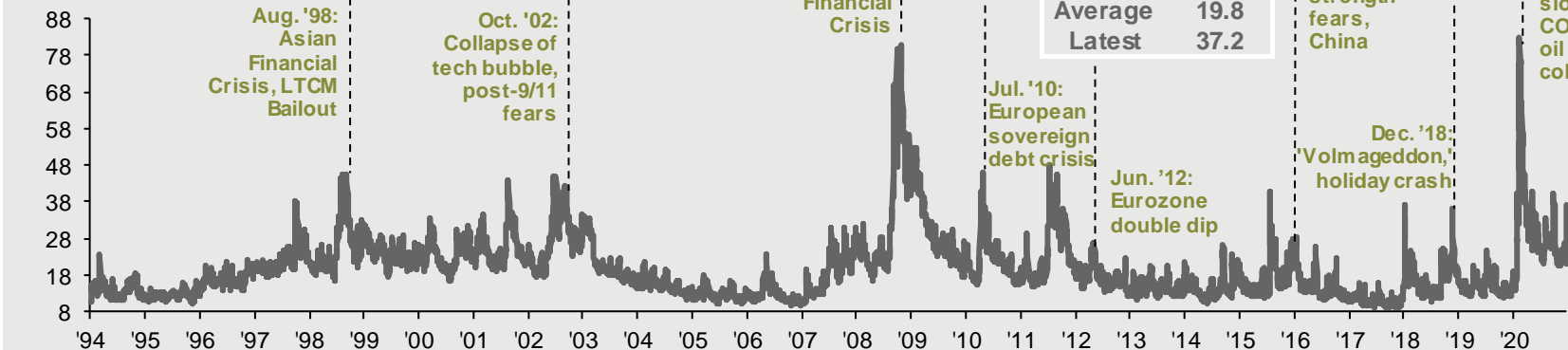
Major market pullbacks

S&P 500 Price index



Volatility

VIX Index



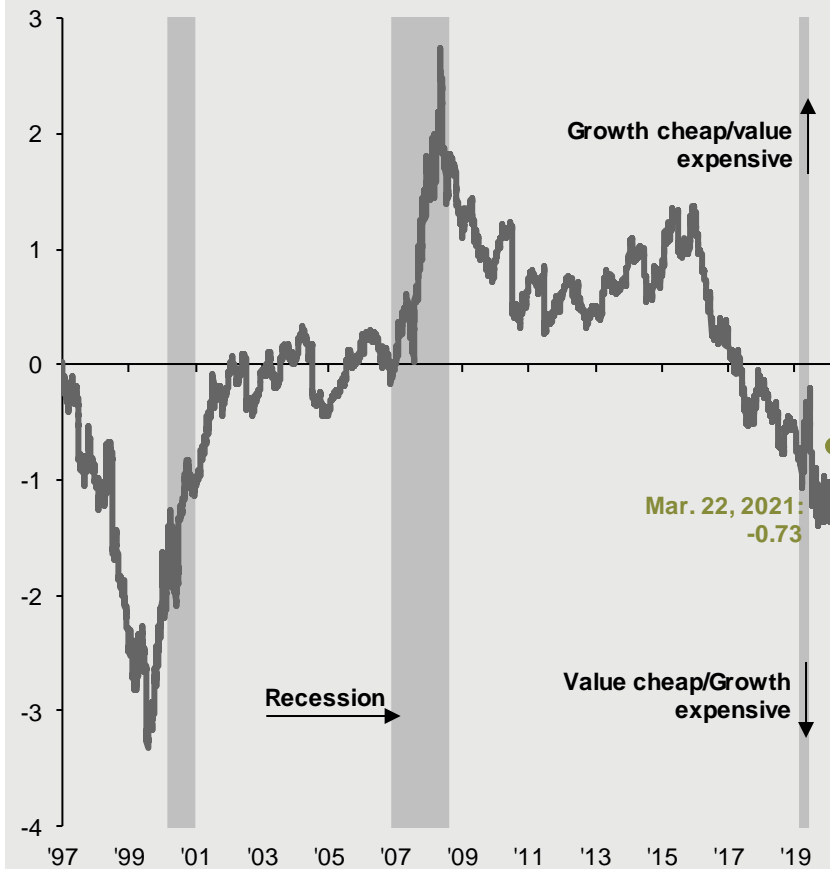
Source: CBOE, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
 Drawdowns are calculated as the prior peak to the lowest point.
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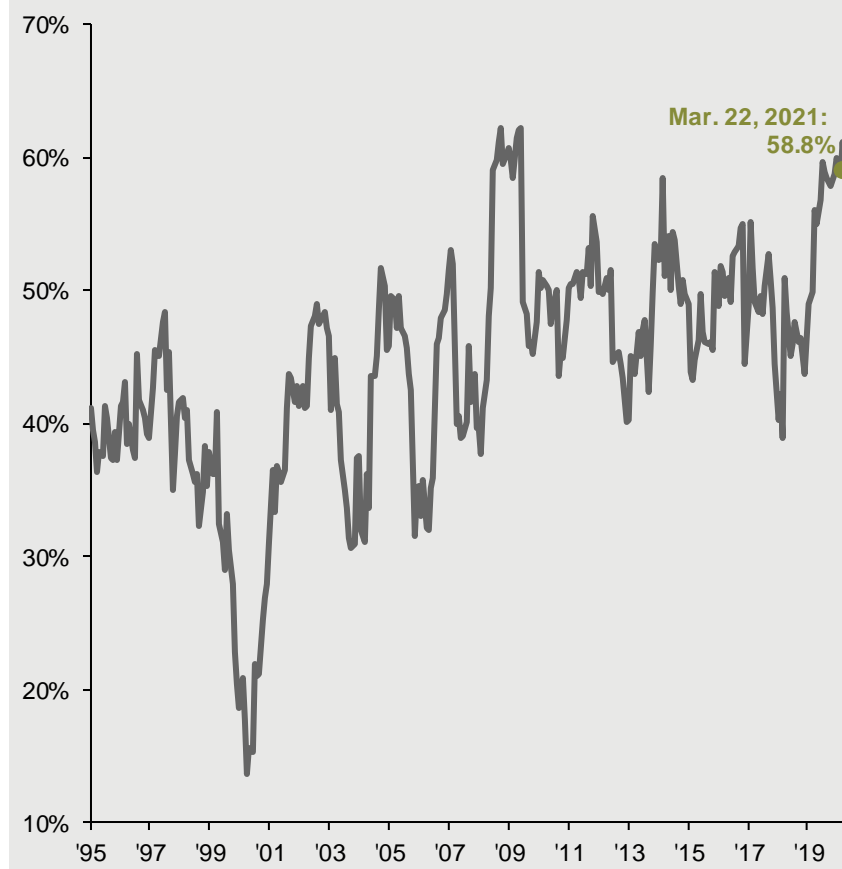
Value vs. Growth relative valuations

Relative fwd. P/E ratio of Value vs. Growth, z-score, Dec. 1997 - present



Share of Value index with beta greater than 1

Beta is based on weekly returns over a 52-week rolling period



Source: FactSet, FTSE Russell, NBER, J.P. Morgan Asset Management.
 Growth is represented by the Russell 1000 Growth Index and Value is represented by the Russell 1000 Value Index. Beta is calculated relative to the Russell 1000 Index.
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10-year annualized

	Value	Blend	Growth
Large	11.2%	14.1%	16.9%
Mid	11.4%	12.9%	14.6%
Small	10.6%	12.4%	13.9%

YTD

	Value	Blend	Growth
Large	10.4%	5.3%	0.5%
Mid	13.1%	8.4%	0.1%
Small	22.7%	15.0%	7.9%

Since market peak (February 2020)

	Value	Blend	Growth
Large	12.1%	18.6%	27.4%
Mid	16.7%	22.3%	26.9%
Small	31.1%	35.8%	38.2%

Since market low (March 2020)

	Value	Blend	Growth
Large	81.3%	79.2%	85.8%
Mid	106.4%	104.8%	97.3%
Small	130.6%	128.9%	124.5%

Current P/E vs. 20-year avg. P/E

	Value	Blend	Growth
Large	18.2 / 13.7	21.6 / 15.4	28.7 / 18.5
Mid	19.1 / 14.4	22.6 / 16.3	36.1 / 20.3
Small	19.5 / 16.8	31.0 / 21.1	82.3 / 30.8

Current P/E as % of 20-year avg. P/E

	Value	Blend	Growth
Large	133.0%	140.2%	155.2%
Mid	132.5%	138.6%	178.1%
Small	116.1%	147.2%	267.0%

Source: FactSet, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management. All calculations are cumulative total return, including dividends reinvested for the stated period. Since Market Peak represents period from February 19, 2020 to March 22, 2021. Since Market Low represents period from March 23, 2020 to March 22, 2021. Returns are cumulative returns, not annualized. For all time periods, total return is based on Russell style indices with the exception of the large blend category, which is based on the S&P 500 Index. Past performance is not indicative of future returns. The price-to-earnings is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. *Guide to the Markets – U.S.* Data are as of March 22, 2021.

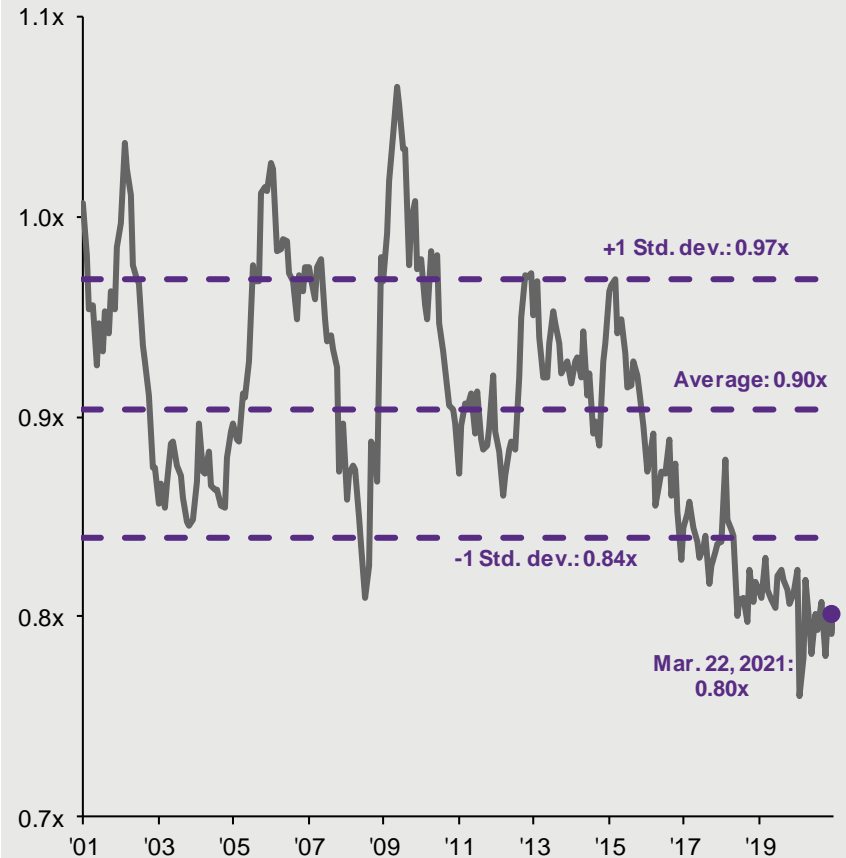
Emerging markets: Relative price-to-book ratio

MSCI Emerging Markets vs. S&P 500, last 12 months



Developed markets: Relative price-to-earnings ratio

MSCI EAFE vs. S&P 500, next 12 months

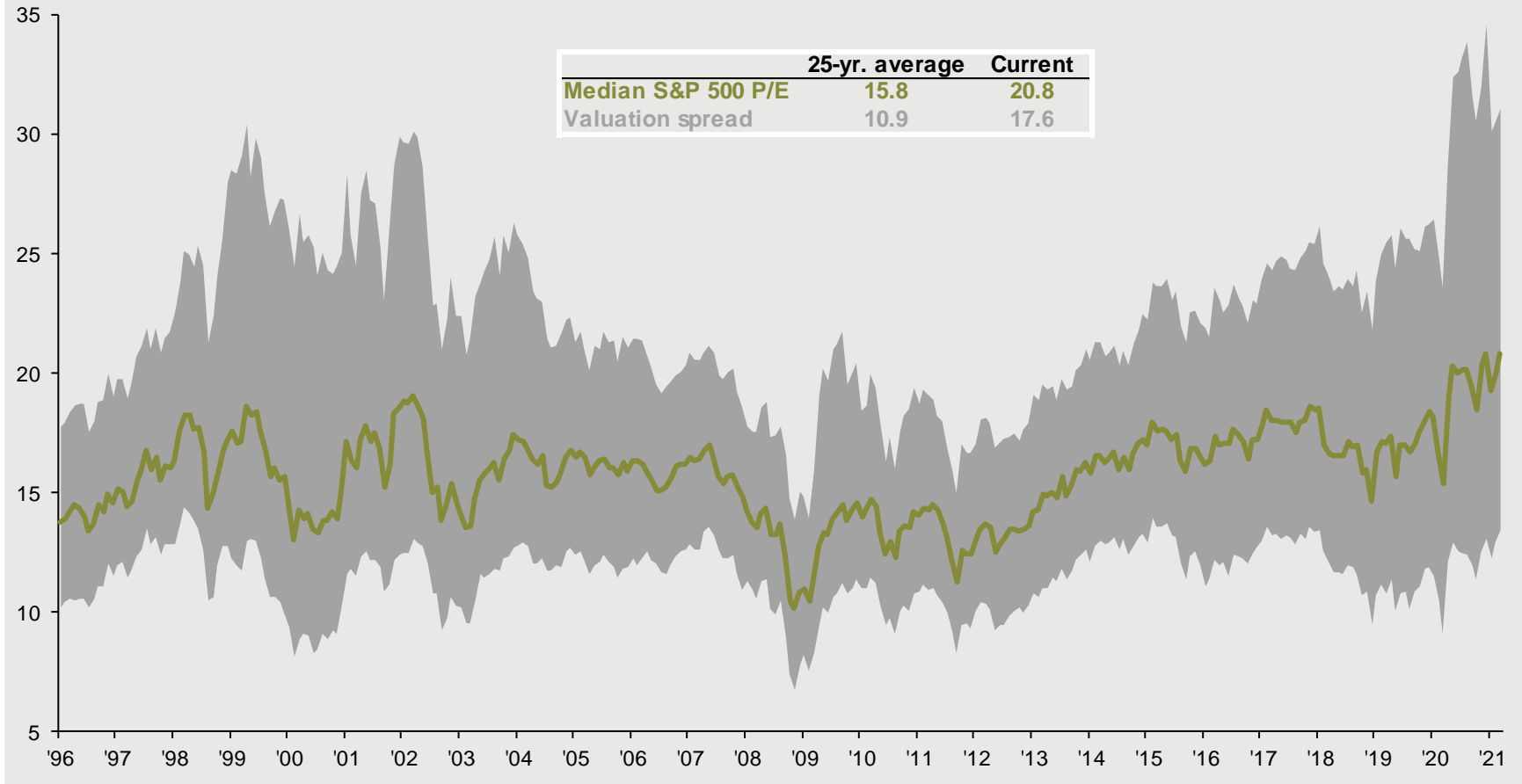


Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. *Guide to the Markets – U.S.* Data are as of March 22, 2021.

...and wide dispersion in valuations points to an opportunity for active management.

S&P 500 valuation dispersion

Valuation dispersion between the 20th and 80th percentile of S&P 500 stocks



Sources: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
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