

Global Asset Allocation Views

Insights and implications from the Multi-Asset Solutions Strategy Summit

Authors

John Bilton

Head of Global Multi-Asset Strategy,
Multi-Asset Solutions

Jeff Geller

Co-CIO, Americas,
Multi-Asset Solutions

Gary Herbert

Co-CIO, Americas,
Multi-Asset Solutions

Jamie Kramer

CIO and Global Head of Asset
Management Solutions

David Lebovitz

Global Strategist,
Multi-Asset Solutions

Yaz Romahi

Chief Investment Officer,
Quantitative Solutions

Katy Thorneycroft

Head of Multi-Asset Solutions
International CIO

In brief

- Our portfolios reflect a pro-growth outlook and a strong preference for U.S. assets.
- We expect pro-growth economic policy to extend the business cycle in 2025 and believe that the impact of tariffs will be manageable and will not deter the Federal Reserve (Fed) from further rate cuts.
- U.S. economic exceptionalism is set to continue, but we see growth and earnings broadening out across the economy, with risks mitigated by resilient private sector balance sheets.
- We continue to overweight equities and credit and are broadly neutral on global duration.
- European equities remain our preferred underweight, but even a marginal shift in sentiment could boost Europe's asset markets.
- Credit spreads are tight but given healthy distress ratios should not cause undue concern; moreover, all-in yields remain attractive.
- Asset markets could be volatile at times as the scale and sequence of policy unfolds in 2025, but we expect investors to buy on any dips.

Well, wasn't that quite the year? In 2024 the S&P 500 added USD 11.4 trillion in market capitalization, the equivalent of the entire market cap of the eurozone, Switzerland and Australia combined. While valuation expansion explains half of this year's gains, the other half was driven by strong earnings growth – a trend we expect to continue, and to broaden out across the economy in 2025.

Our optimistic take on the economy and markets – building upon two back-to-back years of solid growth, falling inflation, and rising equity markets – is supported by four key factors: a series of pro-growth policies extending the business cycle and U.S. economic exceptionalism; manageable impact from tariffs that doesn't deter the Fed from further rate cuts; broadening out of earnings growth from big tech to mid- and small-cap firms; and resilient private sector balances sheets mitigating risks.

We see strong U.S. growth in 2025 with GDP moderating to trend of 2.0% only by the fourth quarter. Even allowing for tariff and deficit fears, lower rents and energy prices suggest that inflation is set to cool to around 2.8% in CPI terms (2.5% in PCE terms) by year end. Moderating inflation can in turn allow the fed funds rate to fall to around 4% by mid-year. This positive backdrop calls for a risk-on tilt. But buckle up – the ride may still be a little bumpy.

We expect President-elect Trump's economic policies to be broadly positive for the U.S. economy. But the order in which specific policies are implemented will determine the trajectory of growth over the next two years. Greater emphasis on deregulation and fiscal boost from extending tax cuts could improve corporate confidence, open up capital markets, and accelerate growth and asset returns. But if the emphasis is on immigration and tariff policies, disruption to labor supply or trade could have negative consequences, potentially dampening growth and leading to volatility in asset markets.

Despite this uncertainty, the U.S. economic exceptionalism of the last few years looks set to continue. While a strong U.S. economy provides a global growth tailwind, the threat of tariffs is an acute issue for China. In addition, Europe faces political turmoil in its biggest two economies and a tangled web of regulation stifling corporate dynamism across the bloc.

Nevertheless, issues facing economies outside the U.S. are already well discounted in asset markets. Should tariff threats strengthen China's policy response, or corporate pressure ease European regulation (even at the margin), then these unloved assets could rebound swiftly.

Our portfolios reflect a pro-growth outlook and a strong preference for U.S. assets, but we continue to seek opportunities to diversify both within the U.S. market and globally. We remain overweight (OW) equities and

credit, we are broadly neutral on global duration, we see increasing opportunities in real estate, and we are underweight (UW) the euro.

Within equities we expect U.S. leadership to persist and fears over concentration risks may be overdone. In 2025, we think the share of earnings growth coming from the biggest six names vs. the other 494 stocks in the S&P 500 will even out: big-6 earnings growth likely moderates from 40% in 2024 to a still-punchy 22% in 2025, while earnings growth for the remaining 494 stocks jumps from 3% to 13%. Valuations may appear demanding, but as profit growth extends across the index, we see a strong case for remaining OW U.S. equities and extending exposure to include mid- and small-caps.

Internationally, we are OW Japanese equities as our quant models pick up on their attractive earnings yield and bottom-up profitability. Hong Kong equities also screen favorably despite China tariff fears. Our preferred UW is European equities given ongoing political instability and weak economic growth. But the German election in February may clear the way for fiscal and regulatory easing – and a better backdrop for euro area stocks – in the second quarter.

High yield (HY) credit spreads have narrowed by over 50 basis points (bps) since September, but with all-in yields at around 7% credit looks attractive. There may be

Multi-Asset Solutions Key Insights & “Big Ideas”

The Key Insights and “Big Ideas” are discussed in depth at our Strategy Summit and collectively reflect the core views of the portfolio managers and research teams within Multi-Asset Solutions. They represent the common perspectives we come back to and regularly retest in all our asset allocation discussions. We use these “Big Ideas” as a way of sense-checking our portfolio tilts and ensuring they are reflected in all of our portfolios.

- U.S. business cycle set to extend; growth at or above trend in 2025; global growth more mixed, especially if tariffs are punitive
- Inflation settles a little above target in U.S., Fed becomes data dependent with rate cuts in 1H25, but Fed on hold by mid-2025
- 10-year U.S. yields in trading range; neutral duration overall, but prefer EU government bonds over U.S. Treasuries
- Limited scope for credit spread compression, but yields of 7% in high yield and low distress ratio supportive for credit
- Equities supported by strong and broadening earnings outlook; favors U.S. large- and mid-cap and Japan over Europe
- Real estate compelling for both returns and inflation hedge
- Key risks: Reversal of extended valuations, resurgence of inflation, hawkish Fed pivot, tariffs-related trade tension, labor market weakness and sharp tightening of credit conditions

limited scope for further spread tightening, but given the resilience of corporate balance sheets, low distress ratios, and persistent strong demand for new issues we are comfortable holding credit. For those seeking diversification away from credit after the strong rally in spreads, real estate appears increasingly attractive.

We are neutral duration overall but with a preference for European government bonds over the U.S. and Japan. The growth differential between the U.S. and Europe looks set to widen and European rates will likely fall further than those in the U.S. in 2025 – simultaneously supporting European duration and weighing on the euro. But since Europe has a growth problem, not a balance sheet problem, we also see Italian government bonds (BTPs) as offering attractive carry.

Broadly, our portfolio is designed for an extension of the business cycle and a continuation of U.S. economic exceptionalism. As the policy priorities of the new administration become clearer over the first quarter, asset markets may be tested at times, but we expect any dips to be enthusiastically bought. After two years of above-trend U.S. growth and a 60% two-year rally in the S&P 500, some may be tempted to cash in their chips. But we believe that the rally has further to go and that 2025 will see growth and returns broaden out meaningfully.

Active allocation views

These asset class views apply to a 6- to 12-month horizon. Up/down arrows indicate a positive (▲) or negative (▼) change in view since the prior quarterly Strategy Summit. These views should not be construed as a recommended portfolio. This summary of our individual asset class views indicates strength of conviction and relative preferences across a broad-based range of assets but is independent of portfolio construction considerations.

Asset class		Opportunity set		UW	N	OW	Change	Conviction		● Underweight	● Neutral	● Overweight
Main asset classes	Equities	○	○	●				Moderate	Global growth close to trend supports ongoing earnings growth; valuations a headwind even with easing cycle in play			
	Duration	○	●	○					Rate cutting cycle limits upside for yields, but market may be pricing more rate cuts than realistic given solid pace of growth			
	Credit	○	○	●				Low	Trend-like growth and attractive all-in yields supportive to credit despite tight levels of credit spreads			
Preference by asset class	Equities	U.S. large cap	○	○	●			High	High quality and strong EPS but valuations, esp. in tech, are a headwind; concentration risks mitigated by cash flow generation			
		U.S. small cap	○	○	●	▲			Outlook improving as recession risk is contained, but favor profitable firms with low leverage given elevated financing rates			
		Europe	●	○	○			Moderate	Ongoing weakness in global goods cycle and evidence of inventory overhang in key industries hold back EU equities			
		Japan	○	○	●			Low	Improving earnings yield and bottom up profitability point to upside, outflows suggest that overbought conditions from mid-year are behind us			
		UK	○	●	○				Attractive valuations and higher free cash flows support UK equities, but defensive nature of UK index a near-term headwind			
		Australia	●	○	○			Moderate	ERRs continue to lag peers but valuations expensive; soft demand for base metals a headwind to mining sector			
		Canada	○	●	○				Economy has shown some resilience in face of higher rates, but business outlook weak and valuations unappealing			
		Hong Kong	○	○	●	▲	Low	Activity in China remains weak and is a headwind to earnings, but valuations and positioning are supportive; increased policy responses could provide a boost				
		EM	●	○	○	▼	Low	Earnings revisions very negative and flows not supportive in EM equities				
	Fixed income	U.S. Treasuries	●	○	○	▼	Low	Scope for fiscal stimulus and deregulation could improve U.S. growth and raise the equilibrium yield for USTs				
		German Bunds	○	●	○				Potentially attractive as ECB looks set to cut rates at a decent clip, but with election risks in Feb 25 and yields already low may be at risk of volatility			
		JGB	●	○	○		Low	Further BoJ hikes coming in 2025 maintain upside risks to JGB yields but at current levels demand is likely to remain reasonable				
		UK Gilts	○	●	○	▼		Weak UK economy with scope for BoE to cut rates to offset worst impact of mortgage resets for UK consumers				
		Australia bonds	○	○	●			Least priced in for rate cuts of the major bond markets, also positive carry is an attractive feature				
		Canada bonds	○	●	○	▲		Has rallied a lot alongside the U.S. so spreads are tight and it is also the market with the most punitive carry dynamics				
		Italy FI	○	○	●		Low	Lower ECB rates supportive to periphery bonds but near-term risks around election cycle in Europe could mean some volatility				
		Corporate Inv. Grade	○	●	○	▼		Robust corporate health and demand for quality carry; spreads tight, but carry advantage over sovereigns persists				
		Corporate High Yield	○	○	●		Low	Contained recession risks and improving quality in HY index supportive, spreads are tight but all-in yields are attractive				
	EMD Sovereign	○	●	○			Favor U.S. high yield to EMD sovereign given more fragile tail credits exposure in EMD compared to U.S. HY					
	Currency	USD	○	○	●			Moderate	Growth advantage of U.S. over RoW set to widen further, so even as Fed cutting cycle weighs on USD, growth differential is supportive			
		EUR	●	○	○			Moderate	EUR undermined by weakness of growth in Europe and likely need for the ECB to become more aggressive in cutting rates			
		JPY	○	●	○	▼			BoJ the only major central bank hiking rates, lends support to JPY as does solid domestic growth outlook			
		CHF	●	○	○			Moderate	FX interventions have been reduced and SNB on clear easing path; CHF could end up as the lowest yielder of the majors			

Source: J.P. Morgan Asset Management Multi-Asset Solutions; assessments are made using data and information up to December 2024. For illustrative purposes only.
Diversification does not guarantee investment returns and does not eliminate the risk of loss. Diversification among investment options and asset classes may help to reduce overall volatility.

Multi-Asset Solutions

J.P. Morgan Multi-Asset Solutions manages over USD 285 billion in assets and draws upon the unparalleled breadth and depth of expertise and investment capabilities of the organization. Our asset allocation research and insights are the foundation of our investment process, which is supported by a global research team of 20-plus dedicated research professionals with decades of combined experience in a diverse range of disciplines.

As of September 30, 2024.

Multi-Asset Solutions' asset allocation views are the product of a rigorous and disciplined process that integrates:

- Qualitative insights that encompass macro-thematic insights, business-cycle views and systematic and irregular market opportunities
- Quantitative analysis that considers market inefficiencies, intra- and cross-asset class models, relative value and market directional strategies
- Strategy Summits and ongoing dialogue in which research and investor teams debate, challenge and develop the firm's asset allocation views

For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programs are marketing communications and are not in scope for any MiFID II/MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programs, as non-independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be taken as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit, and accounting implications and determine, together with their own financial professional, if any investment mentioned herein is believed to be appropriate to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields are not reliable indicators of current and future results. J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our privacy policies at <https://am.jpmorgan.com/global/privacy>.

This communication is issued by the following entities: In the United States, by J.P. Morgan Investment Management Inc. or J.P. Morgan Alternative

Next steps

For more information, please contact your J.P. Morgan representative.

Asset Management, Inc., both regulated by the Securities and Exchange Commission; in Latin America, for intended recipients' use only, by local J.P. Morgan entities, as the case may be.; in Canada, for institutional clients' use only, by JPMorgan Asset Management (Canada) Inc., which is a registered Portfolio Manager and Exempt Market Dealer in all Canadian provinces and territories except the Yukon and is also registered as an Investment Fund Manager in British Columbia, Ontario, Quebec and Newfoundland and Labrador. In the United Kingdom, by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions, by JPMorgan Asset Management (Europe) S.a r.l. In Asia Pacific ("APAC"), by the following issuing entities and in the respective jurisdictions in which they are primarily regulated: JPMorgan Asset Management (Asia Pacific) Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited, each of which is regulated by the Securities and Futures Commission of Hong Kong; JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), which this advertisement or publication has not been reviewed by the Monetary Authority of Singapore; JPMorgan Asset Management (Taiwan) Limited; JPMorgan Asset Management (Japan) Limited, which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type 11 Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanta Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia, to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Commonwealth), by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919). For all other markets in APAC, to intended recipients only.

JPMorgan Distribution Services, Inc., member FINRA.

For United States only: If you are a person with a disability and need additional support in viewing the material, please call us at 1-800-343-1113 for assistance.

© 2024 JPMorgan Chase & Co. All rights reserved.

PROD-1224-3396264-AM-PI-GAAV-1Q25 | 0903c02a81cef736