Global Asset Allocation Views

Insights and implications from the Multi-Asset Solutions Strategy Summit

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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 polices 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.

● Underweight ● Neutral ● Overweight

Asset class		Opportunity set	UW	N	OW	Change	Conviction	
Main asset classes		Equities	○	○	●		Moderate	Global growth close to trend supports ongoing earnings growth; valuations a headwind even with easing cycle in play
Main asset classes		Duration	○	●	○			Rate cutting cycle limits upside for yields, but market may be pricing more rate cuts than realistic given solid pace of growth
Main asset classes		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
Preference by asset class	Equities	U.S. small cap	○	○	●	▲		Outlook improving as recession risk is contained, but favor profitable firms with low leverage given elevated financing rates
Preference by asset class	Equities	Europe	●	○	○		Moderate	Ongoing weakness in global goods cycle and evidence of inventory overhang in key industries hold back EU equities
Preference by asset class	Equities	Japan	○	○	●		Low	Improving earnings yield and bottom up profitability point to upside, outflows suggest that overbought conditions from mid-year are behind us
Preference by asset class	Equities	UK	○	●	○			Attractive valuations and higher free cash flows support UK equities, but defensive nature of UK index a near-term headwind
Preference by asset class	Equities	Australia	●	○	○		Moderate	ERRs continue to lag peers but valuations expensive; soft demand for base metals a headwind to mining sector
Preference by asset class	Equities	Canada	○	●	○			Economy has shown some resilience in face of higher rates, but business outlook weak and valuations unappealing
Preference by asset class	Equities	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
Preference by asset class	Equities	EM	●	○	○	▼	Low	Earnings revisions very negative and flows not supportive in EM equities
Preference by asset class	Fixed income	U.S. Treasuries	●	○	○	▼	Low	Scope for fiscal stimulus and deregulation could improve U.S. growth and raise the equilibrium yield for USTs
Preference by asset class	Fixed income	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
Preference by asset class	Fixed income	JGB	●	○	○		Low	Further BoJ hikes coming in 2025 maintain upside risks to JGB yields but at current levels demand is likely to remain reasonable
Preference by asset class	Fixed income	UK Gilts	○	●	○	▼		Weak UK economy with scope for BoE to cut rates to offset worst impact of mortgage resets for UK consumers
Preference by asset class	Fixed income	Australia bonds	○	○	●			Least priced in for rate cuts of the major bond markets, also positive carry is an attractive feature
Preference by asset class	Fixed income	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
Preference by asset class	Fixed income	Italy FI	○	○	●		Low	Lower ECB rates supportive to periphery bonds but near-term risks around election cycle in Europe could mean some volatility
Preference by asset class	Fixed income	Corporate Inv. Grade	○	●	○	▼		Robust corporate health and demand for quality carry; spreads tight, but carry advantage over sovereigns persists
Preference by asset class	Fixed income	Corporate High Yield	○	○	●		Low	Contained recession risks and improving quality in HY index supportive, spreads are tight but all-in yields are attractive
Preference by asset class	Fixed income	EMD Sovereign	○	●	○			Favor U.S. high yield to EMD sovereign given more fragile tail credits exposure in EMD compared to U.S. HY
Preference by asset class	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
Preference by asset class	Currency	EUR	●	○	○		Moderate	EUR undermined by weakness of growth in Europe and likely need for the ECB to become more aggressive in cutting rates
Preference by asset class	Currency	JPY	○	●	○	▼		BoJ the only major central bank hiking rates, lends support to JPY as does solid domestic growth outlook
Preference by asset class	Currency	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.

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

As of September 30, 2024.

Next steps

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

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