

## Equity Strategy

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## The Nov-Dec rally has resulted in stretched positioning and complacent sentiment... long duration trade stays relevant, but to have a tactical respite...

- As of end October '23, the average stock in S&P500 was down on the year, with SPW at -5%, and MXWO up only 5% for the year at that point. A lot has changed, courtesy of the November-December rally, and equity markets are now showing overbought conditions, with sentiment moving into complacent territory. This can be seen in high RSIs, elevated Bull-Bear, VIX near lows, tight credit spreads, as well as in the current S&P500 P/E at 20x. Importantly, while a year ago risky assets were fully pricing in a recession, and economists unanimously agreed with that, now the picture is quite different, **recession probabilities are currently near the lows of the range** – see page 29, and most macro forecasts are hopeful.
- **Our key call was to go long duration**, we advised last October to position for the rollover in bond yields, see report “[Time coming to go long duration](#)”, and while we see this call having legs in 2024, **there is likely to be some payback given the sharpness of the move** over the past 3 months. **Yields could be consolidating near term, and have next leg lower only when activity dataflow shows more clear deterioration**. Crucially, while market interpreted falling bond yields since Oct as solely a positive development, we do not think that this will sustain through the year. Lower yields could end up signaling weaker EPS delivery ahead, on softening pricing, sequential activity slowdown and profit margin compression. US real GDP growth forecast in 0-1% range for 3 quarters this year, essentially a **stall speed, is not leaving much room for error**.
- Bottom line, the risky assets have started to fully embrace the macro combination of central banks easing on lower inflation, but at the same time resilient growth and continued record profitability – this might end up contradictory. All of these points suggest a **much less attractive risk-reward than what would at face value lower bond yields/central banks easing and up to now resilient growth suggest**. We see the following drivers:
  - 1) US and European activity momentum to be weaker than last year, in 0-1% range. PMIs have lost ground since last summer, with US ISM manufacturing sub 50 for more than a year now, and even services PMIs have softened. Money supply in the US and Europe keeps contracting. Labour markets remain a bright spot, for now, but that can change quickly. We have recently advised to get less bearish on China growth, given increasing stimulus, but the structural overhang remains formidable.
  - 2) The Fed could end up staying “higher for longer”, until the potential market/consumer weakness forces them to reconsider, in our view. **Yield curve** remains strongly inverted; this started in October '22, and is historically an ominous sign. It was never wrong, with the time lag of typically 12-18 months.
  - 3) Profit margins are softening - **corporate pricing power is likely to weaken from here**. 2024 SPX EPS forecasts, calling for 11% EPS growth reacceleration, are at risk of downgrades. We note that 2023, '24 and '25 EPS level projections have continued their downtrend – page 24.
  - 4) **At 20x, US forward P/E is still stretched, especially vs real yields**. Dividend yield – bond yield gaps are not supportive in most places – page 74, but International equities continue to screen more attractive than the US.
  - 5) The Nov-Dec rally has created a complacent technical picture. **Bull-Bear is at highs, as are various positioning metrics**.

## ...keep preference for US over Eurozone, despite Euro cheapness... stay OW Japan, with no need to hedge FX anymore... China stays unexciting...

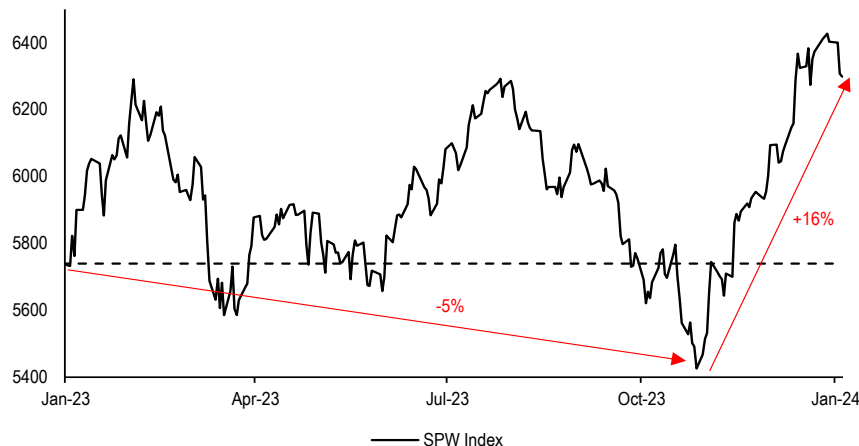
- We **have in early May closed the regional outperformance trade**, after a period of a strong run by International stocks vs the US, where SX5E beat SPX by more than 30% in USD terms from September '22 to May '23. We are **UW international stocks since, and in particular UW Eurozone vs the US**. We note that a significant valuation discount in International vs US stocks is opening up again, but if the macro momentum rolls, as we suspect could be the case, then the chances are that International markets keep lagging the US. **USD is the wild card, and the risk is that it starts to strengthen again** - EM and Eurozone typically lagged during periods of USD strength. We think that potentially an opportunity could come up later in 2024 to add EM, to Eurozone and to small caps more sustainably, after a period of big underperformance, but we would wait to get past the start of Fed cuts.
- **OW UK**. The UK could start to be more supported given the record discount vs other regions, as well as the highest dividend yield globally. UK has done poorly in '23 as global indices were up, but crucially the UK is a low beta market, and could hold up better during potential periods of volatility. Within the UK, we held **OW FTSE100 vs FTSE250** pair trade over the past 24 months, and still believe that it should not be reversed.
- **Neutral EM**, we are cautious vs DM, focused on China, in the world of higher for longer Fed and challenging geopolitics. Medium term, we remain concerned about China, China's housing market structural outlook is challenged, with clear similarities to Japan in 1990, FAI in China continues to look too high vs the rest of the world, and credit multiplier is waning. Having said that, as China stocks are already down 25%+ since January '23, there could be a bit of tactical respite in the short term.
- **UW Eurozone**, it looks cheap, but Eurozone is a global cycle Value play, and could struggle to outperform in the event of more aggressive earnings downgrades. **We have in early May taken profits on the Eurozone trade, after a 30%+ run, moving it to UW in a regional context**, and expect continued weaker relative PMI performance in the region.
- **OW Japan**. In our global regional allocation, we have upgraded Japan to OW in December '22. It is dislocated from the global cycle due to YCC, and it was the last DM to reopen. Japan is a beneficiary of an exit from deflation, and of the improving governance/multiples on the back of TSE initiative. Japan looks attractively priced, with more than half companies net cash – buybacks are accelerating. Inflows could increase further, as well as the domestic reallocation into equities. We advise not to hedge the FX anymore.
- **Neutral US**. The US benefits from a greater Growth tilt, in our view, but it is trading at relative P/E and EPS highs, and could unwind some of the strong run that it delivered over the past 10 years. If markets weaken, the US was typically a less risky region than others in downturns. We advised in October '22 to turn more positive on Tech, and have been OW Growth vs Value in '23, which helps the US, but the Tech run has already been exceptional, and there could be some profit taking ahead.
- **OW RoW**, with focus on Switzerland, which has a Defensive allocation and a clear below 1 beta to global equity direction, which might come in handy.

## ...Energy and Defensives such as Utilities, Healthcare and Telcos are interesting; Tech to see profit taking; Stay bullish Aerospace & Defense

- We think Defensives could look better this year, after 2 poor years, on more subdued market EPS momentum, softer activity and the central banks rate cuts. Tech on the other hand might stall, post a heroic run – we cut Semis in our Year Ahead. In addition, **we have recently cut Banks, Food Retail and Hotels&Travel to UW, and added to Healthcare and Real Estate.** We believe a catch-up trade of low beta, along with a barbell of long commodities - Energy, is the way to position.
- **Banks (UW)** have performed very well over the past 3 years, up 60% relative in Europe. We took this opportunity to recently advise opening a short in the sector, focused on Europe. Banks look cheap, on 0.7x P/B, and their balance sheets are well capitalized. However, Banks NII is likely peaking, provisioning could increase, cost of capital will be much higher than before, and yield curve is staying heavily inverted. One should short Banks as bond yields peak out, and on the rising deposit betas. We do not think Banks will have another big leg of outperformance until central banks are undertaking a series of rate cuts. Regionally, we continue to favour Japanese Banks to European and the US ones.
- We think **Energy (OW)**, will trade more like a defensive. It typically outperformed in the aftermath of PMIs rolling over and offers cheap valuations currently, along with a discount vs the spot, which is supported by supply constraints and the low inventories. Energy is also a good hedge on elevated geopolitical risks. **Miners (N)** have lost 30% relative since January '23, and while we remain structurally bearish on China, we have recently advised to close the shorts, tactically.
- Tech is unlikely to be immune to a potential consumer slowdown given an elevated earnings base. Valuations again look unattractive, and while we do not advise going against the Tech run, still thinking that Tech will beat Cyclical and small caps from here, we do not see further absolute upside for the sector – we do not think the sector will keep outperforming, after a very strong move in 2023, even with lower yields - we are **Neutral**, more cautious of late on Semis and staying positioned in Defensive Growth part of the sector.
- As PMIs, EPS revisions and eventually the bond yields are unlikely to be higher, we advise caution on corporate Cyclical – **Capital Goods (UW)** ex Aerospace and Defense, still **Chemicals (UW)**, as well as Consumer Cyclical – **Retail (UW)** and **Autos (UW)**. Defensives are likely to recover, Healthcare, Utilities and Staples. These sectors are some of the best performers around the last Fed hike in the cycle. We have recently closed our longstanding UW on **Real Estate**, post the 50% underperformance. We are **OW Telecoms**.
- Our pecking order is: bullish on Energy, Real Estate, Utilities, Staples, Telecoms and Healthcare; Tech is Neutral post the strong run; now Neutral Mining as well post the underperformance, Neutral Insurance; and bearish on Cyclical, both consumer and corporate - Autos, Retail, Cap Goods, Airlines and still Chemicals, and recently opened a Banks, Semis, Hotels and Food Retail UW. Out of key themes, we highlight: Defensives and Cyclical baskets – **JPDEEDEF** and **JPDEECYC**, and Value and Growth baskets – **JPDEVALU** and **JPDEGROW**. We advise pair trades of OW Japanese Value and Banks vs US & European Value and Banks.

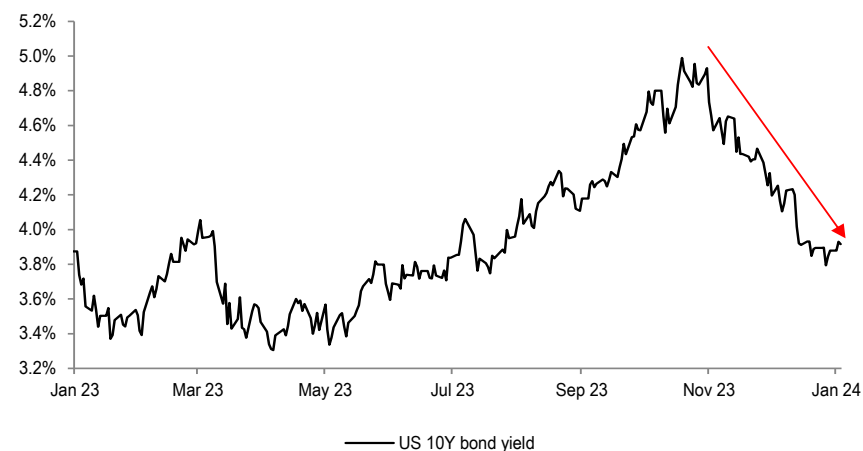
Up to end Oct of last year, SPW was down 5%... the Nov-Dec rally has lead to overbought market... our October call for yields downmove to show a tactical respite

S&P500 equal-weighted index



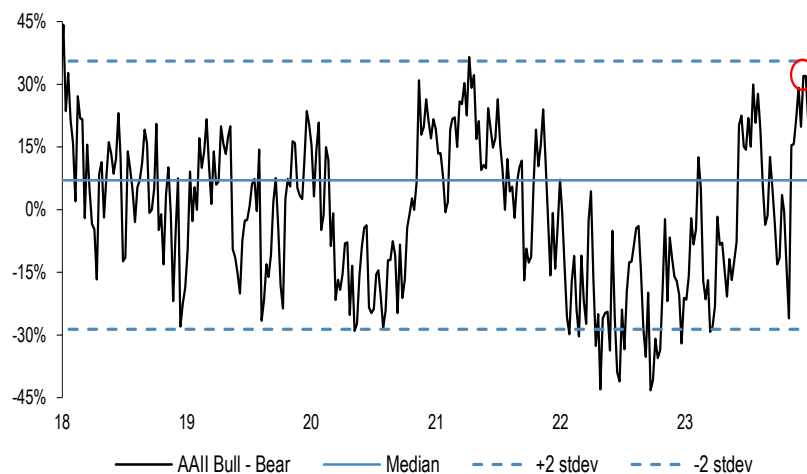
Source: Bloomberg Finance L.P.

US 10Y bond yield



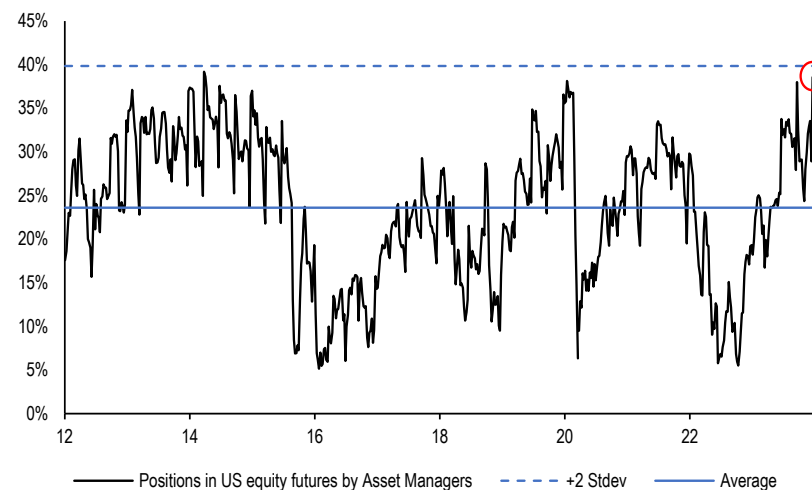
Source: Datastream

AAll Bull-Bear



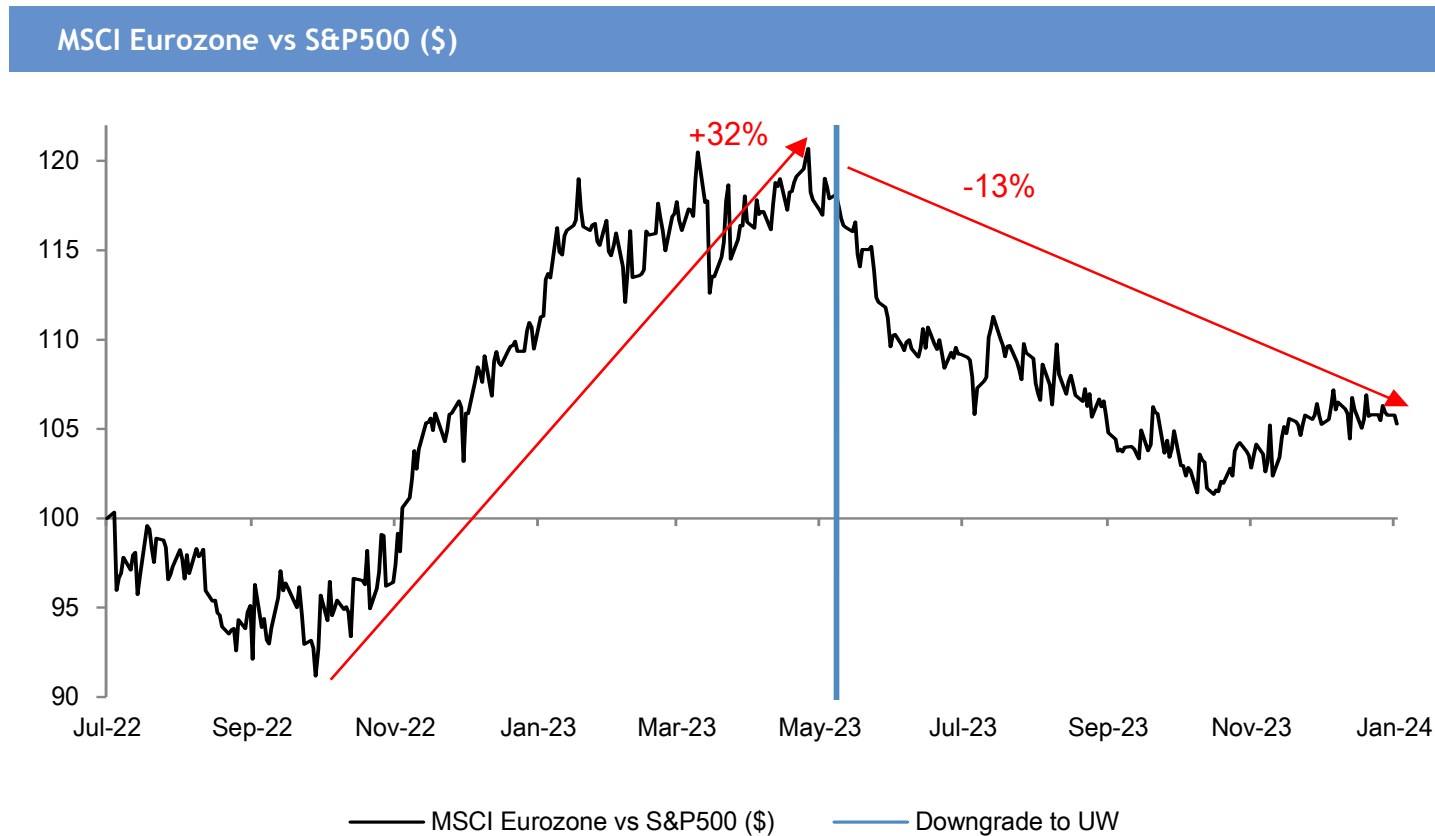
Source: Bloomberg Finance L.P.

Positions in US Equity futures by Asset Managers and Leveraged Funds



Source: J.P. Morgan. Flows and Liquidity Team

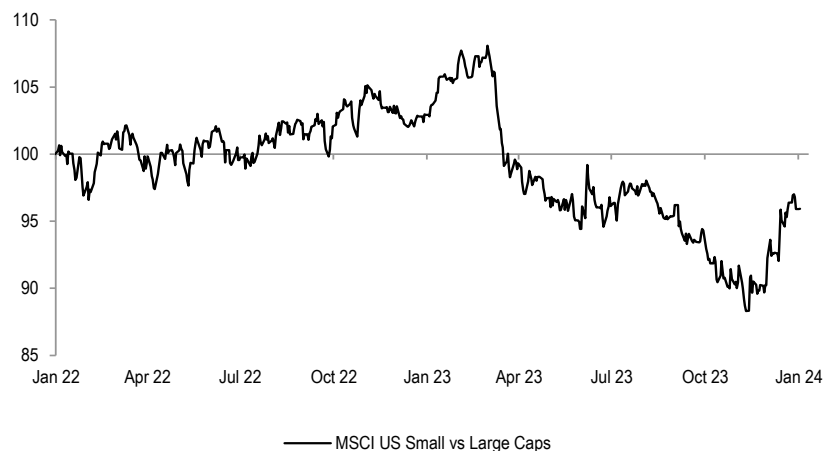
## Eurozone equities are losing vs the US since May...



Source: Datastream

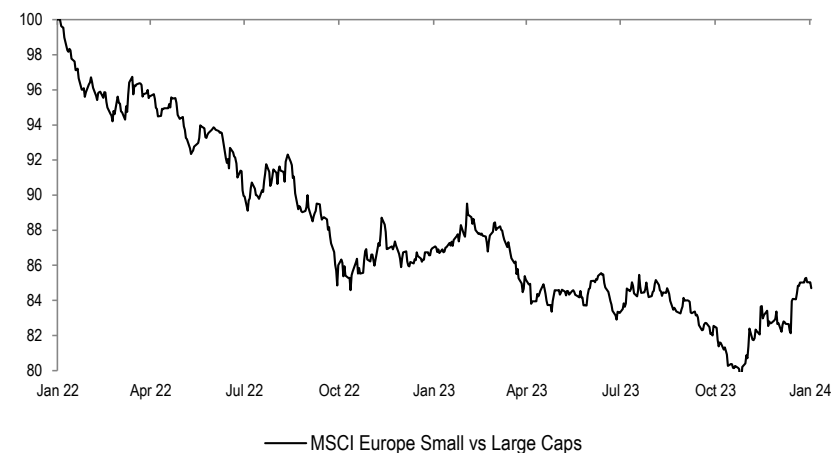
...small caps have performed poorly over the past two years, even if one takes into account Nov-Dec bounce...

US small caps vs large caps



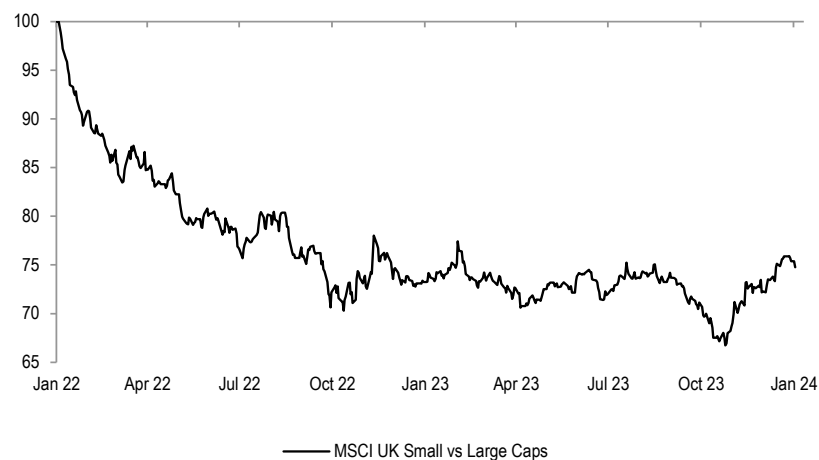
Source: Datastream

Europe small caps vs large caps



Source: Datastream

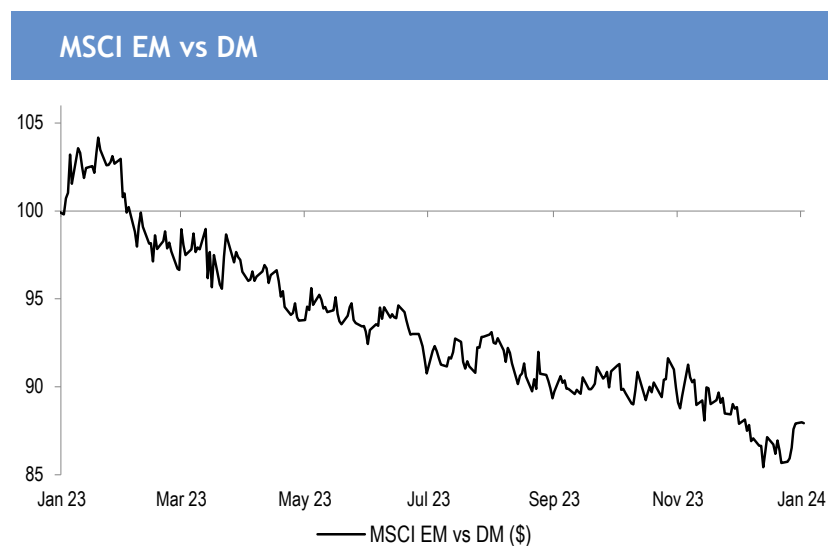
UK small caps vs large caps



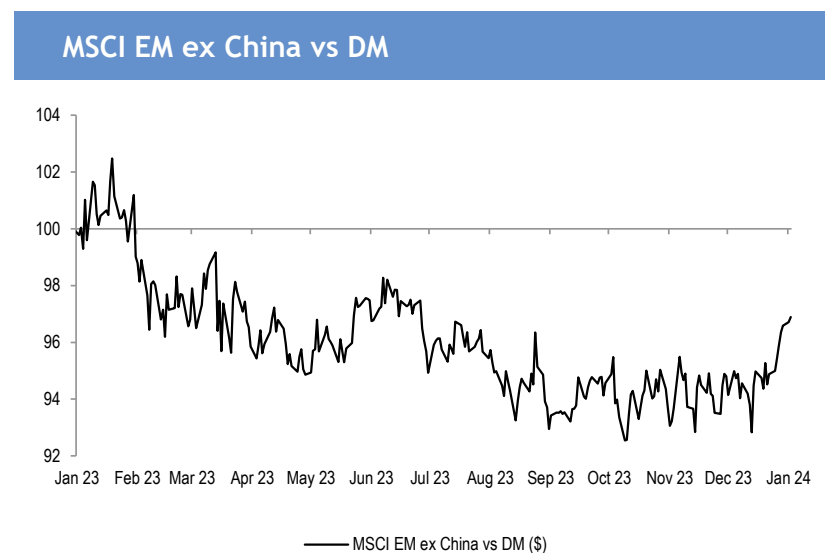
Source: Datastream



...EM are down vs DM in 2023... even taking out China impact, EM failed to perform...

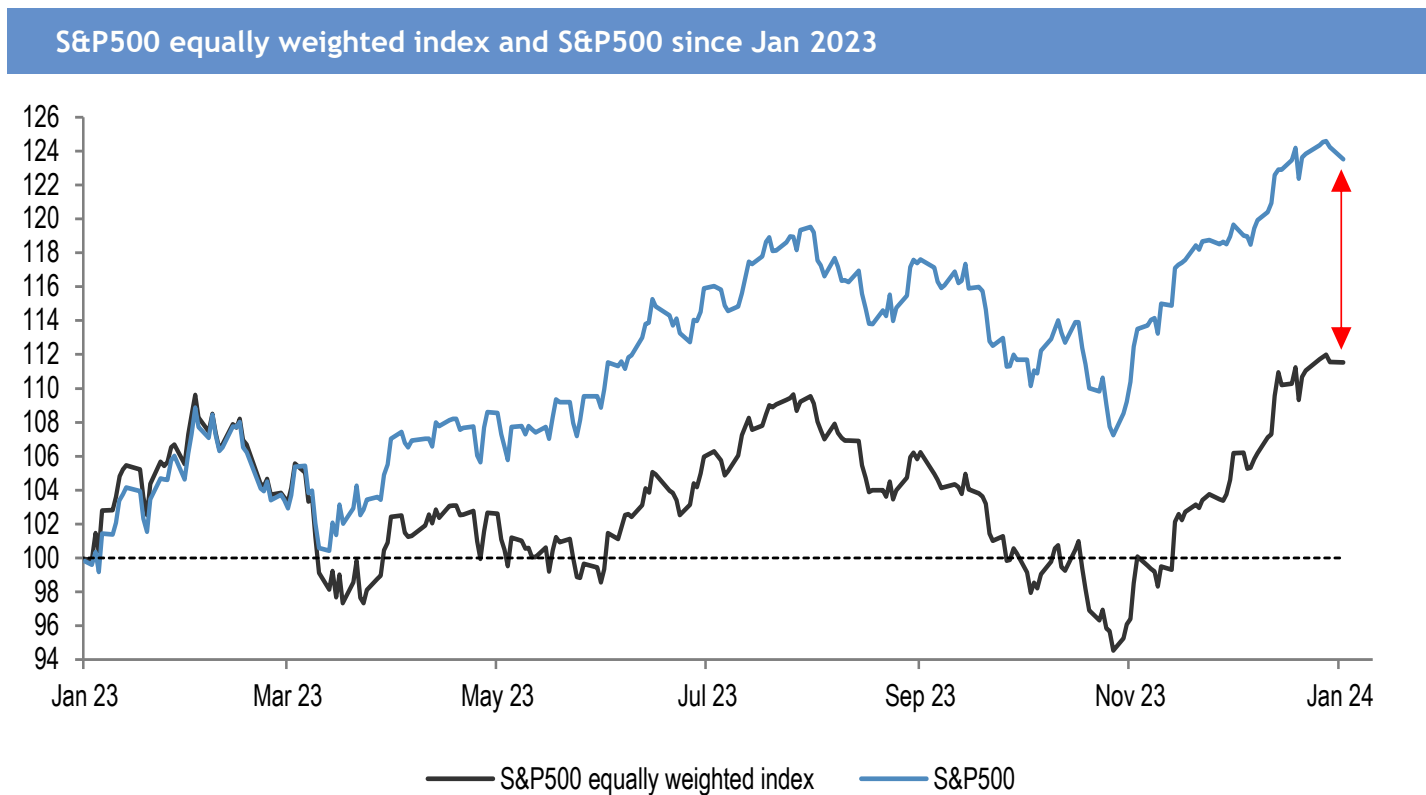


Source: Datastream



Source: Datastream

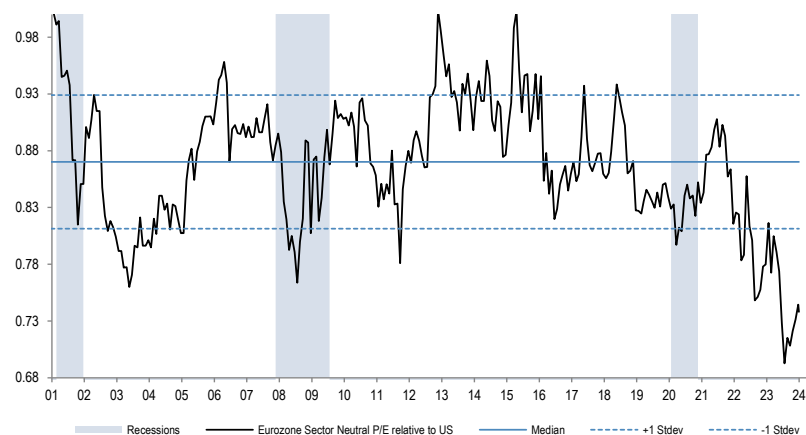
...SPW vs SPX differential is large



Source: Bloomberg Finance L.P.

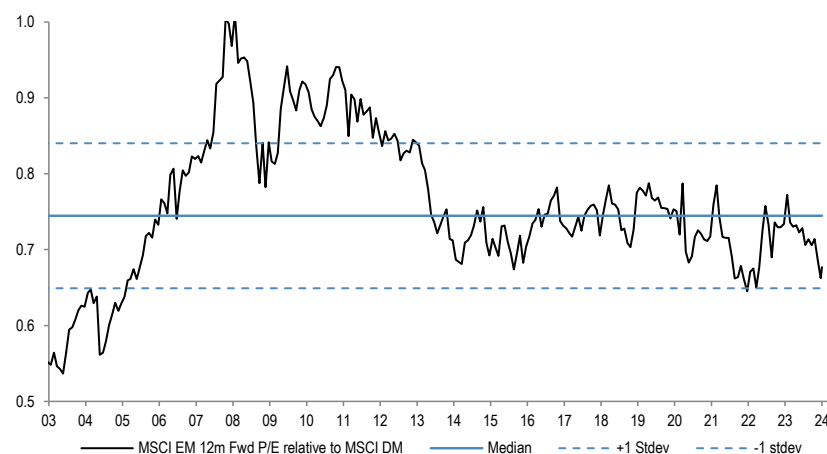
# We are UW Eurozone and bearish on EM vs DM, but we acknowledge valuations are starting to look interesting

MSCI Eurozone vs US sector neutral P/E relative



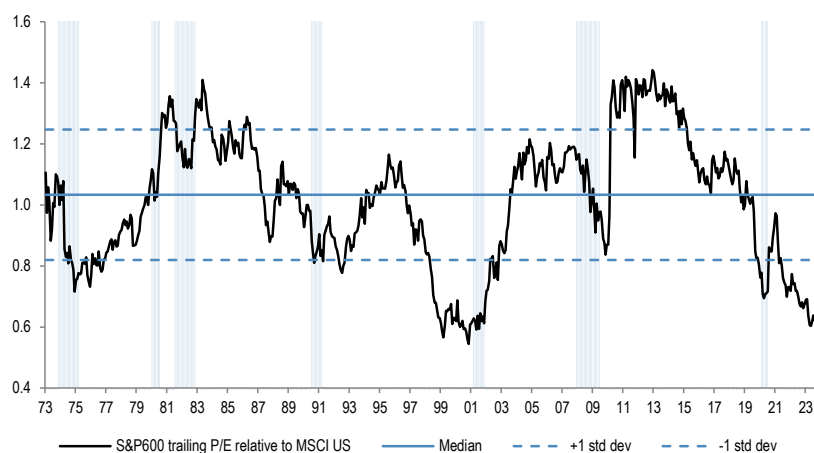
Source: Datastream

MSCI EM vs DM P/E relative



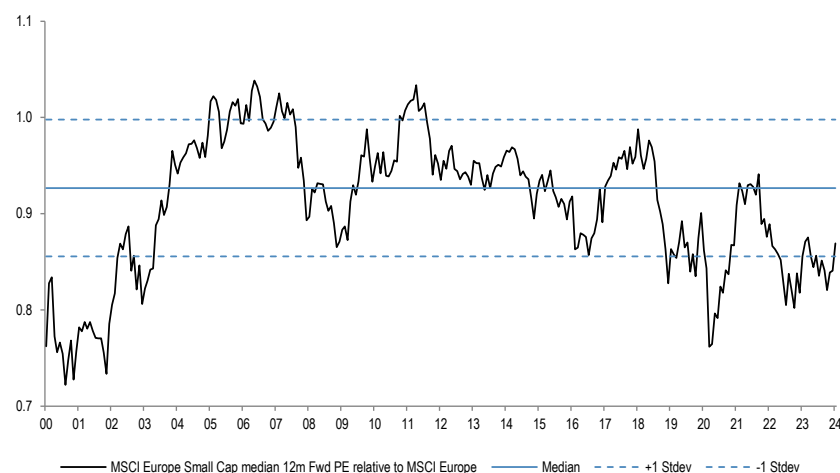
Source: Datastream

US small caps vs large caps P/E relative



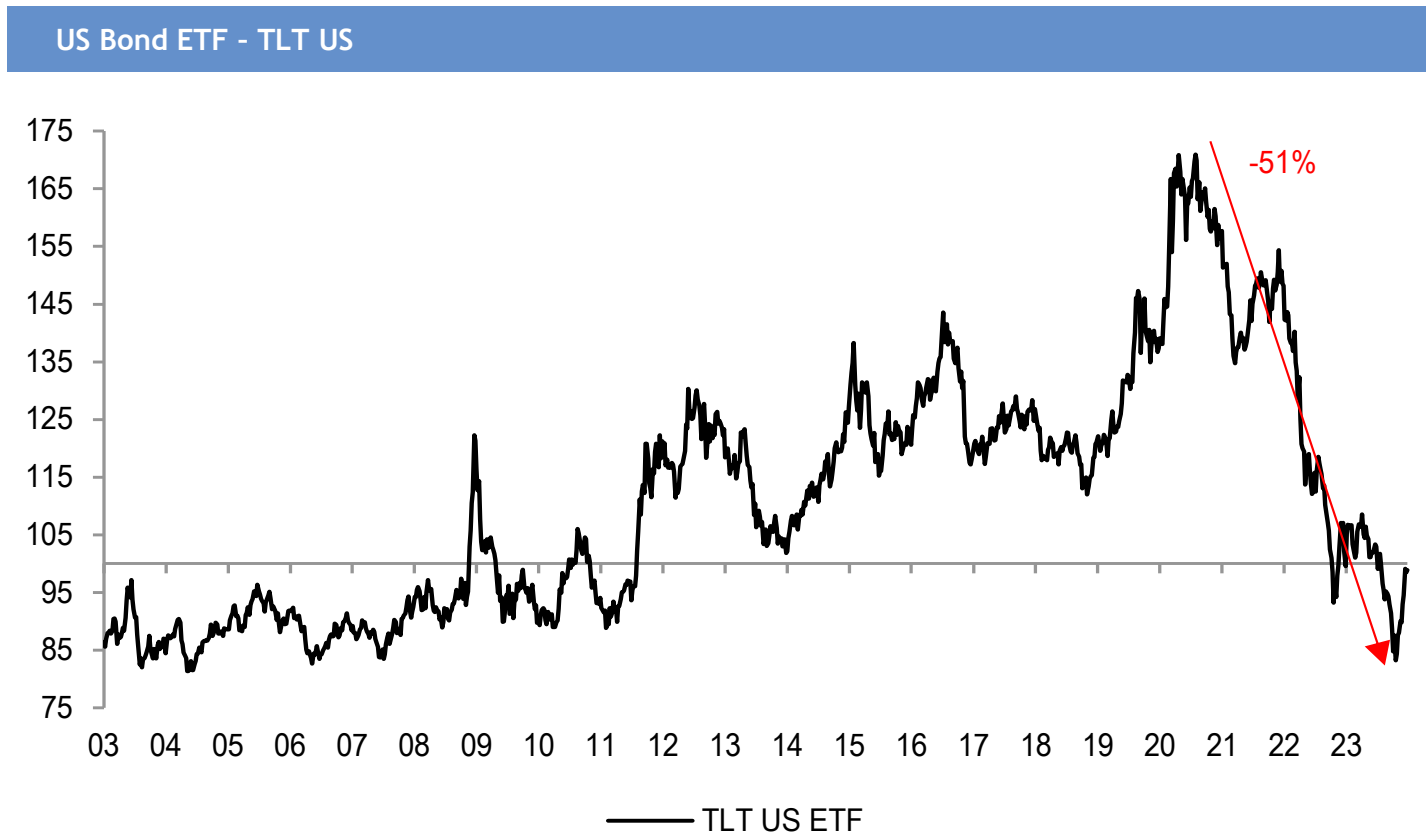
Source: Datastream

Europe small caps vs large caps P/E relative



Source: Datastream

We called in October to go long duration, post a dramatic bond yields upmove...



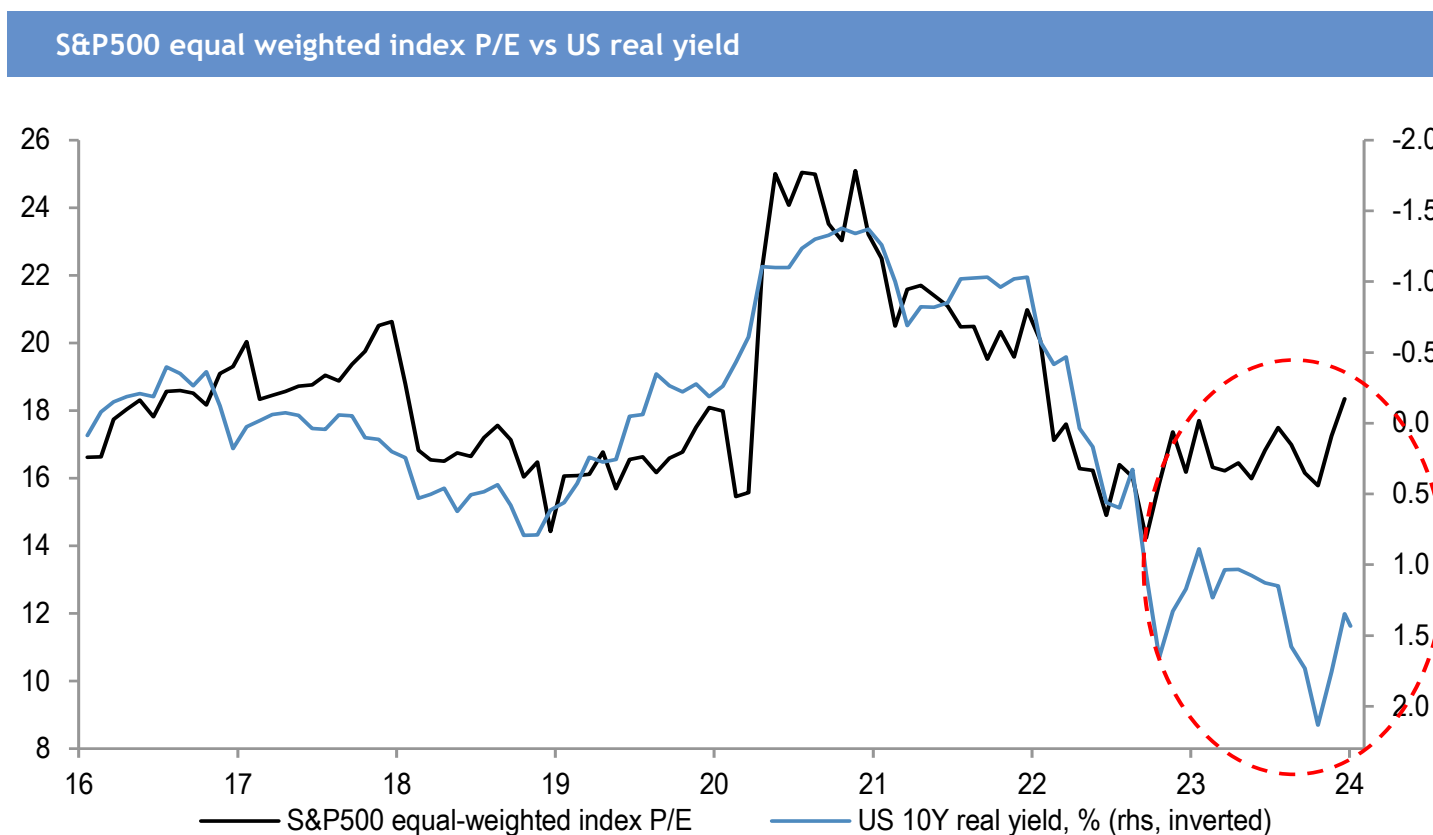
Source: Bloomberg Finance L.P.

...after the final Fed hike, bond yields always fell; We believe this trade will continue in 2024, but a lot has happened in 3 months

| US10Y bond yield move around last Fed hike |        |        |        |        |        |        |        |        |         |        |
|--|--------|--------|--------|--------|--------|--------|--------|--------|---------|--------|
| US 10Y bond yield move (bps)               |        |        |        |        |        |        |        |        |         |        |
|  | Aug 84 | Sep 87 | Feb 89 | Feb 95 | Mar 97 | May 00 | Jun 06 | Dec 18 | Average | Median |
| -12m                                       | 100    | 214    | 118    | 192    | 52     | 80     | 122    | 29     | 113     | 109    |
| -11m                                       | 97     | 200    | 87     | 138    | 23     | 50     | 92     | 10     | 87      | 89     |
| -10m                                       | 100    | 201    | 61     | 72     | 11     | 76     | 103    | -12    | 76      | 74     |
| -9m  | 97     | 232    | 17     | 62     | -13    | 46     | 90     | -10    | 65      | 54     |
| -8m  | 79     | 216    | 49     | 54     | -8     | 53     | 63     | -16    | 61      | 53     |
| -7m  | 96     | 207    | 28     | 34     | 1      | 36     | 72     | -30    | 55      | 35     |
| -6m  | 69     | 218    | 4      | 55     | 7      | 47     | 84     | -14    | 59      | 51     |
| -5m  | 7      | 175    | 42     | 49     | 23     | 12     | 68     | -8     | 46      | 32     |
| -4m  | -14    | 82     | 57     | 6      | 63     | -26    | 64     | -11    | 28      | 31     |
| -3m  | -86    | 76     | 30     | -24    | 42     | -12    | 39     | -31    | 4       | 9      |
| -2m  | -113   | 100    | 34     | -27    | 14     | 18     | 14     | -44    | 0       | 14     |
| -1m  | -76    | 51     | 44     | -16    | 37     | 57     | 15     | -31    | 10      | 26     |
| Fed last hike                              |        |        |        |        |        |        |        |        |         |        |
| 1m   | -13    | 29     | 4      | -44    | 18     | -45    | -20    | 3      | -9      | -5     |
| 2m   | -66    | -41    | -23    | -46    | -2     | -33    | -42    | -12    | -33     | -37    |
| 3m   | -125   | -33    | -76    | -60    | -32    | -59    | -57    | -14    | -57     | -58    |
| 4m   | -127   | -50    | -114   | -146   | -58    | -58    | -52    | -20    | -78     | -58    |
| 5m   | -116   | -102   | -135   | -146   | -38    | -69    | -67    | -36    | -89     | -86    |
| 6m   | -100   | -101   | -120   | -119   | -64    | -76    | -49    | -73    | -88     | -88    |
| 7m   | -81    | -63    | -117   | -143   | -78    | -124   | -30    | -70    | -88     | -80    |
| 8m   | -144   | -37    | -151   | -148   | -91    | -119   | -63    | -115   | -108    | -117   |
| 9m   | -200   | -22    | -159   | -168   | -102   | -132   | -55    | -97    | -117    | -117   |
| 10m  | -224   | -52    | -156   | -195   | -108   | -165   | -50    | -100   | -131    | -132   |
| 11m  | -229   | -31    | -101   | -209   | -115   | -117   | -31    | -97    | -116    | -108   |
| 12m  | -246   | -29    | -84    | -206   | -112   | -98    | -17    | -83    | -109    | -91    |

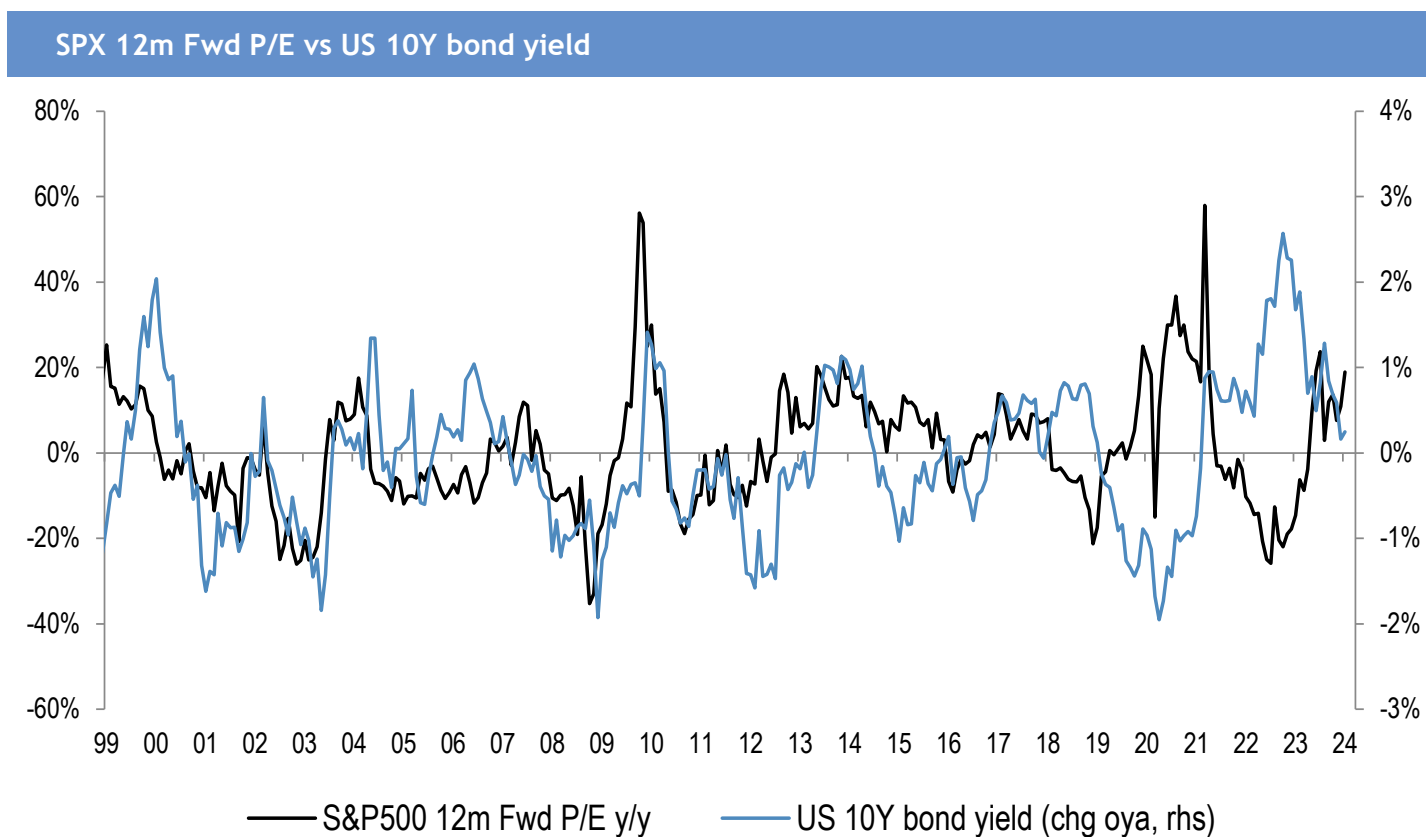
Source: Bloomberg Finance L.P., J.P. Morgan

Knee-jerk reaction to peaking bond yields is a positive one, but this is unlikely to last... even ex Tech, market does not look cheap vs bond yields...



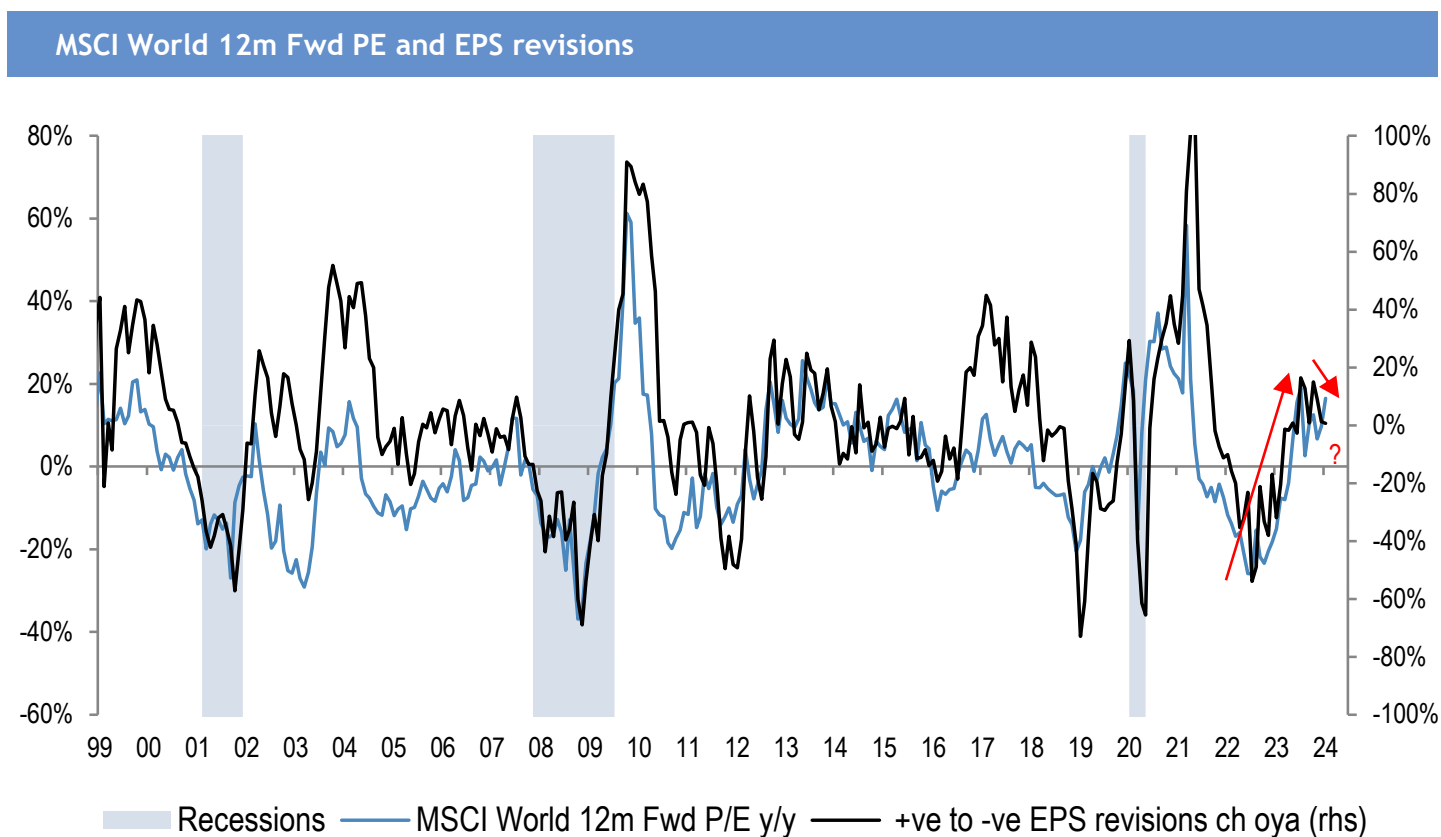
Source: IBES

...importantly, yields vs P/Es correlation was historically not stable... it was most often positive, ie falling yields would mean falling P/Es...



Source: Datastream, Bloomberg Finance L.P.

...the key is EPS momentum, earnings – P/Es correlation was always positive, and matters for P/E direction more than bond yields do



Source: IBES



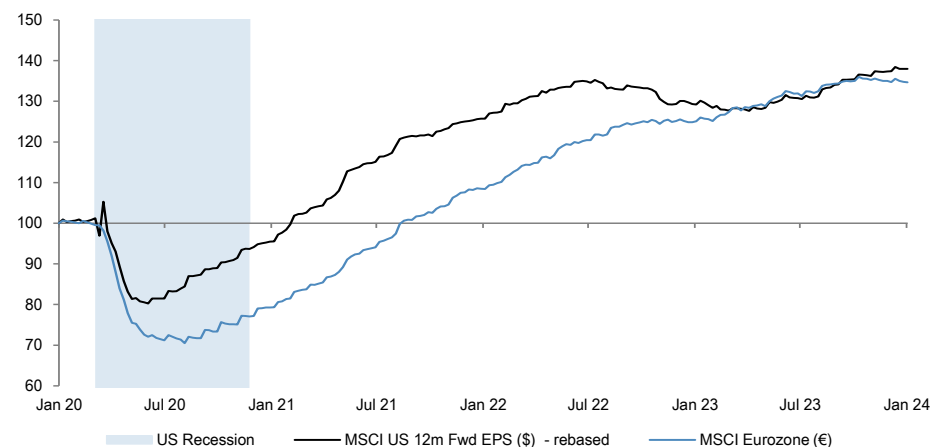
We were bullish on earnings for the past few years, believing them to be resilient. This could change, even without a recession...

#### Changes in US equities, earnings and PE during past recessions

| Recession      | Peak in MSCI US | Trough in MSCI US | MSCI US peak to trough move | 12m Fwd P/E at MSCI US peak | 12m Fwd P/E at MSCI US trough | Move in MSCI US 12m Fwd P/E from peak to trough | MSCI US Fwd EPS peak to trough move |
|----------------|-----------------|-------------------|-----------------------------|-----------------------------|-------------------------------|---|-------------------------------------|
| 1990           | Jul-90          | Oct-90            | -20%                        | 12.8                        | 10.4                          | -19%  | -14%                                |
| 2001           | Mar-00          | Oct-02            | -51%                        | 25.7                        | 13.8                          | -46%  | -23%                                |
| 2008           | Oct-07          | Mar-09            | -56%                        | 15.4                        | 10.4                          | -32%  | -40%                                |
| 2020           | Feb-20          | Mar-20            | -34%                        | 19.6                        | 13.2                          | -33%  | -15%                                |
| <b>Average</b> |                 |                   | <b>-40%</b>                 | <b>18.4</b>                 | <b>12.0</b>                   | <b>-33%</b>                                     | <b>-23%</b>                         |

Source: IBES

#### MSCI US and Eurozone 12m Fwd. EPS



Source: IBES

#### Changes in Eurozone equities, earnings and GDP during past recessions

| Recession      | MSCI Eurozone peak to trough move | 12m Fwd P/E at MSCI Eurozone trough | 12m Fwd P/E at trough - Eurozone vs US | MSCI Eurozone Fwd. EPS peak to trough move | Euro Area real GDP peak to trough move |
|----------------|-----------------------------------|-------------------------------------|--|--|--|
| 1990           | -29%                              | 9.7                                 | 0.87                                   | -27%                                       | -1.8%                                  |
| 2001           | -64%                              | 11.1                                | 0.76                                   | -21%                                       | -0.3%                                  |
| 2008           | -62%                              | 7.5                                 | 0.72                                   | -42%                                       | -5.7%                                  |
| 2012           | -32%                              | 7.4                                 | 0.72                                   | -20%                                       | -1.8%                                  |
| 2020           | -38%                              | 9.0                                 | 0.69                                   | -30%                                       | -14.7%                                 |
| <b>Average</b> | <b>-45%</b>                       | <b>9.0</b>                          | <b>0.75</b>                            | <b>-28%</b>                                | <b>-4.9%</b>                           |

Source: IBES

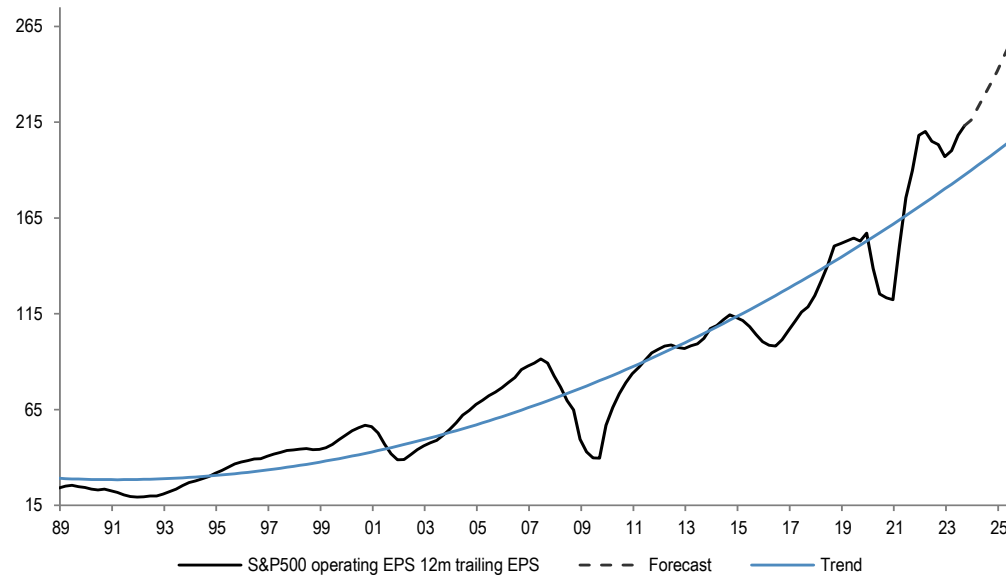
#### Changes in UK equities, earnings and PE during past recessions

| Recession      | Peak in MSCI UK | Trough in MSCI UK | 12m Fwd P/E at MSCI UK peak | 12m Fwd P/E at MSCI UK trough | Move in MSCI UK 12m Fwd P/E from peak to trough | MSCI UK Fwd EPS peak to trough move |
|----------------|-----------------|-------------------|-----------------------------|-------------------------------|---|-------------------------------------|
| 1990           | Jul-90          | Sep-90            | 9.9                         | 9.1                           | -9%   | -20%                                |
| 2001           | Sep-00          | Mar-03            | 20.8                        | 15.1                          | -28%  | -40%                                |
| 2008           | Jun-07          | Mar-09            | 13.1                        | 7.8                           | -40%  | -11%                                |
| 2020           | Jan-20          | Mar-20            | 13.3                        | 9.2                           | -31%  | -30%                                |
| <b>Average</b> |                 |                   | <b>14.3</b>                 | <b>10.3</b>                   | <b>-27%</b>                                     | <b>-15%</b>                         |

Source: IBES

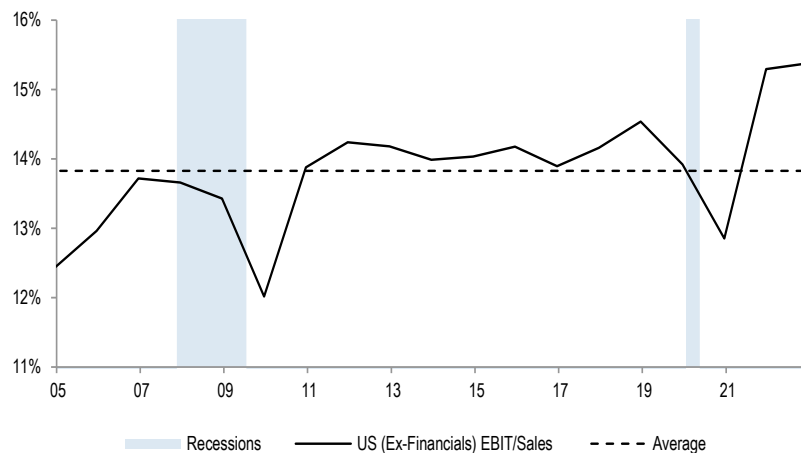
...the starting hurdle rate is elevated... post COVID profit margins reached record highs...

S&P500 EPS vs trend



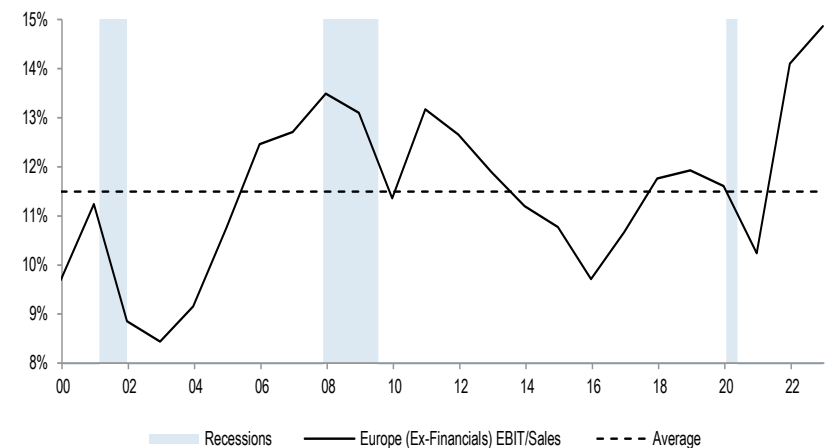
Source: Datastream

US EBIT margin - ex Financials



Source: Datastream

European EBIT margin - ex Financials



Source: Datastream

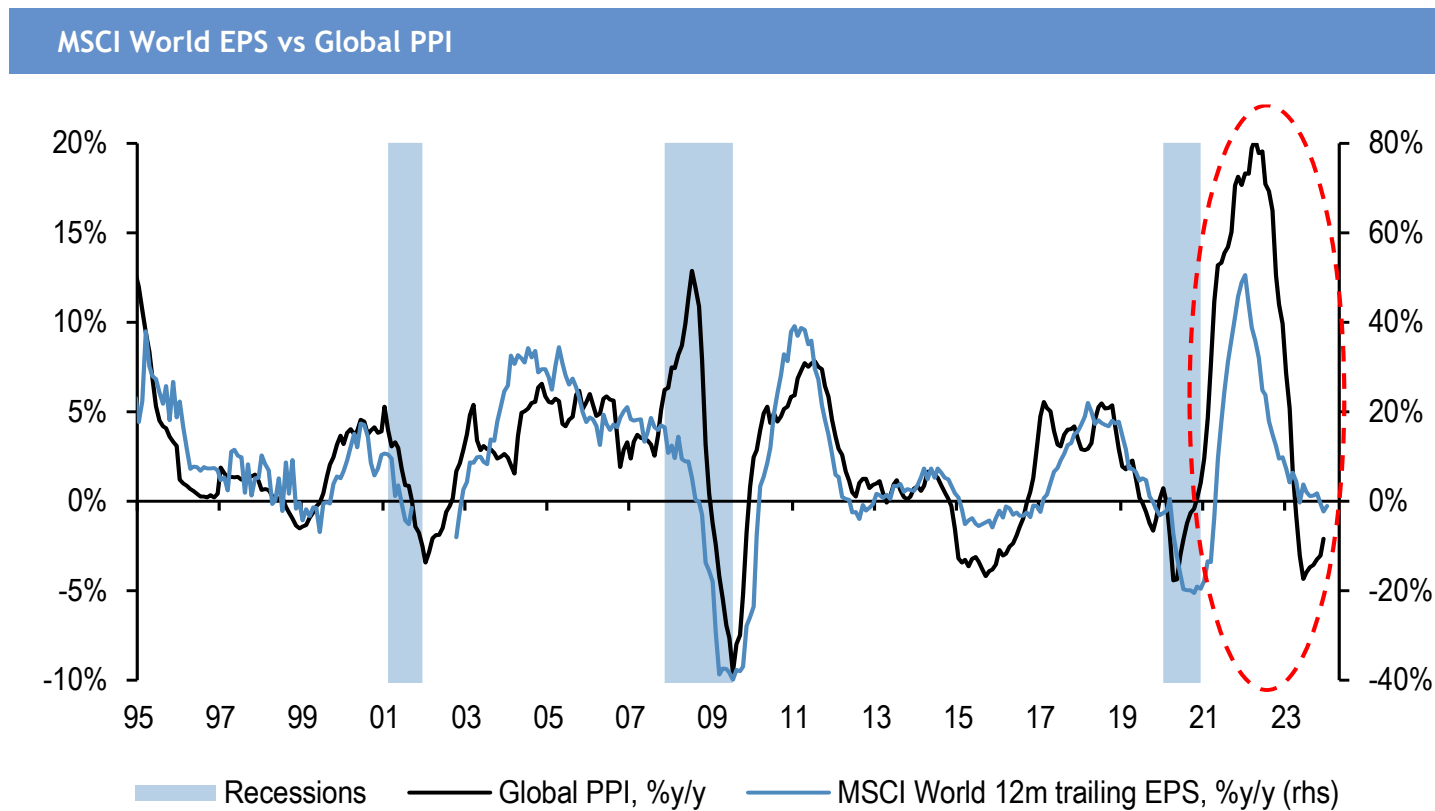
...consensus is looking for EPS growth re-acceleration this and next year...

MSCI World consensus EPS growth projections

| Earnings growth | MSCI World  |             |              |
|-----------------|-------------|-------------|--------------|
|                 | 2023e       | 2024e       | 2025e        |
| <b>Market</b>   | <b>0.8%</b> | <b>8.8%</b> | <b>11.3%</b> |
| Energy          | -25.0%      | -0.9%       | 3.7%         |
| Materials       | -30.2%      | 7.1%        | 8.3%         |
| Industrials     | 4.7%        | 9.2%        | 12.5%        |
| Discretionary   | 32.2%       | 9.1%        | 13.4%        |
| Staples         | 1.5%        | 5.9%        | 8.7%         |
| Healthcare      | -14.1%      | 14.7%       | 13.1%        |
| Financials      | 13.4%       | 6.2%        | 9.6%         |
| IT              | 3.8%        | 14.7%       | 17.2%        |
| Telecoms        | 22.0%       | 16.2%       | 13.6%        |
| Utilities       | 13.6%       | 2.4%        | 4.8%         |
| Real Estate     | -5.5%       | -0.2%       | 8.3%         |

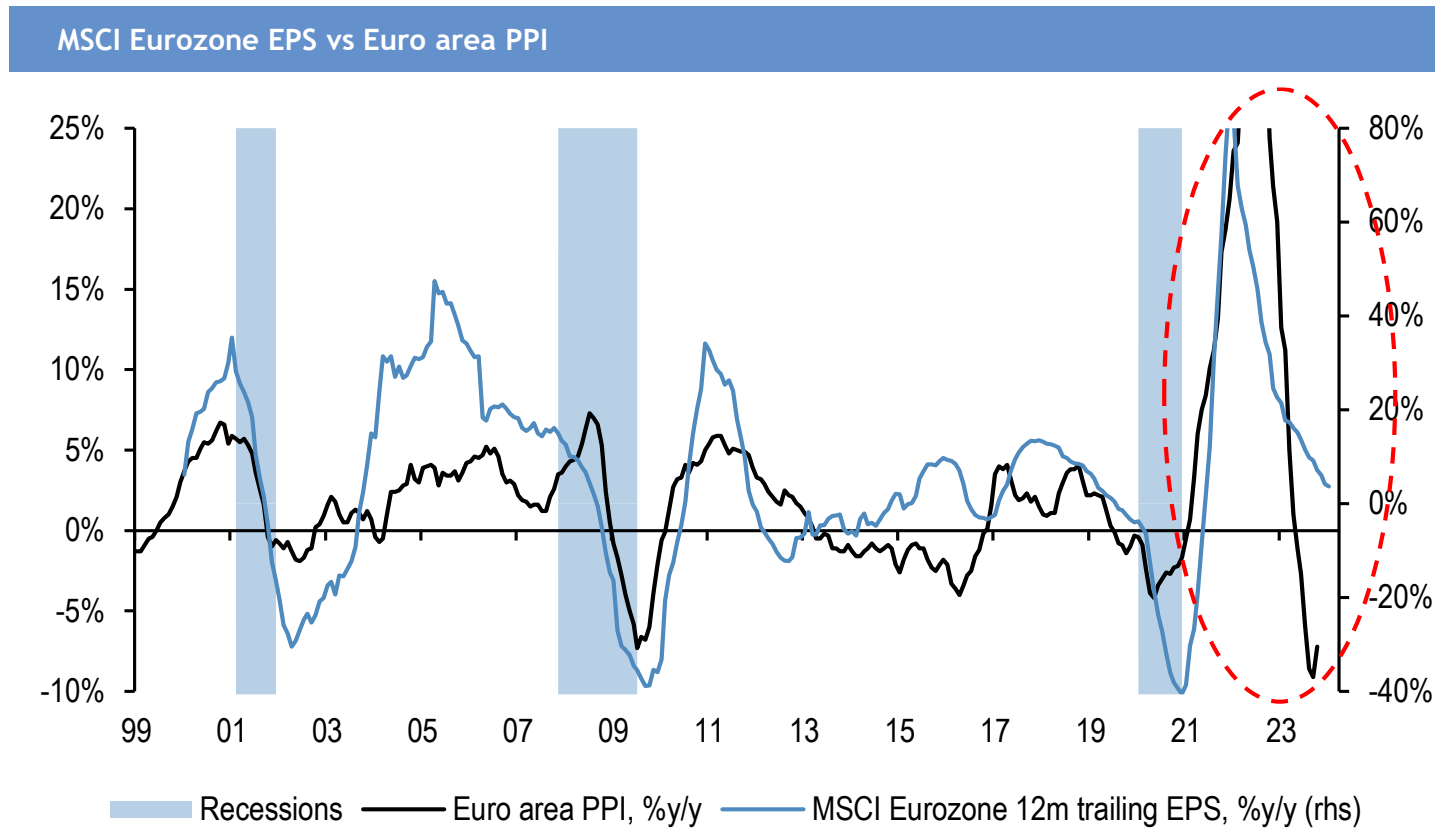
Source: IBES

...but, weakening pricing is set to be a constraint for earnings growth...



Source: IBES

...especially in Europe...



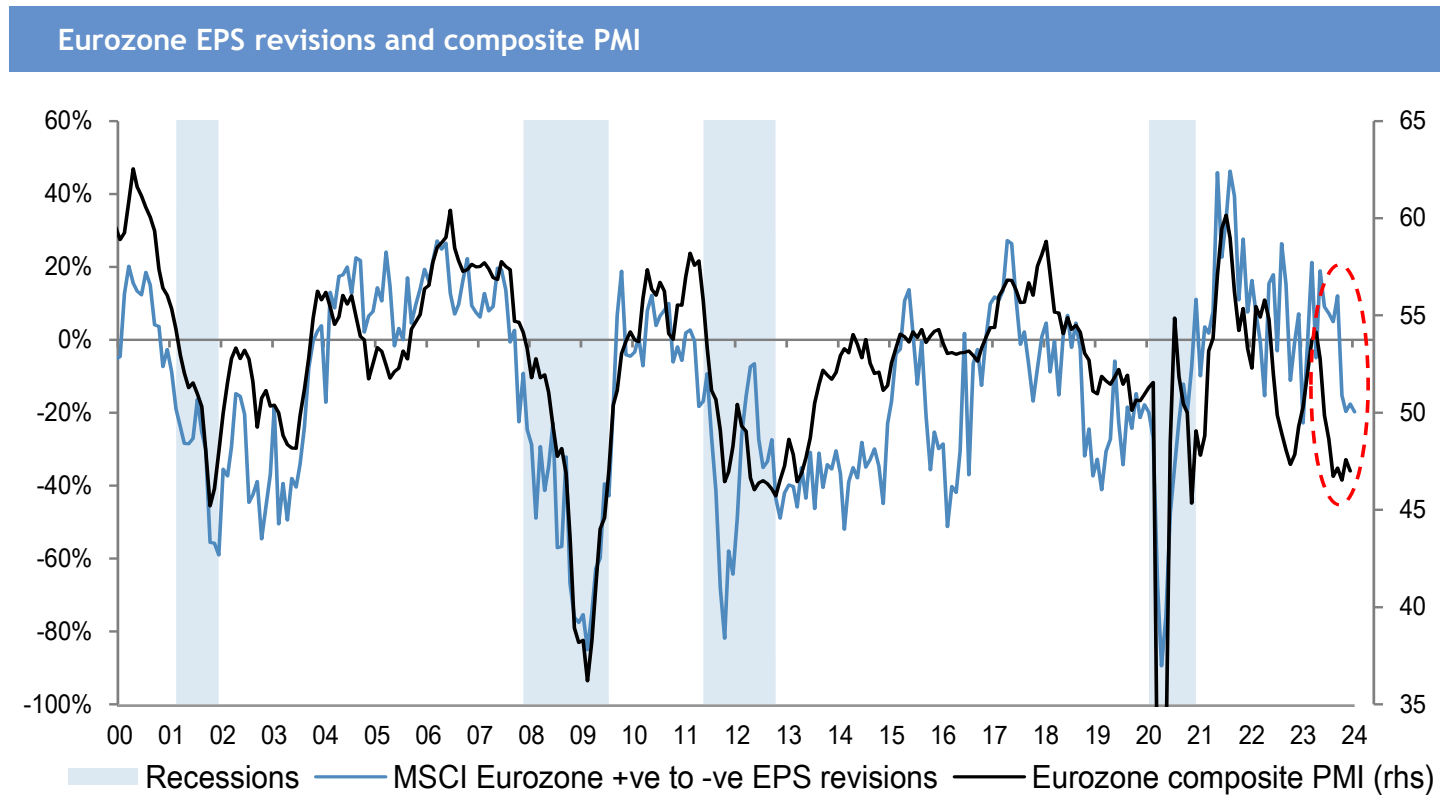
Source: IBES

...as could be the deteriorating operating leverage...



Source: IBES, S&P Global

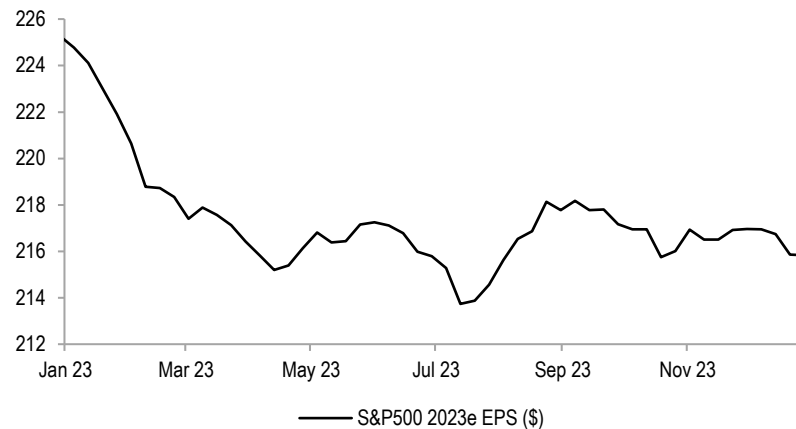
## ...EPS revisions are at risk of moving lower again



Source: IBES

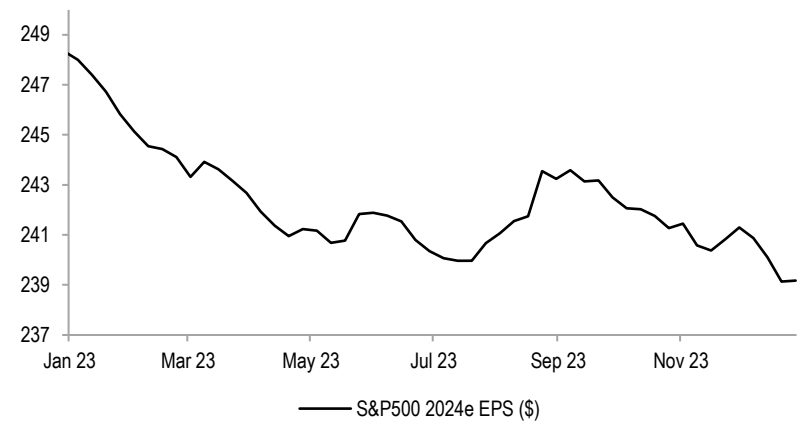
## Notably, 2023, 2024 and 2025 EPS projections are still on a downtrend, and near the lows

S&P500 2023e EPS (\$)



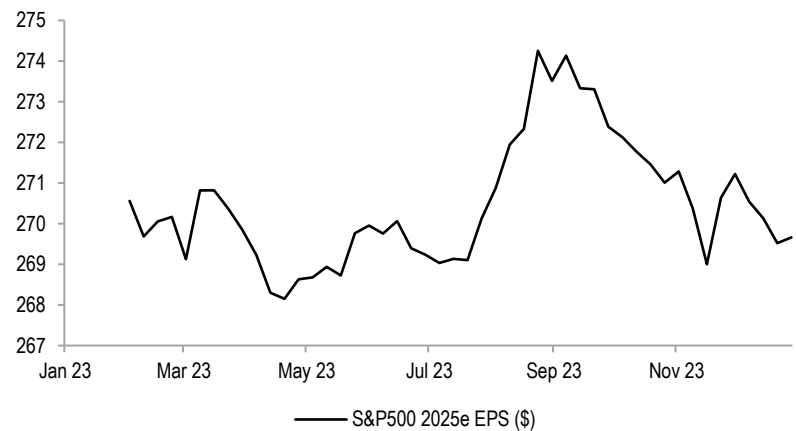
Source: IBES

S&P500 2024e EPS (\$)



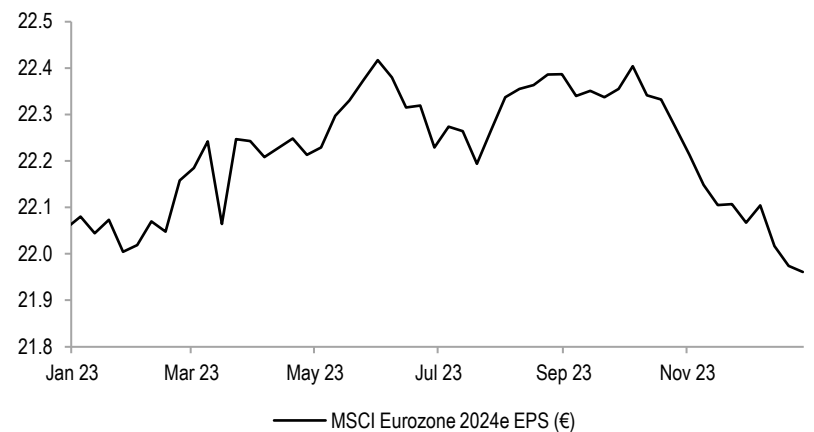
Source: IBES

S&P500 2025e EPS (\$)



Source: IBES

MSCI Eurozone 2024e EPS

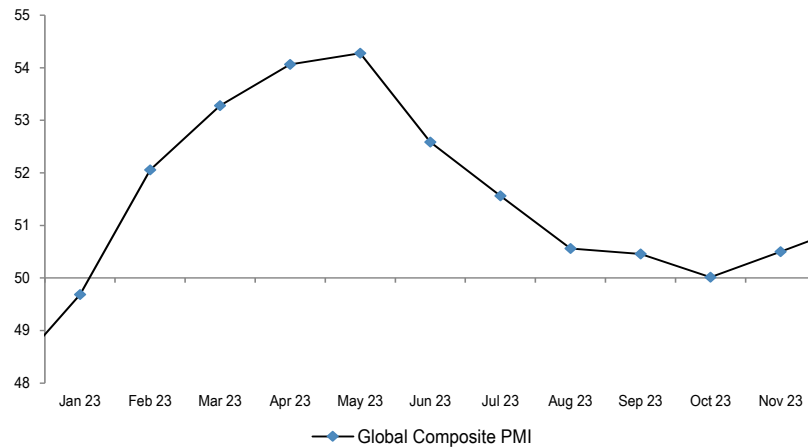


Source: IBES



# Global activity momentum has been softening since May...

Global composite PMI since Jan '23



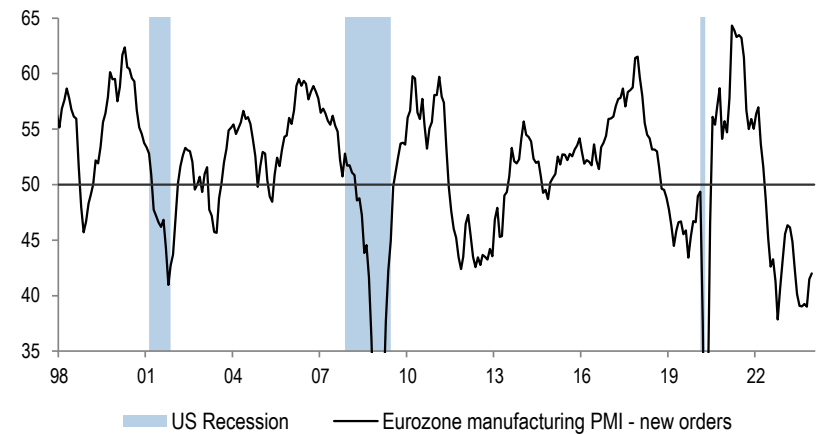
Source: J.P. Morgan

PMIs for key regions

|                 | Jan'23 | Feb'23 | Mar'23 | Apr'23 | May'23 | Jun'23 | Jul'23 | Aug'23 | Sep'23 | Oct'23 | Nov'23 | Dec'23 |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Global</b>   |        |        |        |        |        |        |        |        |        |        |        |        |
| Composite       | 49.7   | 52.1   | 53.3   | 54.1   | 54.3   | 52.6   | 51.6   | 50.6   | 50.5   | 50.0   | 50.5   | 51.0   |
| Manufacturing   | 49.1   | 49.9   | 49.6   | 49.6   | 49.5   | 48.7   | 48.6   | 49.0   | 49.2   | 48.8   | 49.3   | 49.0   |
| Services        | 50.0   | 52.5   | 54.3   | 55.3   | 55.3   | 53.8   | 52.6   | 51.0   | 50.7   | 50.4   | 50.6   | 51.6   |
| <b>US</b>       |        |        |        |        |        |        |        |        |        |        |        |        |
| Composite       | 46.8   | 50.1   | 52.3   | 53.4   | 54.3   | 53.2   | 52.0   | 50.2   | 50.2   | 50.7   | 50.7   | 50.9   |
| Manufacturing   | 46.9   | 47.3   | 49.2   | 50.2   | 48.4   | 46.3   | 49.0   | 47.9   | 49.8   | 50.0   | 49.4   | 47.9   |
| Services        | 46.8   | 50.6   | 52.6   | 53.6   | 54.9   | 54.4   | 52.3   | 50.5   | 50.1   | 50.6   | 50.8   | 51.4   |
| <b>Eurozone</b> |        |        |        |        |        |        |        |        |        |        |        |        |
| Composite       | 50.3   | 52.0   | 53.7   | 54.1   | 52.8   | 49.9   | 48.6   | 46.7   | 47.2   | 46.5   | 47.6   | 47.6   |
| Manufacturing   | 48.8   | 48.5   | 47.3   | 45.8   | 44.8   | 43.4   | 42.7   | 43.5   | 43.4   | 43.1   | 44.2   | 44.4   |
| Services        | 50.8   | 52.7   | 55.0   | 56.2   | 55.1   | 52.0   | 50.9   | 47.9   | 48.7   | 47.8   | 48.7   | 48.8   |
| <b>China</b>    |        |        |        |        |        |        |        |        |        |        |        |        |
| Composite       | 52.9   | 56.4   | 57.0   | 54.4   | 52.9   | 52.3   | 51.1   | 51.3   | 52.0   | 50.7   | 50.4   | 50.3   |
| Manufacturing   | 50.1   | 52.6   | 51.9   | 49.2   | 48.8   | 49.0   | 49.3   | 49.7   | 50.2   | 49.5   | 49.4   | 49.0   |
| Services        | 54.0   | 55.6   | 56.9   | 55.1   | 53.8   | 52.8   | 51.5   | 50.5   | 50.9   | 50.1   | 49.3   | 49.3   |
| <b>UK</b>       |        |        |        |        |        |        |        |        |        |        |        |        |
| Composite       | 48.5   | 53.1   | 52.2   | 54.9   | 54.0   | 52.8   | 50.8   | 48.6   | 48.5   | 48.7   | 50.7   | 52.1   |
| Manufacturing   | 47.0   | 49.3   | 47.9   | 47.8   | 47.1   | 46.2   | 45.3   | 43.0   | 44.3   | 44.8   | 47.2   | 46.2   |
| Services        | 48.7   | 53.5   | 52.9   | 55.9   | 55.2   | 53.7   | 51.5   | 49.5   | 49.3   | 49.5   | 50.9   | 53.4   |

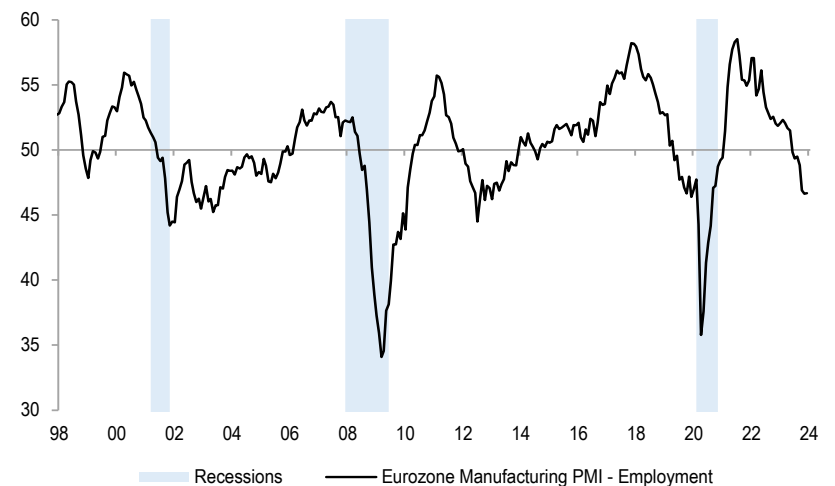
Source: Bloomberg Finance L.P.

Eurozone manufacturing PMI - new orders



Source: J.P. Morgan

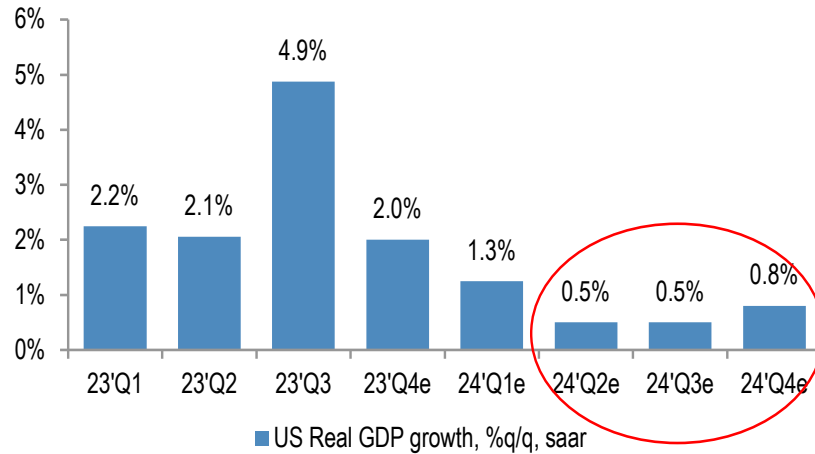
Eurozone Manufacturing PMI - Employment



Source: J.P. Morgan

## ...real GDP growth could be at stall speed for the chunk of 2024...

### US Real GDP forecasts



Source: J.P. Morgan

### Profit margins and Earnings in different GDP regimes

| US Real GDP, %y/y | Profit Margins, yoy, bps | NIPA Profits, %yoy | S&P 500 EPS, %y/y |
|-------------------|--------------------------|--------------------|-------------------|
| <-3%              | -51                      | -8%                | -79%              |
| -3% to -2%        | -96                      | -9%                | -26%              |
| -2% to -1%        | -83                      | -8%                | -6%               |
| -1% to 0%         | 11                       | 4%                 | -3%               |
| 0% to 1%          | -29                      | 1%                 | -13%              |
| 1% to 2%          | -40                      | 1%                 | 0%                |
| 2% to 3%          | 19                       | 7%                 | 10%               |
| 3% to 4%          | 45                       | 11%                | 15%               |
| 4% to 5%          | 24                       | 9%                 | 16%               |
| >5%               | 93                       | 23%                | 25%               |

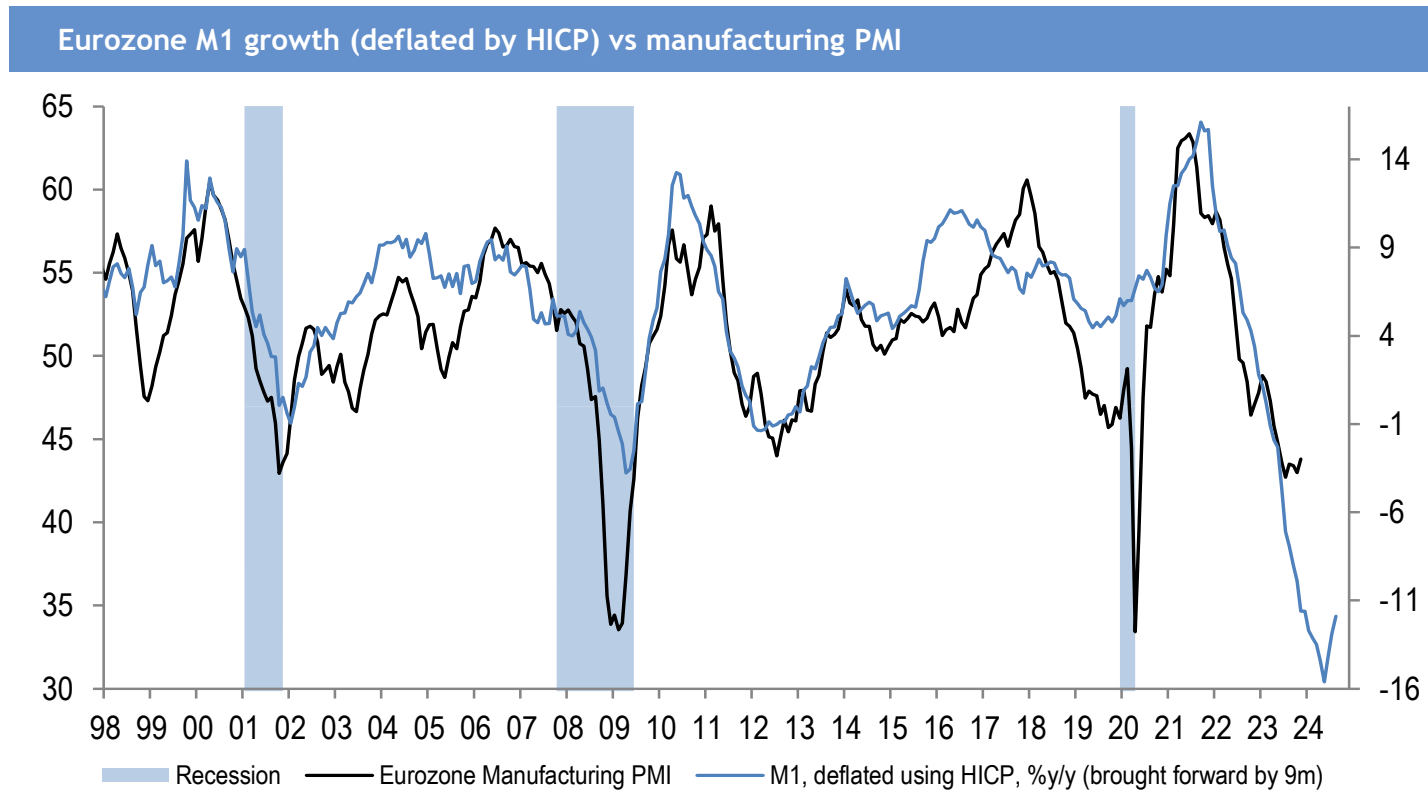
Source: J.P. Morgan, IBES

### Key Regions - JPM Real GDP growth projections

|                | Real GDP, %y/y |       |       |
|----------------|----------------|-------|-------|
|                | 2023E          | 2024E | 2025E |
| United States  | 2.5%           | 1.6%  | 1.5%  |
| Eurozone       | 0.5%           | 0.4%  | 1.0%  |
| United Kingdom | 0.6%           | 0.1%  | -0.1% |
| China          | 5.2%           | 4.9%  | 4.0%  |
| Global         | 2.6%           | 2.2%  | 2.2%  |

Source: J.P. Morgan

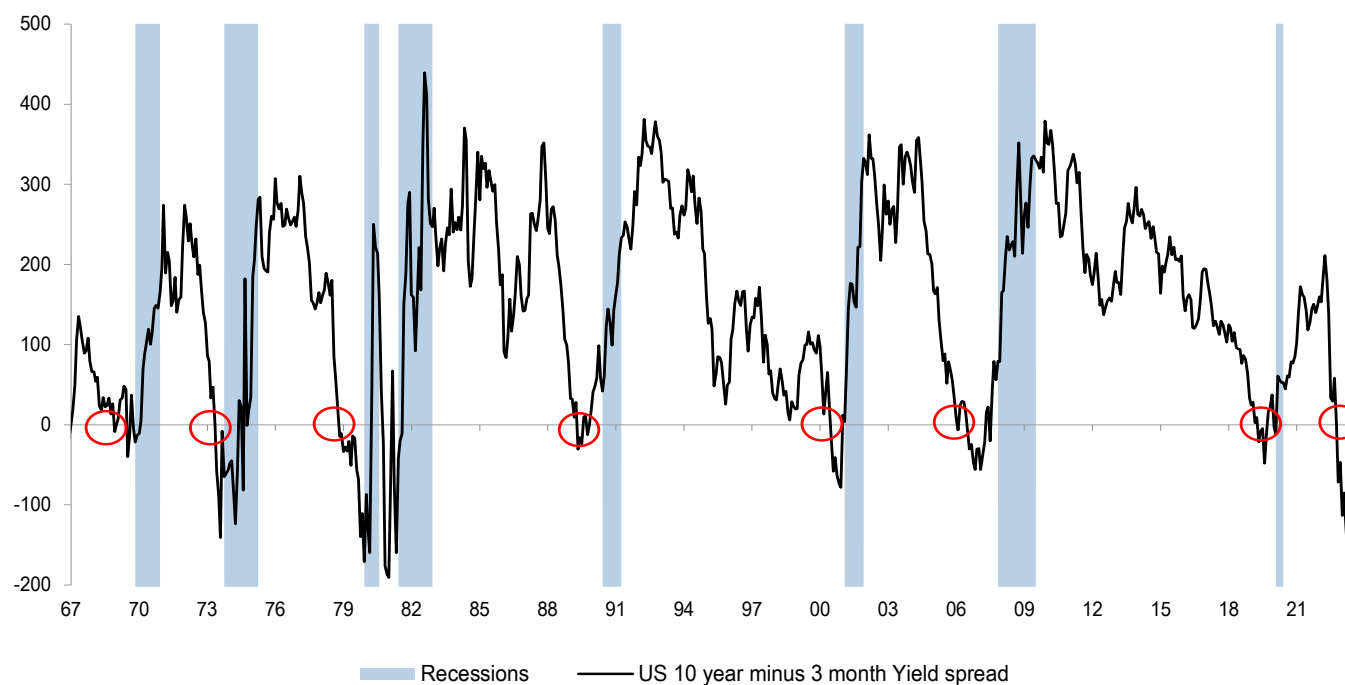
## ...lead indicators point to continued PMI weakness



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

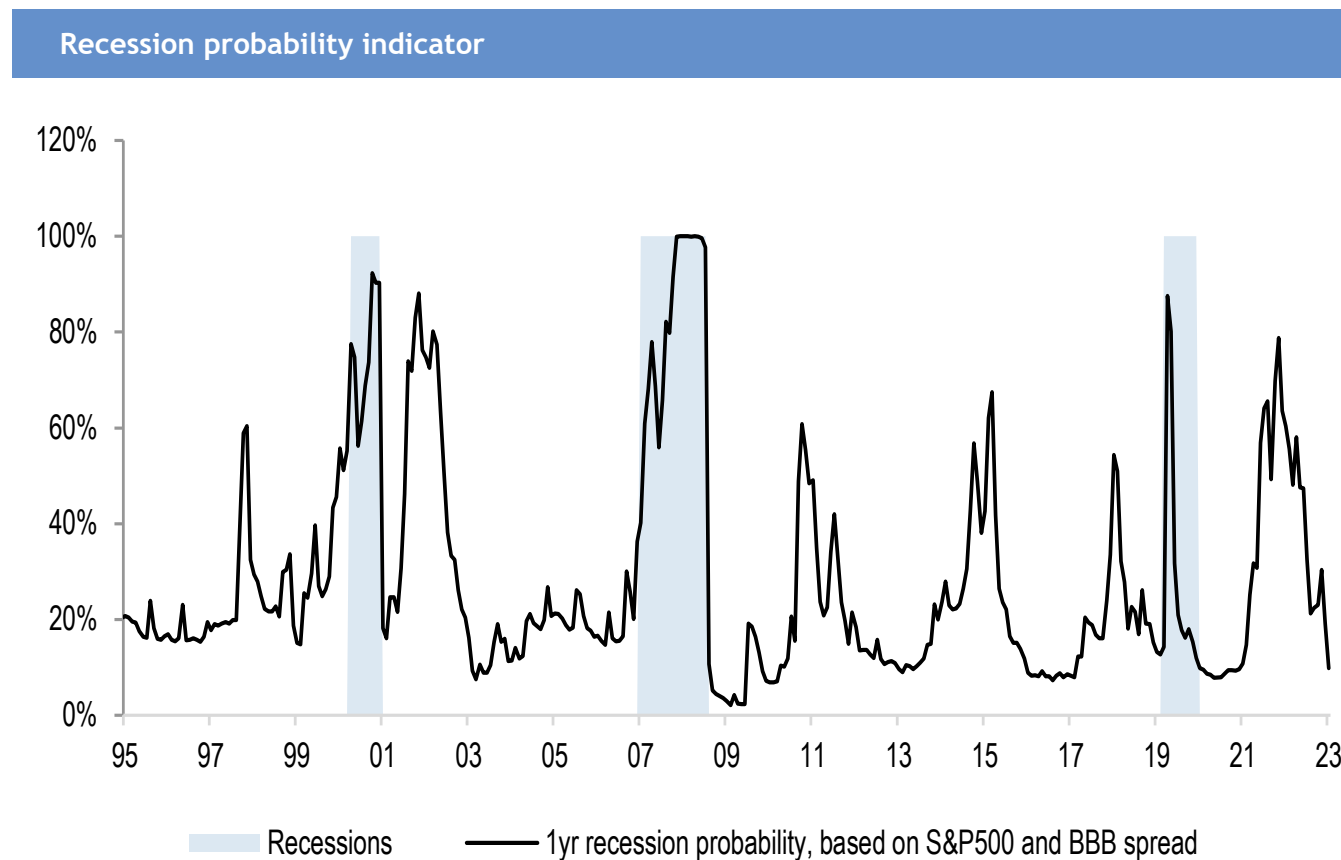
The consensus has shifted to no landing, but the yield curve was never wrong...  
the lead-lag was around 18 months... it inverted in October '22

US 10Y - 3M yield curve and recessions



Source: Datastream

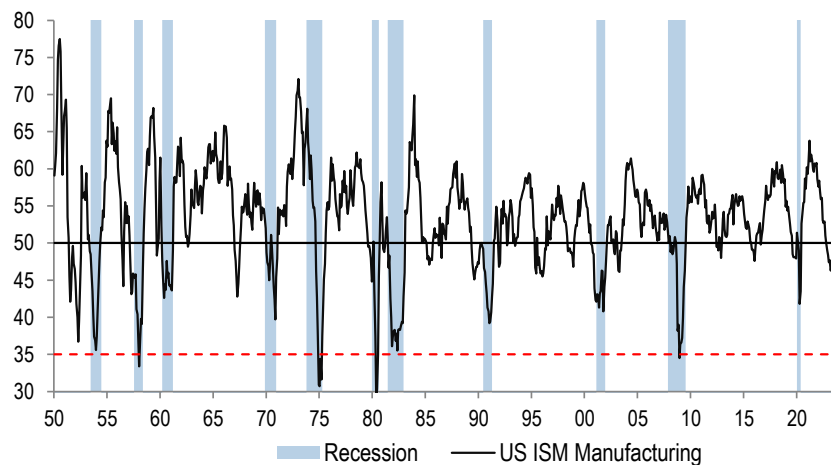
Unlike a year ago, consensus and positioning are far less bearish...



Source: J.P. Morgan

## ...ISM framework buy signal has passed

ISM Manufacturing New Orders to Inventories ratio



Source: S&P Global

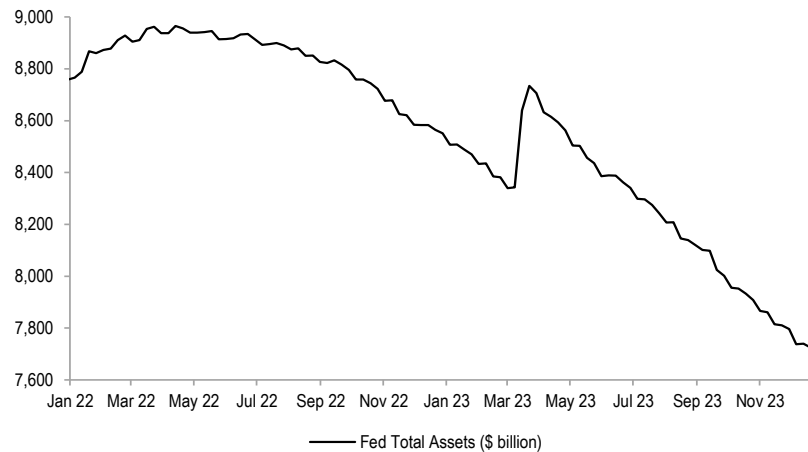
SPX performance around New Orders to Inventories lows

|                   | SPX Performance when New Orders to inventories hits 0.84 or below for the first time |            |            |            |
|-------------------|--|------------|------------|------------|
|                   | +1m  | +3m        | +6m        | +12m       |
| Apr 51            | -1%  | 0%         | 8%         | 7%         |
| Jun 51            | 0%   | 7%         | 6%         | 11%        |
| Jun 56            | 5%   | 2%         | 0%         | 4%         |
| Jul 73            | -1%  | 6%         | -9%        | -20%       |
| Sep 74            | 10%  | 3%         | 30%        | 27%        |
| Apr 80            | 4%   | 16%        | 30%        | 31%        |
| Oct 81            | 2%   | -3%        | -3%        | 12%        |
| Oct 08            | -4%  | -7%        | -6%        | 21%        |
| Dec 08            | -3%  | -13%       | 6%         | 28%        |
| Apr 20            | 3%   | 16%        | 25%        | 50%        |
| Jul 22            | 11%  | -7%        | 4%         | 17%        |
| <b>Average</b>    | <b>2%</b>  | <b>2%</b>  | <b>8%</b>  | <b>17%</b> |
| <b>Median</b>     | <b>2%</b>  | <b>2%</b>  | <b>6%</b>  | <b>17%</b> |
| <b>% positive</b> | <b>55%</b>   | <b>55%</b> | <b>73%</b> | <b>91%</b> |

Source: S&P Global

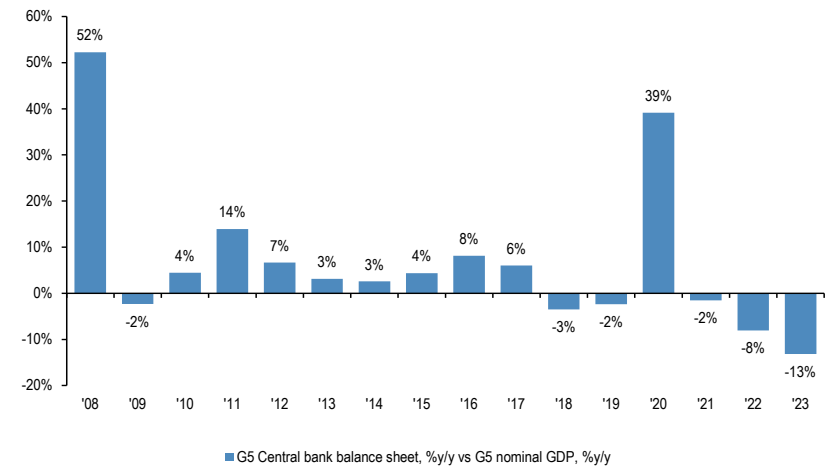
# Mini QE resulted as a response to the March banking crisis, but the big picture is one of a continued withdrawal of excess liquidity

Fed total assets - since Jan '22



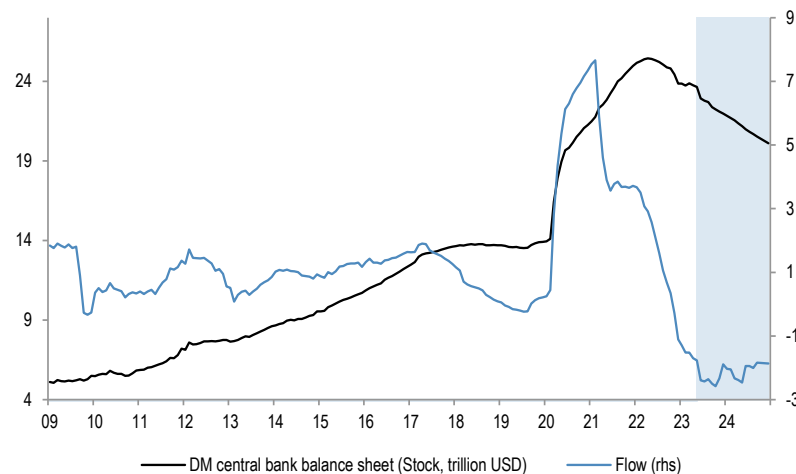
Source: Bloomberg Finance L.P.

G5 central banks balance sheet vs nominal GDP growth



Source: J.P. Morgan

DM central bank balance sheet



Source: J.P. Morgan

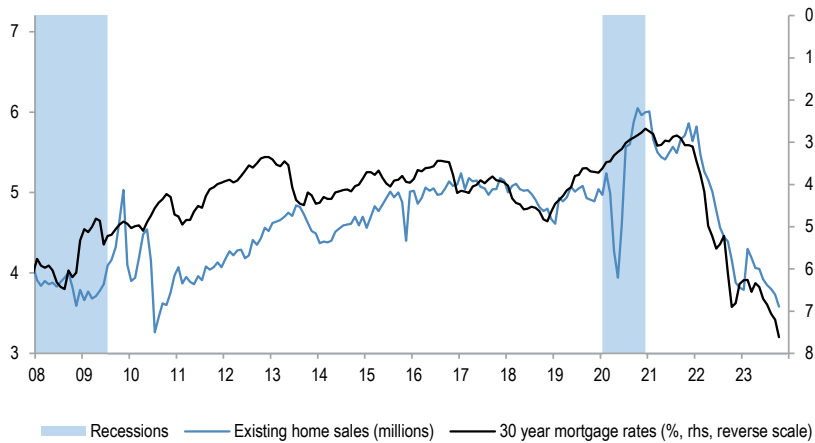
DM Central bank balance sheet (\$bn)

|              | 2018      | 2019       | 2020        | 2021        | 2022         | 2023         | 2024         |
|--------------|-----------|------------|-------------|-------------|--------------|--------------|--------------|
| Fed          | -385      | 115        | 3161        | 1431        | -258         | -754         | -930         |
| ECB          | 244       | -32        | 2473        | 1695        | -639         | -1109        | -776         |
| BoJ          | 204       | 139        | 860         | 141         | -132         | 401          | -66          |
| BoE          | 34        | -12        | 388         | 274         | -27          | -188         | -177         |
| BoC          | 4         | 3          | 312         | -35         | -65          | -70          | -111         |
| RBA          | -6        | 0          | 91          | 197         | 0            | -42          | -80          |
| RBNZ         | 1         | -3         | 28          | 10          | 7            | -2           | -6           |
| <b>Total</b> | <b>96</b> | <b>210</b> | <b>7313</b> | <b>3713</b> | <b>-1114</b> | <b>-1764</b> | <b>-2146</b> |

Source: J.P. Morgan; \*12m difference as of December

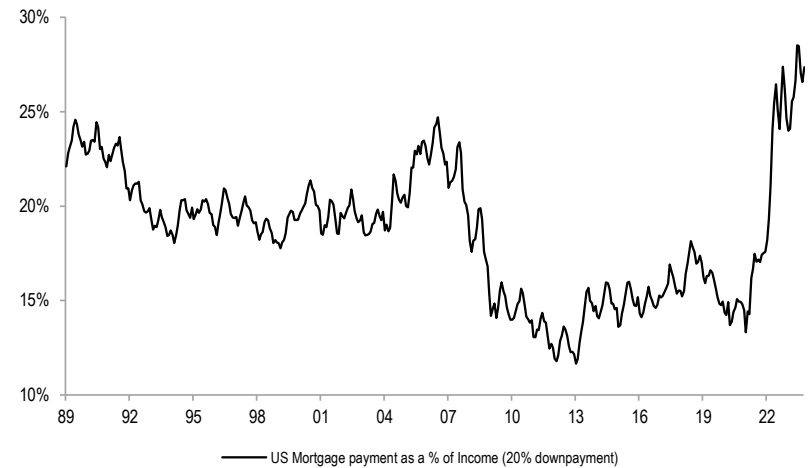
# Consumer has been resilient so far, will that continue?

## US existing home sales and mortgage rates



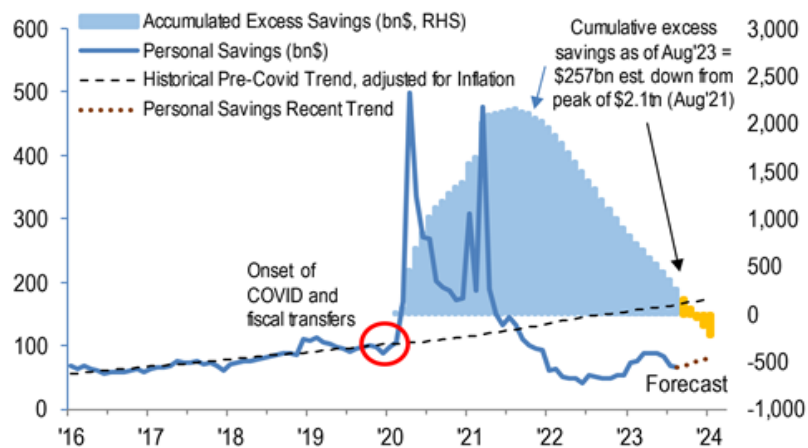
Source: Bloomberg Finance L.P.

## US homebuyer affordability - % of spending on mortgage payments



Source: Bloomberg Finance L.P., IBES

## US excess savings



Source: J.P. Morgan US Equity Strategy

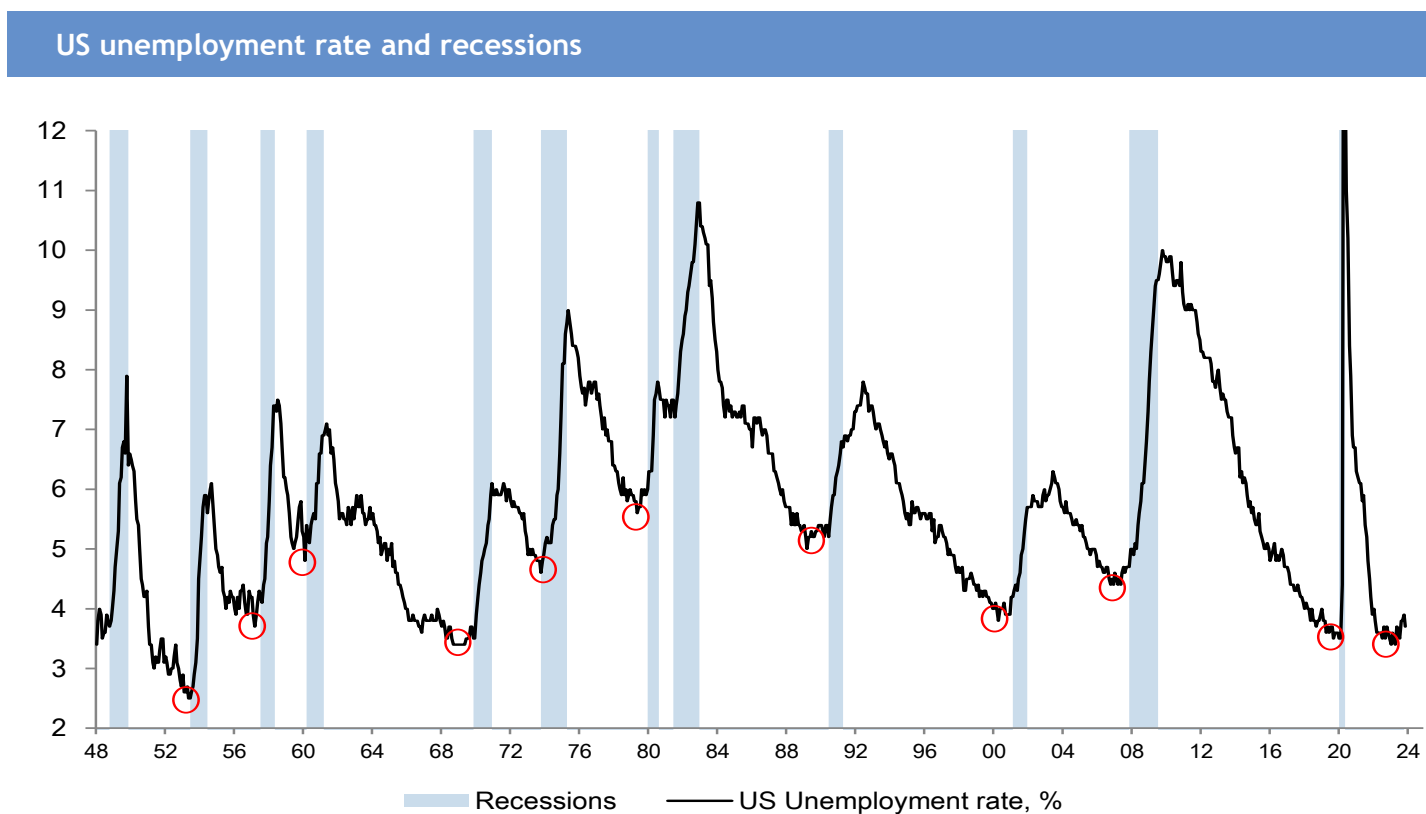
## US savings rate



Source: Bloomberg Finance L.P.

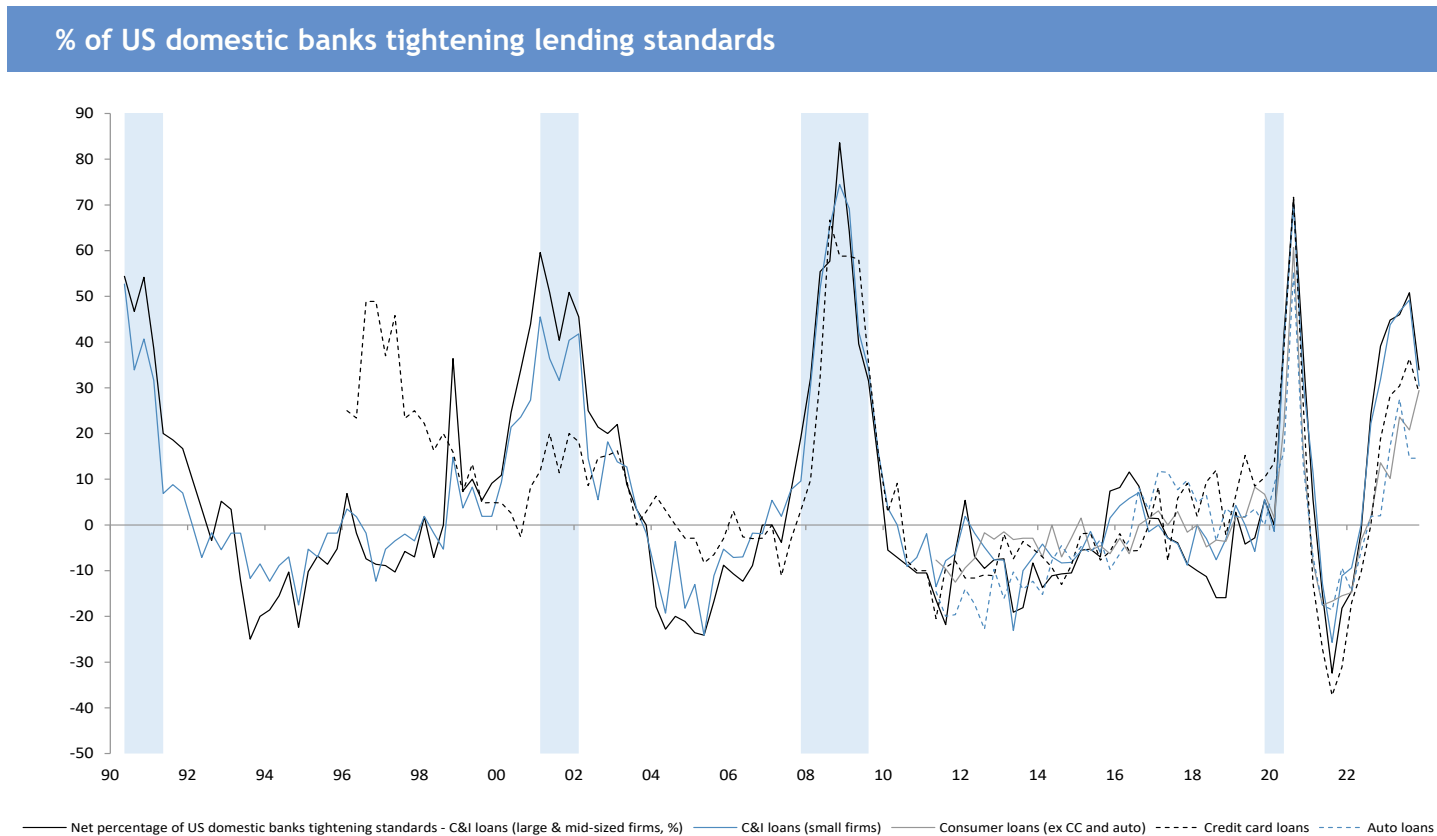


Labour market is a lagging indicator... the time between the best labour prints in the cycle and the next slowdown is quite short



Source: Bloomberg Finance L.P.

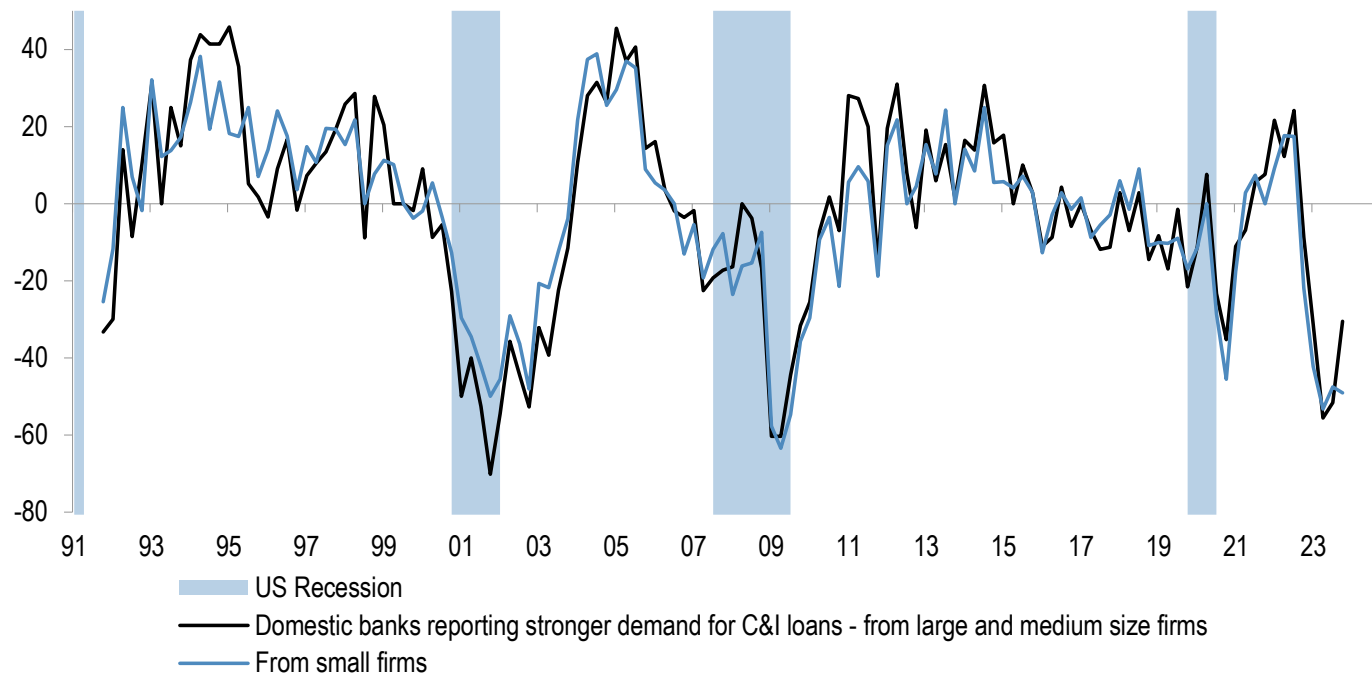
## Credit conditions have tightened...



Source: FRB

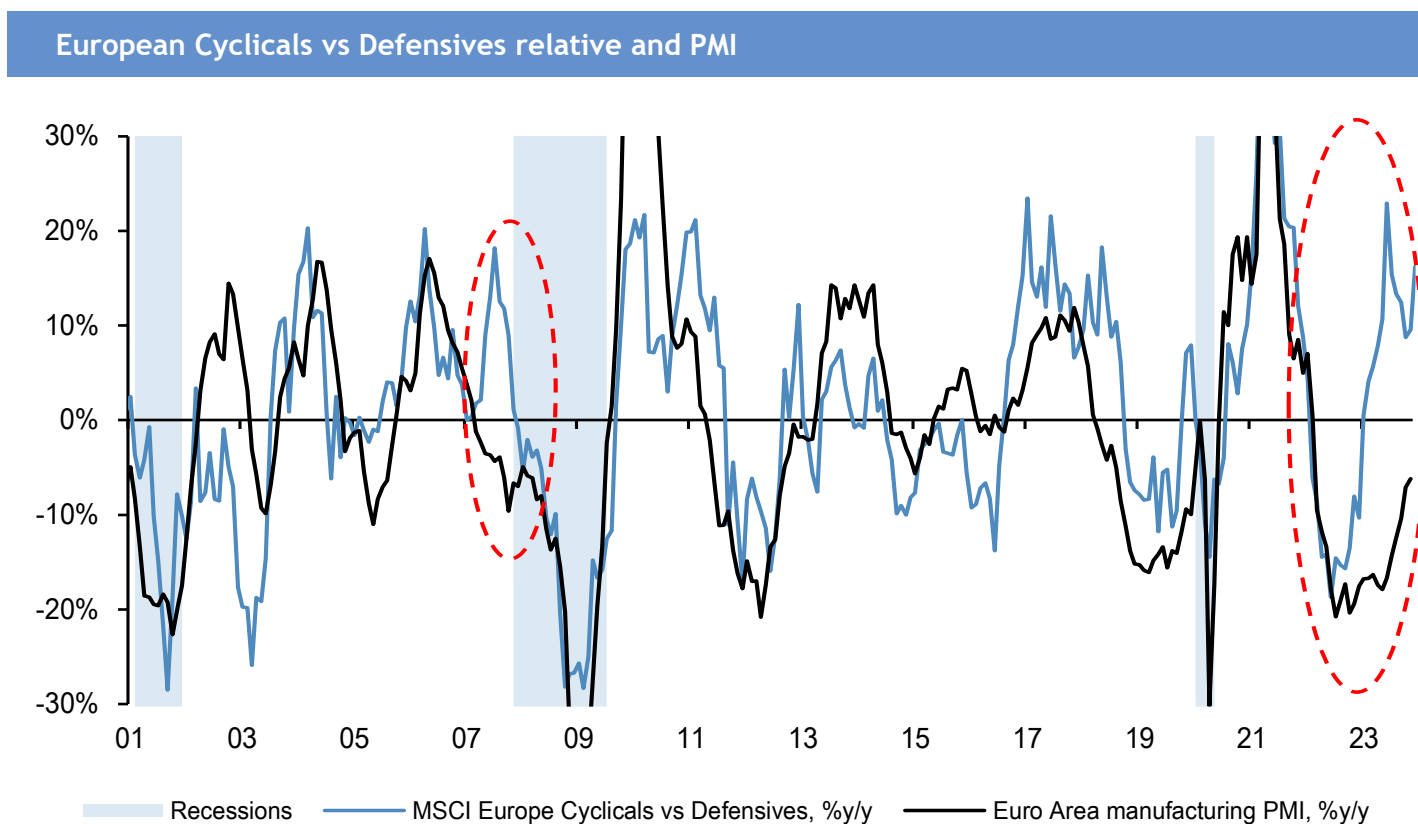
...demand for credit has come down aggressively, the most since GFC

Domestic banks reporting stronger demand for C&I loans



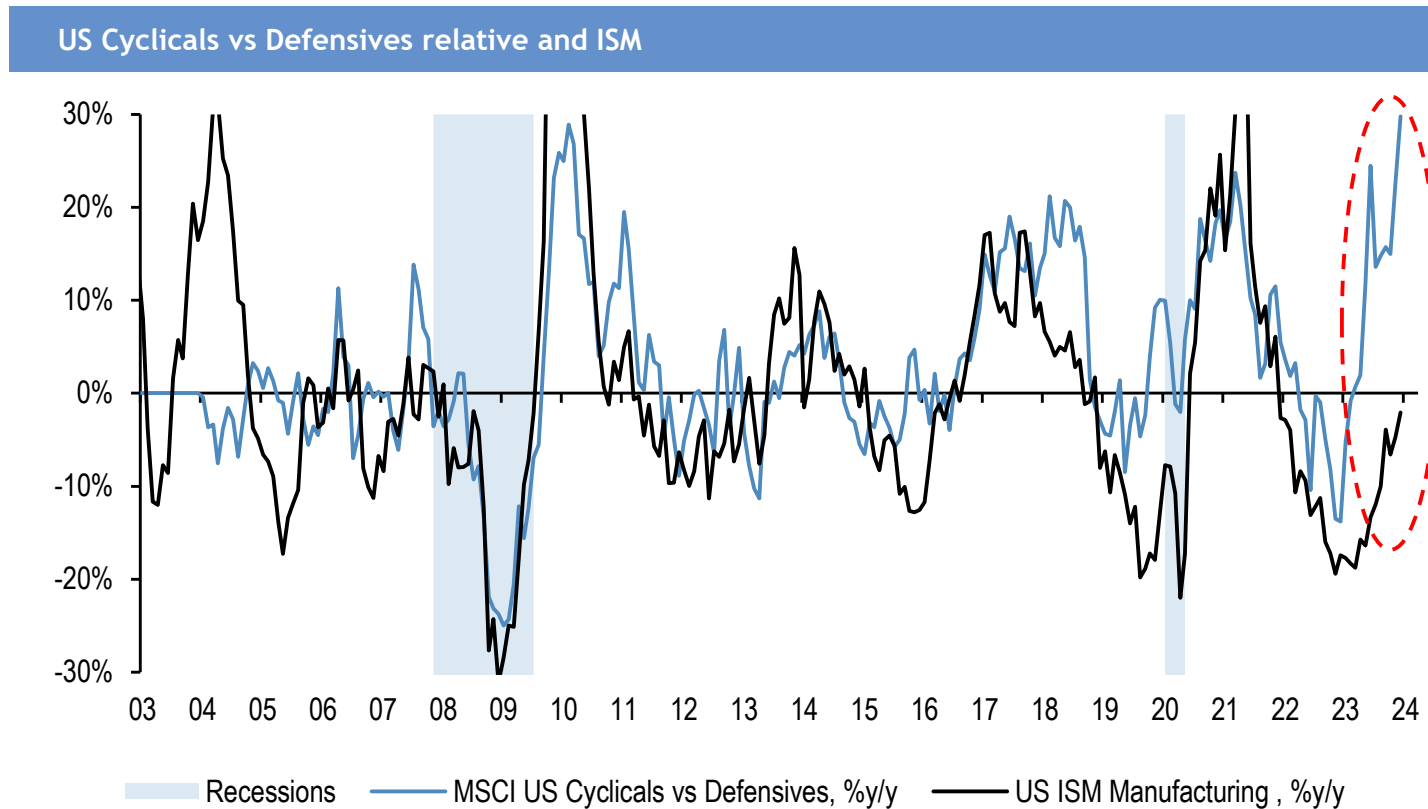
Source: FRB

Market is far from pricing in a risk of a downturn... the gap that opened up between the performance of Cyc vs Def sectors and PMIs is still open...



Source: IBES, S&P Global

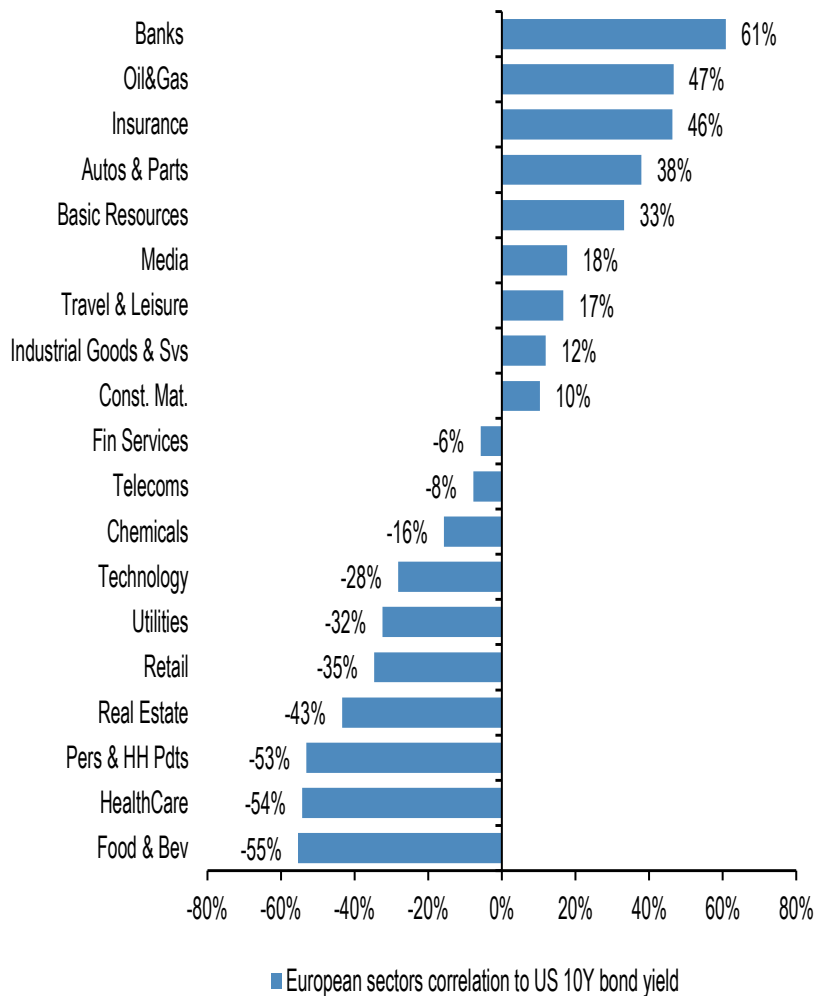
...US market is showing a similar gap



Source: IBES, S&P Global

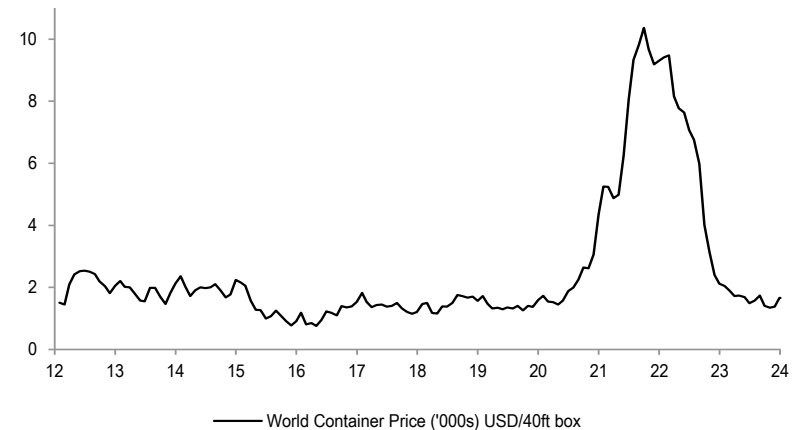
**Value & Cyclical**s are typically positively correlated to bond yields and to earnings... we keep the longstanding view that inflation will continue moving down on an end to COVID distortions

#### European Sector correlation to US 10Y bond yields



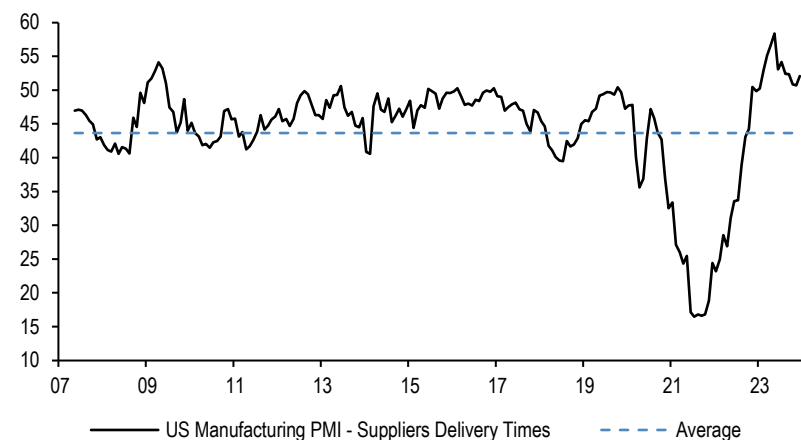
Source: Datastream

#### World Container Prices



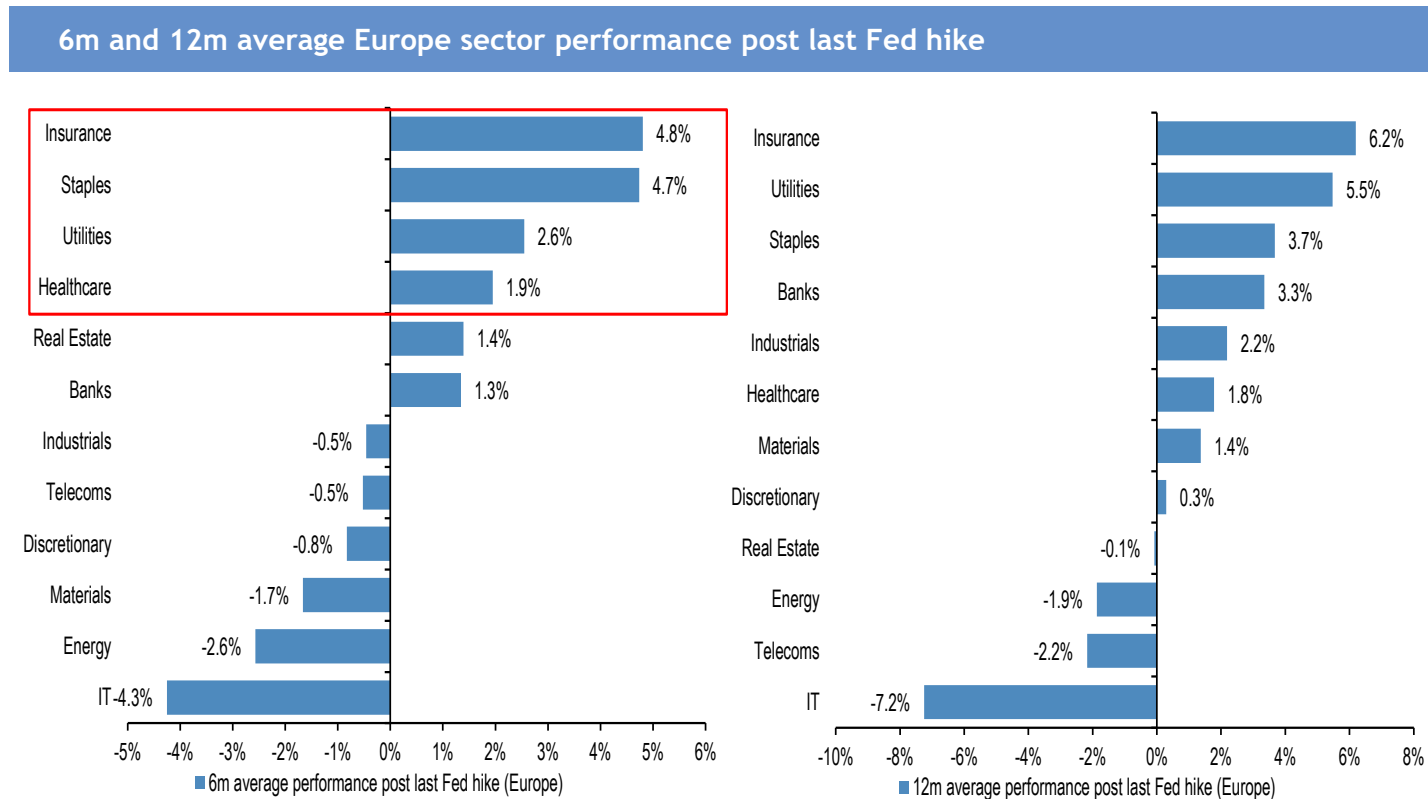
Source: Bloomberg Finance L.P.

#### US Manufacturing PMI - Suppliers Delivery Times



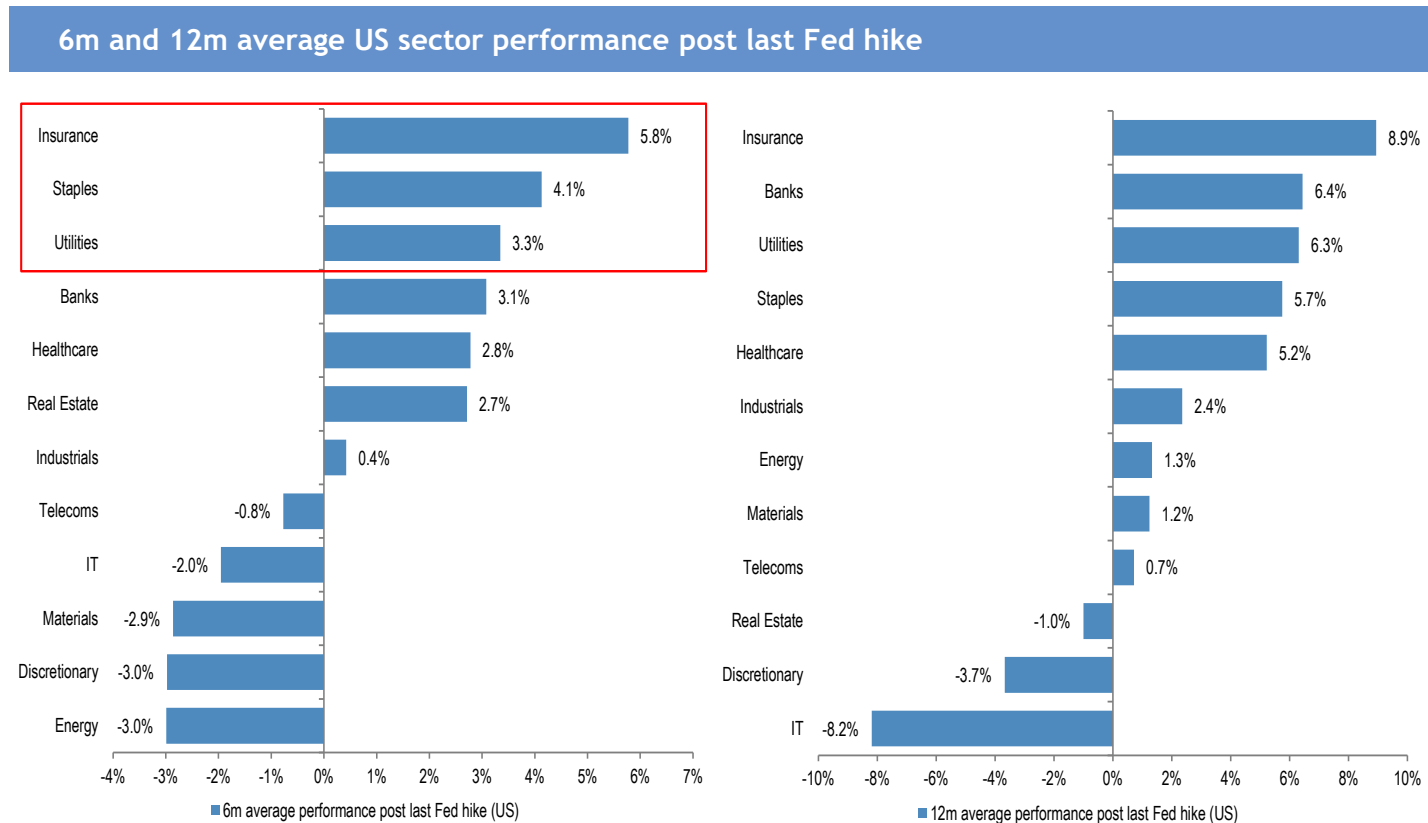
Source: J.P. Morgan

## Trading around the final Fed hike in the cycle - Defensives tended to outperform...



Source: Datastream

...similar sector leadership is visible in the US

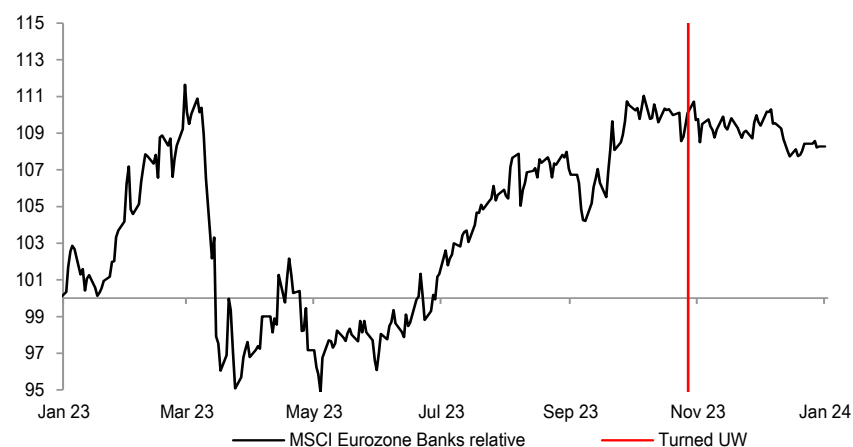


Source: Datastream



# We advised recently to go short European Banks, taking advantage of their very strong rally in the last 3 years

MSCI Eurozone Banks relative



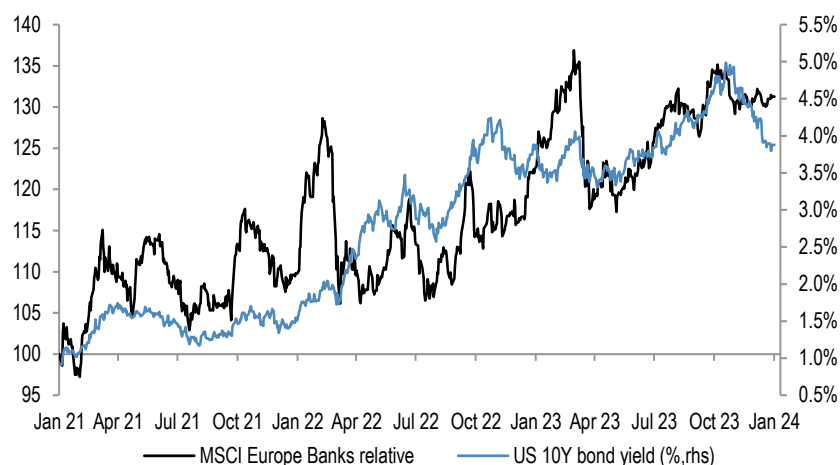
Source: Bloomberg Finance L.P.

MSCI Europe Banks relative and EPS relative



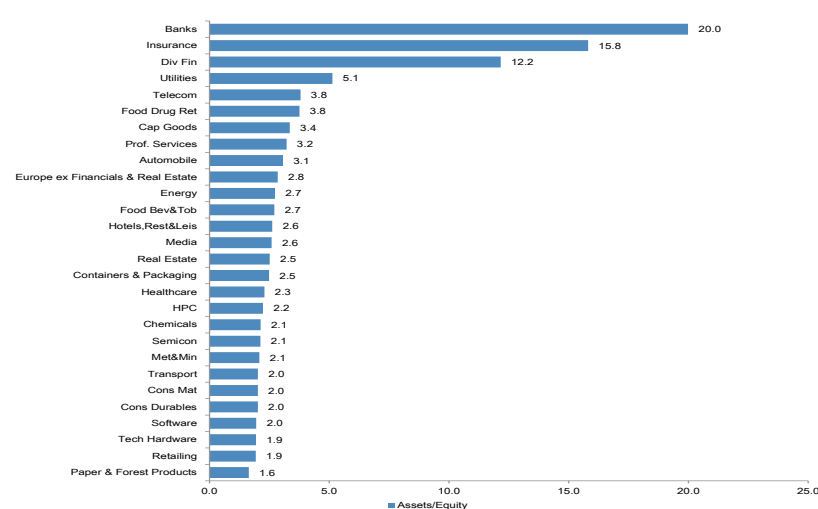
Source: Bloomberg Finance L.P., IBES

European Banks relative vs US 10Y bond yield



Source: Bloomberg Finance L.P.

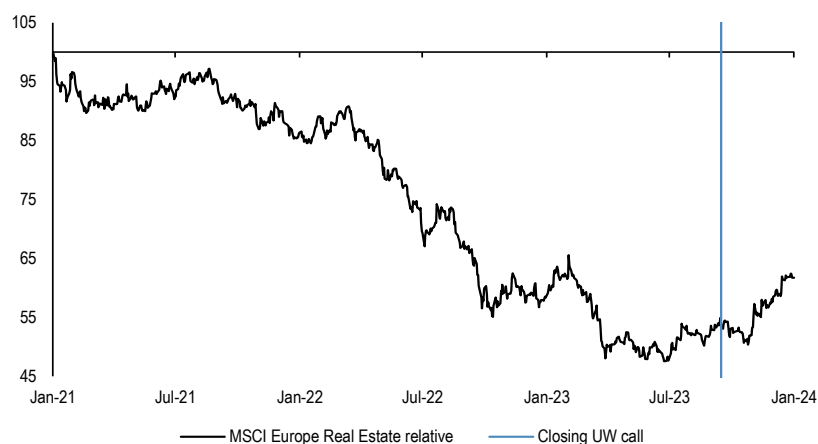
MSCI Europe sectors Asset to Equity



Source: Bloomberg Finance L.P.

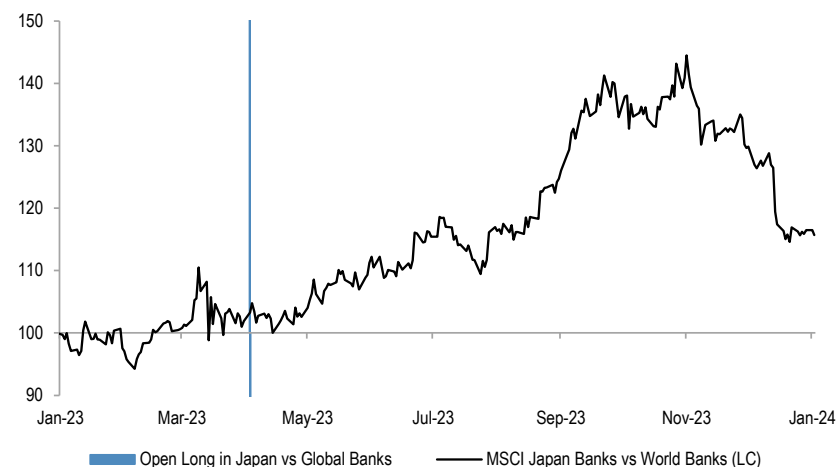
# We recently closed our 2-year long UW on Real Estate; OW Utilities; Stay OW Japanese vs Eurozone Banks

European Real Estate price relative



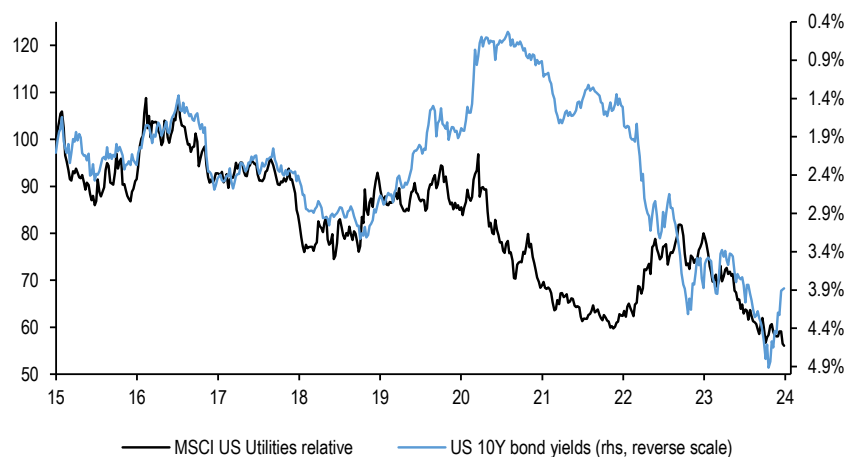
Source: Datastream

MSCI Japan Banks relative to Global Banks



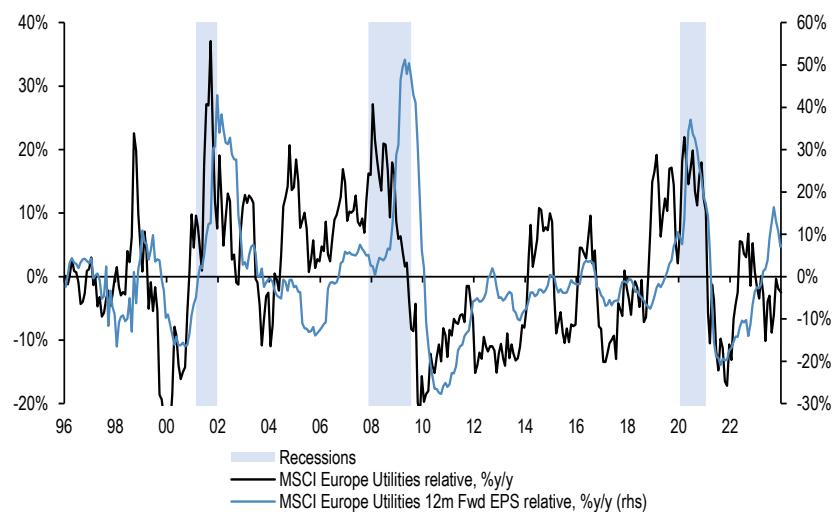
Source: Datastream

MSCI US Utilities relative and bond yields



Source: Bloomberg Finance L.P.

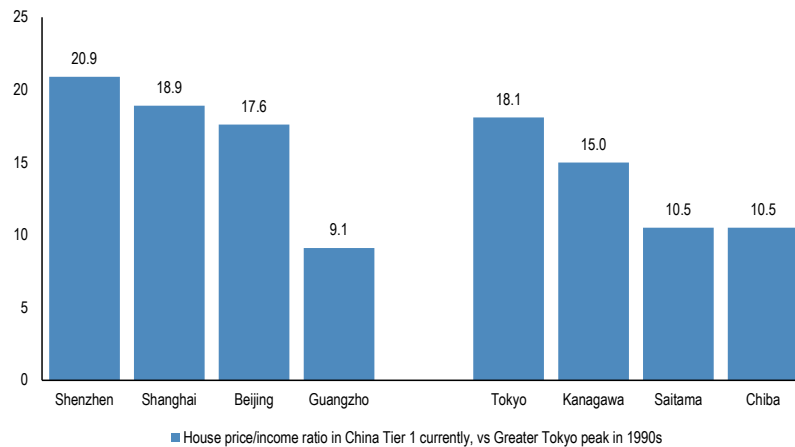
European Utilities relative and EPS relative



Source: IBES

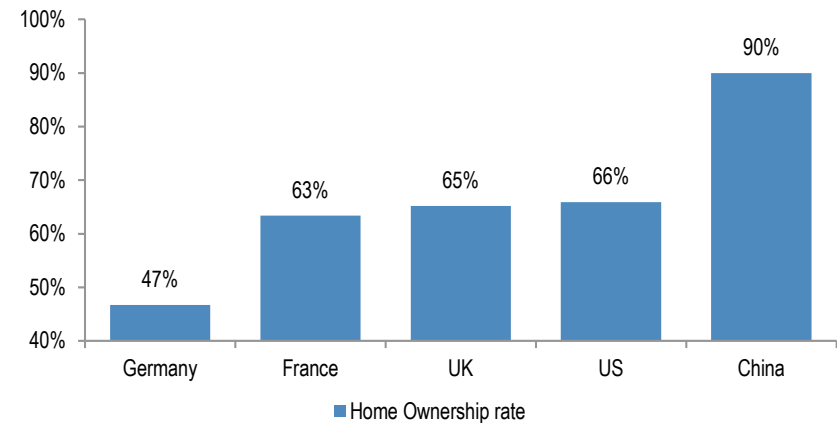
# We are medium term bearish on China... China equities are already down 20%+ from January '23 highs...

House price to income ratio in China Tier 1 cities, vs Japan in 1990s



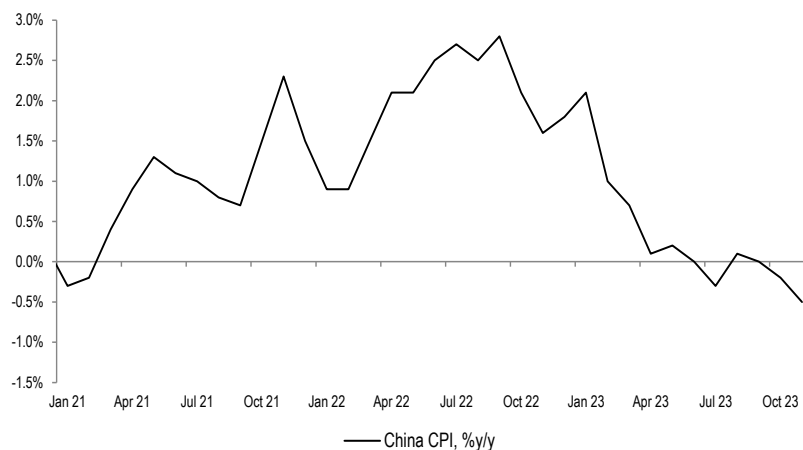
Source: J.P. Morgan China Strategy

Home ownership rate



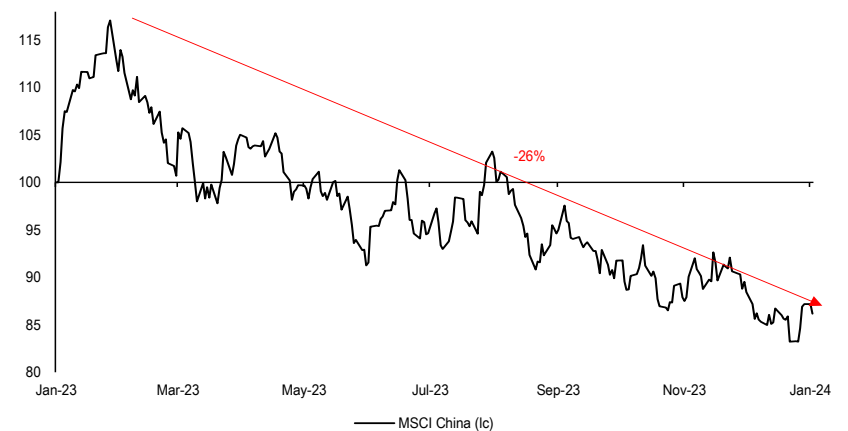
Source: Various Websites

China CPI



Source: Bloomberg Finance L.P.

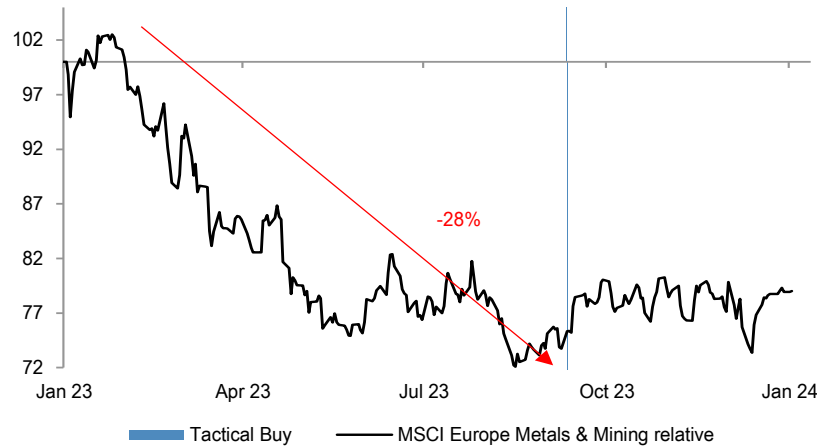
MSCI China



Source: Datastream

...however, we advised in September to close the shorts in Mining... we stay OW Energy

MSCI Europe Miners relative



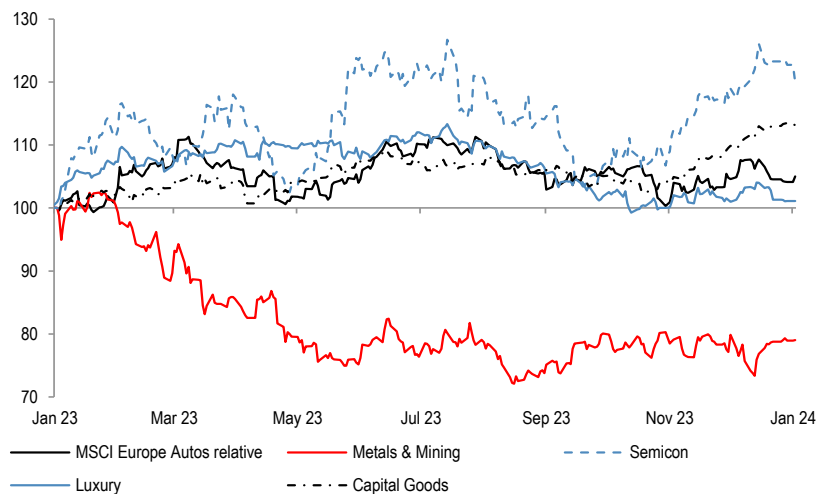
Source: Datastream

MSCI Europe Energy relative



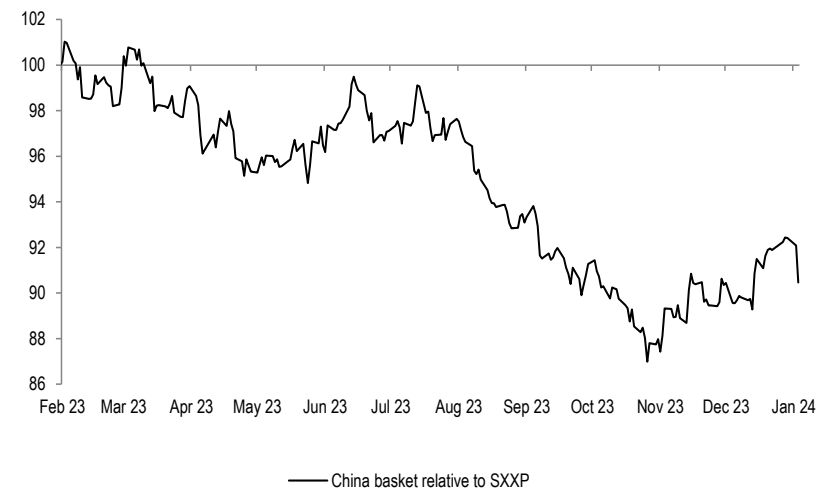
Source: Datastream

European sectors relative



Source: Datastream

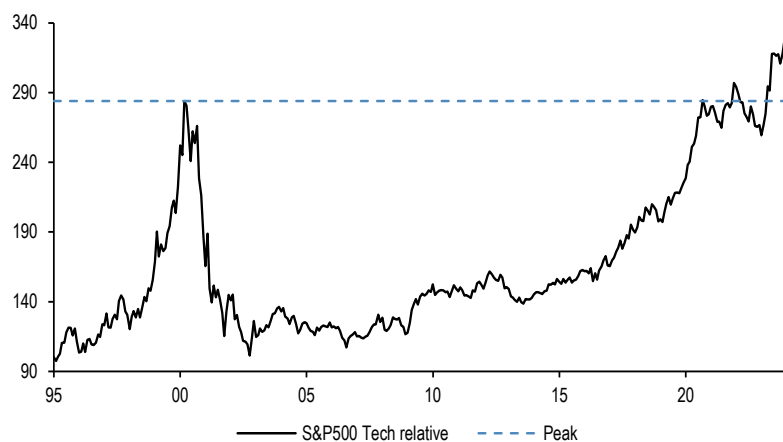
JPM China Exposure basket relative



Source: Bloomberg Finance L.P.

Tech should at face value be supported in 2024 given that it is a long duration structural growth sector, but it has dramatically frontloaded the returns in 2023

S&P500 Tech relative



Source: Datastream

MSCI World Tech 12m Fwd. P/E relative



Source: IBES

Even as US equity market valuations are unattractive, we remain OW vs Eurozone, for now... only Japan is outright cheap vs bonds...

MSCI US 12m Fwd. P/E relative to World ex US



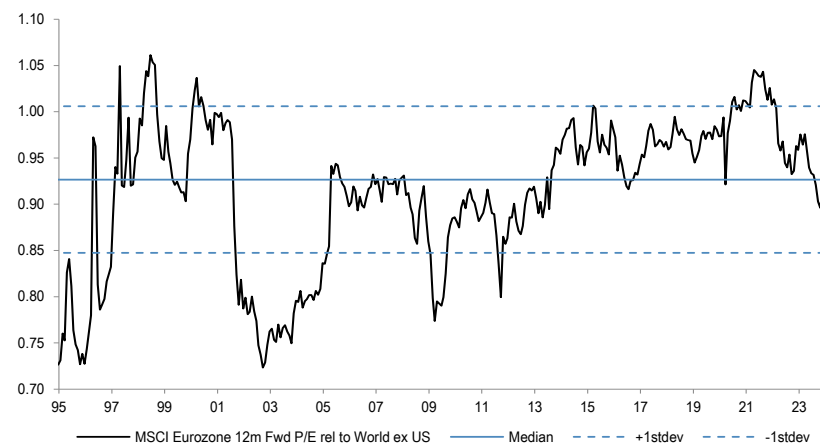
Source: IBES

12m Fwd. P/E across key geographies

|             | Current | 20Y Median | Current vs Median |
|-------------|---------|------------|-------------------|
| US          | 20.0    | 15.8       | 26%               |
| World       | 17.4    | 15.0       | 16%               |
| Switzerland | 17.2    | 15.1       | 14%               |
| France      | 13.4    | 12.8       | 5%                |
| EM          | 11.8    | 11.3       | 4%                |
| Japan       | 14.1    | 14.2       | -1%               |
| Eurozone    | 12.3    | 12.8       | -4%               |
| Germany     | 11.3    | 12.4       | -9%               |
| UK          | 10.8    | 12.4       | -13%              |
| Spain       | 10.3    | 11.9       | -14%              |
| Italy       | 8.3     | 11.9       | -30%              |

Source: IBES, \*MSCI indices

MSCI Eurozone 12m Fwd. P/E relative to World ex US



Source: IBES

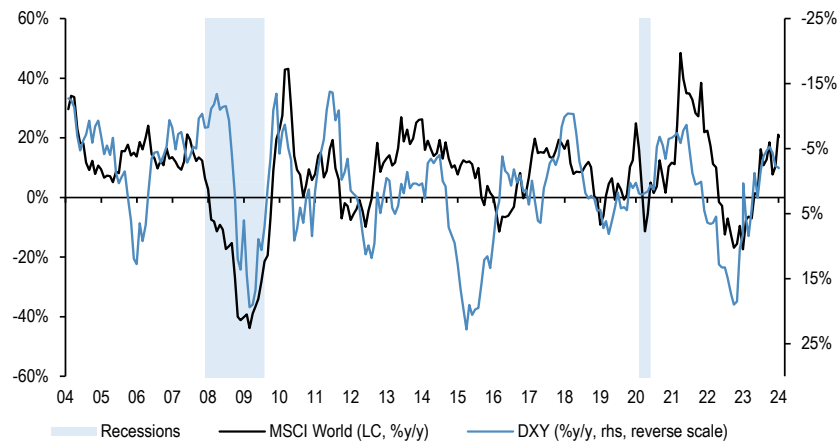
DM Yield Gap in a historical context

|          | Dividend yield | 10Y Bond yield | Dividend yield minus bond yield | Average since '00 | Current vs Average (bp) |
|----------|----------------|----------------|---------------------------------|-------------------|-------------------------|
| US       | 1.5%           | 4.0%           | -2.5%                           | -1.4%             | -115                    |
| Japan    | 2.2%           | 0.6%           | 1.6%                            | 0.9%              | 71                      |
| Eurozone | 3.1%           | 2.7%           | 0.4%                            | 0.5%              | -6                      |
| UK       | 3.6%           | 3.7%           | 0.0%                            | 0.6%              | -58                     |

Source: Datastream

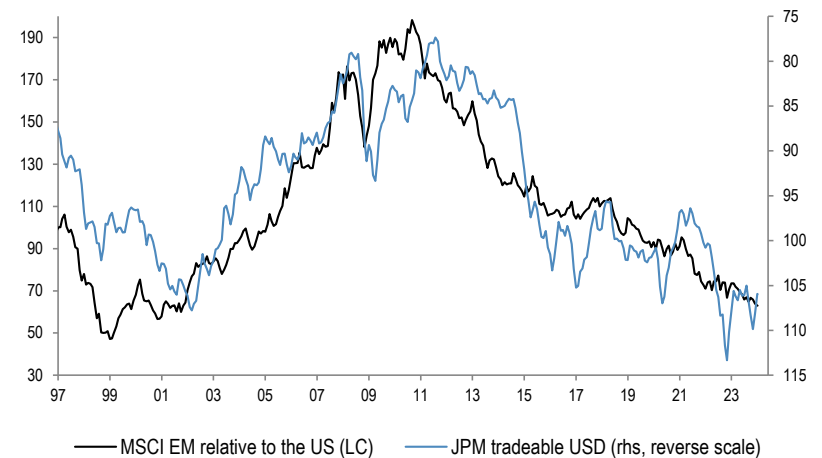
## ...any renewed strengthening in USD could be a problem for risky assets

### MSCI World performance and DXY



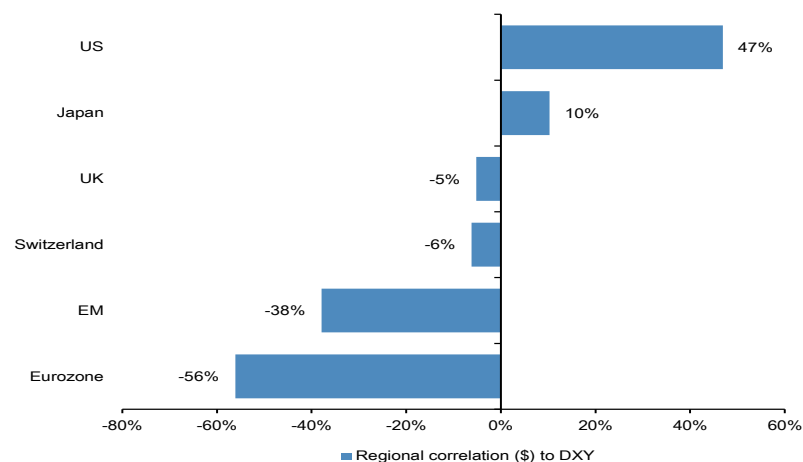
Source: Datastream

### MSCI EM vs DM and USD



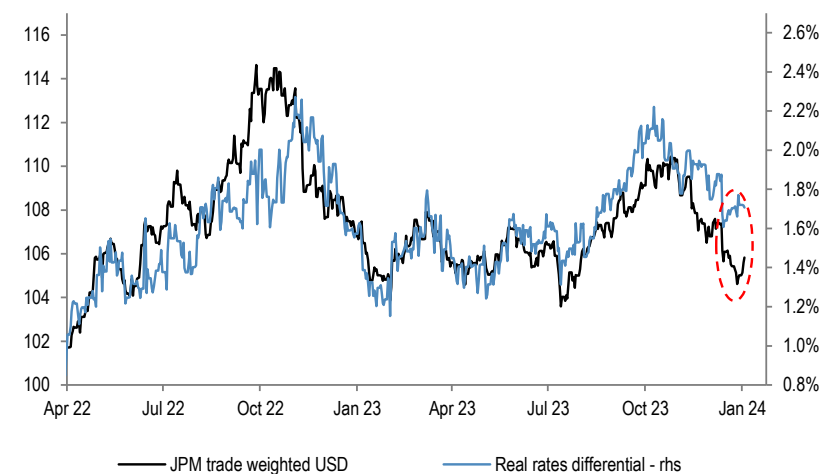
Source: Bloomberg Finance L.P.

### Regional correlations vs USD



Source: Bloomberg Finance L.P.

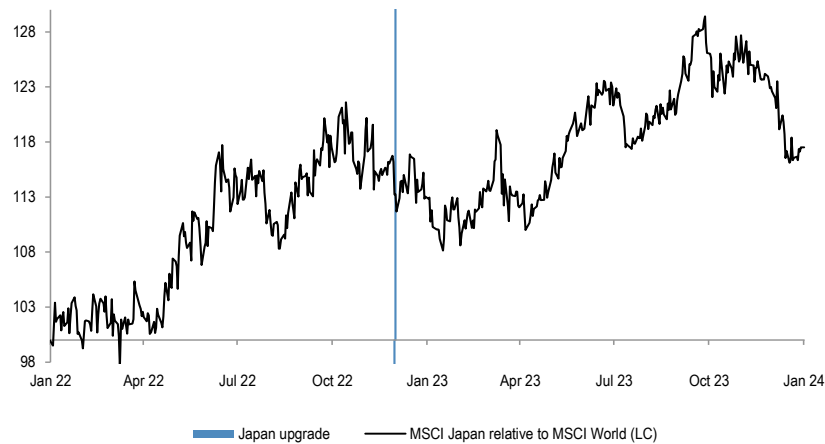
### USD and real rates differential



Source: Bloomberg Finance L.P. \* US 5Y TIPS minus average of Germany, Japan, UK and Australia 5Y inflation adjusted yields

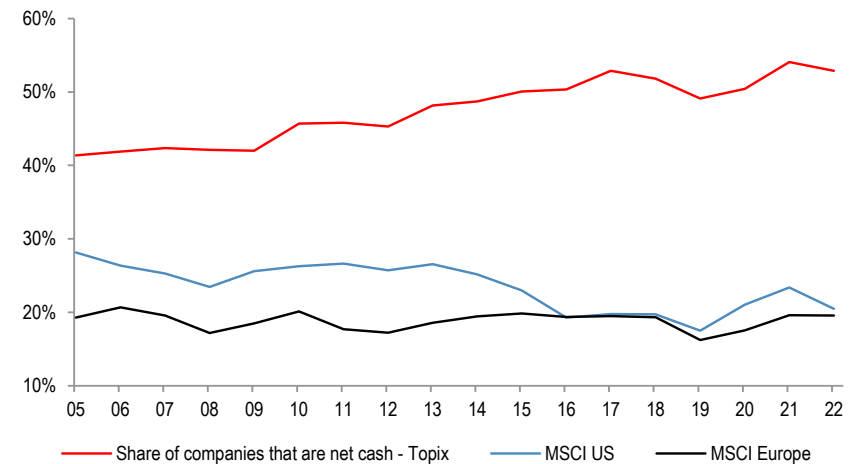
# We have upgraded Japan to OW in December '22... one potentially does not need to hedge the FX anymore

MSCI Japan price relative (lc)



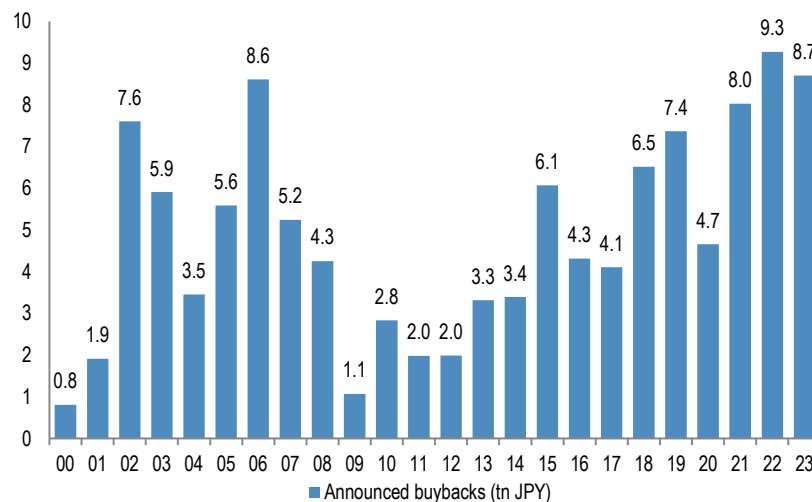
Source: Datastream

% of net cash companies in the index



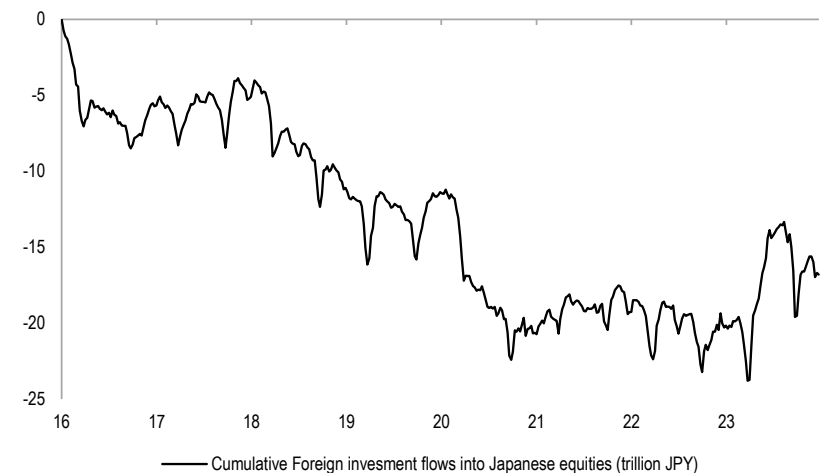
Source: Bloomberg Finance L.P.

Announced buybacks - TOPIX universe



Source: Bloomberg Finance L.P. 2023 refers to annualized numbers; buybacks till Oct

Foreign investment flows into Japanese equities



Source: JPM Japan Strategy



## OW UK, on attractive valuations... keep long FTSE100 vs FTSE250, for now

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



Source: Datastream

FTSE100 vs FTSE250



Source: Datastream

## Fundamentally: 1) Growth momentum is softening

- There is a loss of momentum evident around mid last year, especially in Europe and in China. Manufacturing is still not showing a meaningful bounce, and services could stall.
- Even though there are no clear imbalances in the DM, the pressure keeps building, as the impact of monetary tightening historically worked with a lag.

### JPM GDP forecasts, by region

|                  | Real GDP |       |       |
|------------------|----------|-------|-------|
|                  | % oya    |       |       |
|                  | 2023E    | 2024E | 2025E |
| United States    | 2.5      | 1.6   | 1.5   |
| Eurozone         | 0.5      | 0.4   | 1.0   |
| United Kingdom   | 0.3      | 0.1   | -0.1  |
| Japan            | 2.0      | 0.7   | 0.7   |
| Emerging Markets | 4.1      | 3.8   | 3.6   |
| Global           | 2.7      | 2.2   | 2.2   |

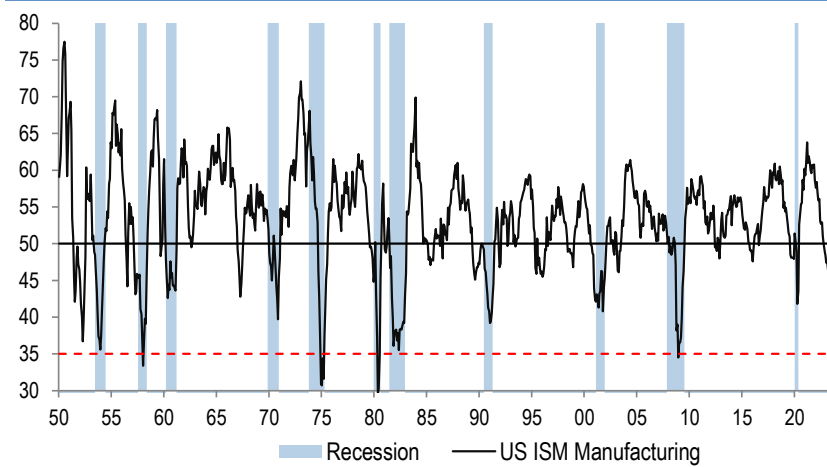
Source: Bloomberg Finance L.P., S&P Global

### J.P. Morgan global composite PMI

| JPM Global composite PMI summary |        |        |        |        |        |        |        |        |        |        |        |        |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                                  | Jan'23 | Feb'23 | Mar'23 | Apr'23 | May'23 | Jun'23 | Jul'23 | Aug'23 | Sep'23 | Oct'23 | Nov'23 | Dec'23 |
| Global PMI                       | 49.7   | 52.1   | 53.4   | 54.2   | 54.4   | 52.7   | 51.6   | 50.6   | 50.5   | 50.0   | 50.4   | 51.0   |
| Output                           | 49.7   | 52.1   | 53.4   | 54.2   | 54.4   | 52.7   | 51.6   | 50.6   | 50.5   | 50.0   | 50.4   | 51.0   |
| Future output                    | 64.1   | 64.8   | 64.1   | 64.6   | 63.8   | 64.1   | 61.9   | 62.4   | 61.5   | 61.4   | 61.3   | 62.5   |
| New orders                       | 49.9   | 51.3   | 52.6   | 53.2   | 53.7   | 52.3   | 50.7   | 50.1   | 49.3   | 49.3   | 50.0   | 50.8   |
| Export orders                    | 47.8   | 48.7   | 48.6   | 49.3   | 48.8   | 48.3   | 47.8   | 47.9   | 48.1   | 48.0   | 48.5   | 48.3   |
| Employment                       | 50.4   | 51.5   | 51.9   | 52.3   | 52.0   | 51.9   | 51.0   | 51.0   | 50.9   | 50.5   | 50.1   | 50.4   |
| Output prices                    | 55.0   | 55.3   | 54.9   | 55.0   | 54.4   | 53.4   | 53.7   | 53.4   | 53.6   | 53.0   | 53.5   | 53.5   |

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

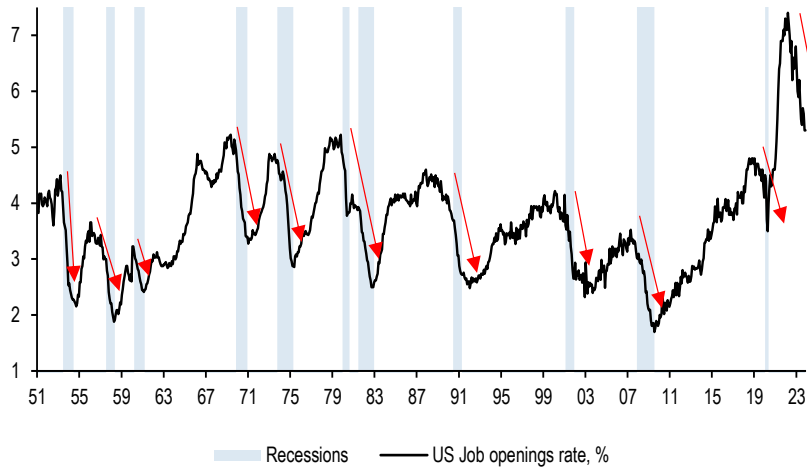
### US ISM Manufacturing and past recessions



Source: Bloomberg Finance L.P. \*dotted line refers to median trough during recessions

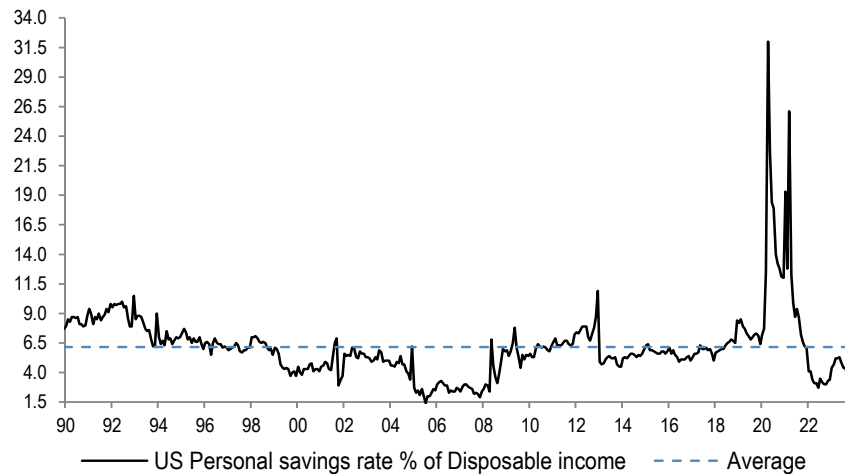
# Consumer could weaken from here... excess savings cushion is getting depleted...

US job vacancies rate



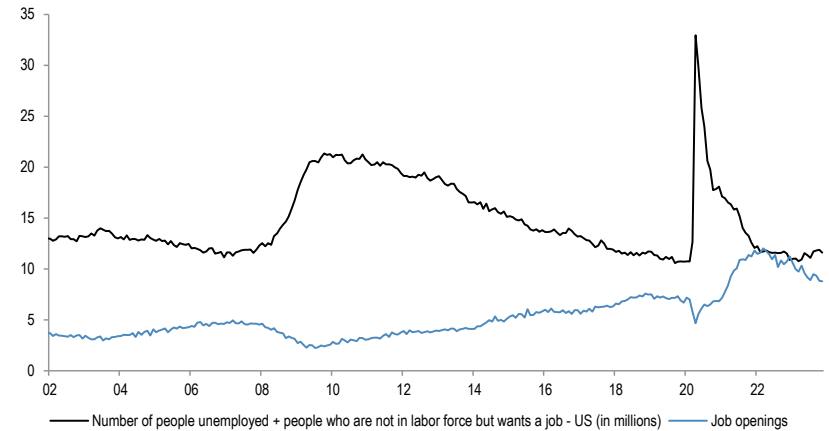
Source: Barnichon, SF Fed, J.P. Morgan

US savings rate



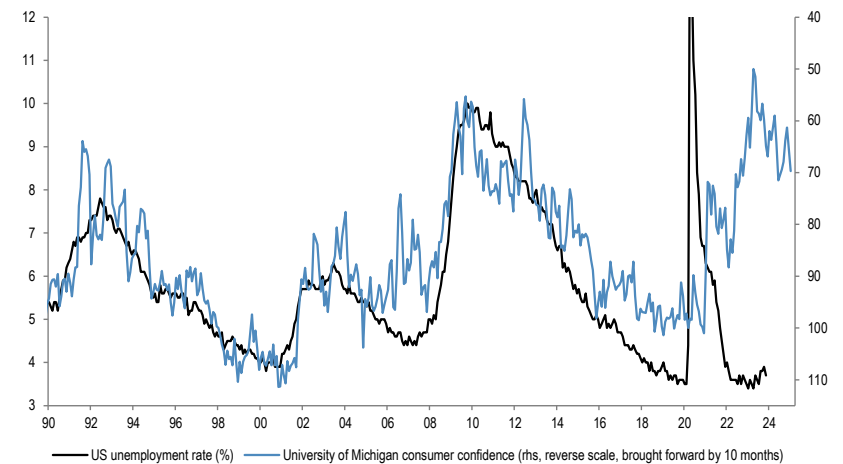
Source: Bloomberg Finance L.P.

US job openings and unemployed population



Source: J.P. Morgan

Consumer confidence vs unemployment rate

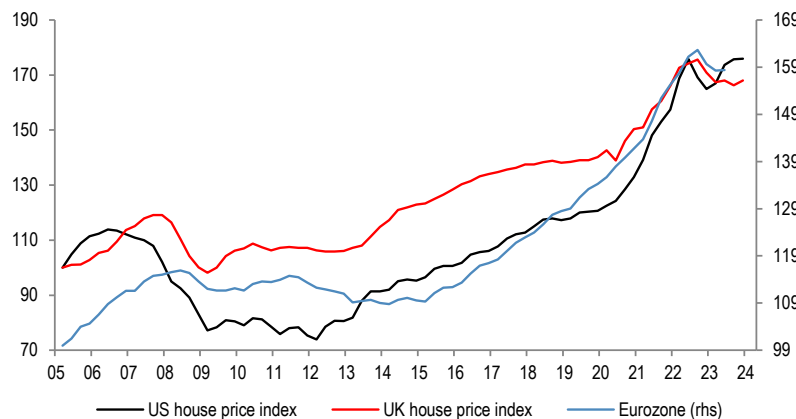


Source: J.P. Morgan

## ...house prices are likely to be lower

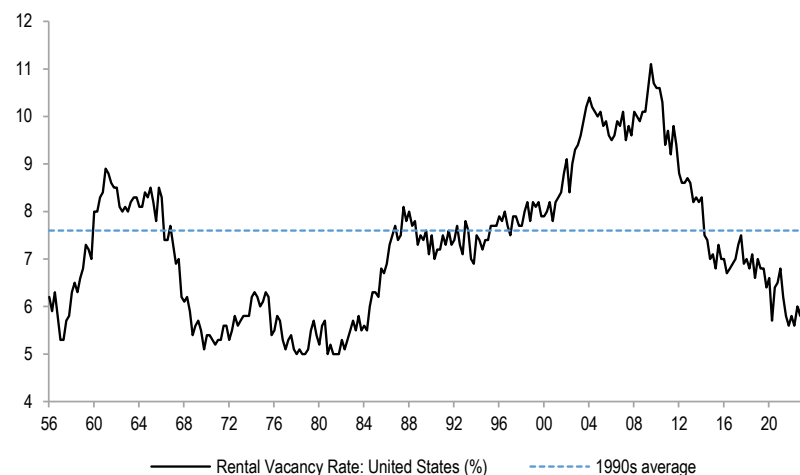
- House prices have been driven up due to strong demand and limited inventory.
- Vacancy rates for rentals are relatively low.
- Consumer balance sheets look healthy, but house prices are likely to move lower, given reduced affordability.

### US, UK and Eurozone house prices



Source: Bloomberg Finance L.P.

### US rental vacancy rate



Source: BEA

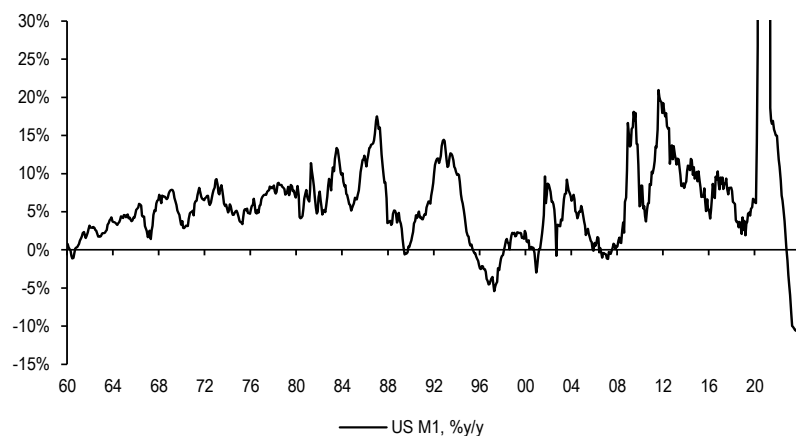
### US household leverage (%)



Source: FRB

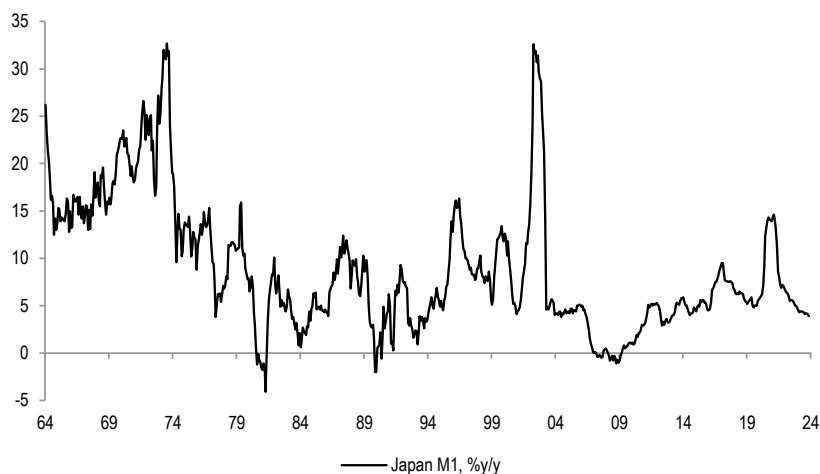
# Money supply – a leading indicator for PMIs – keeps moving down everywhere

US M1, %y/y



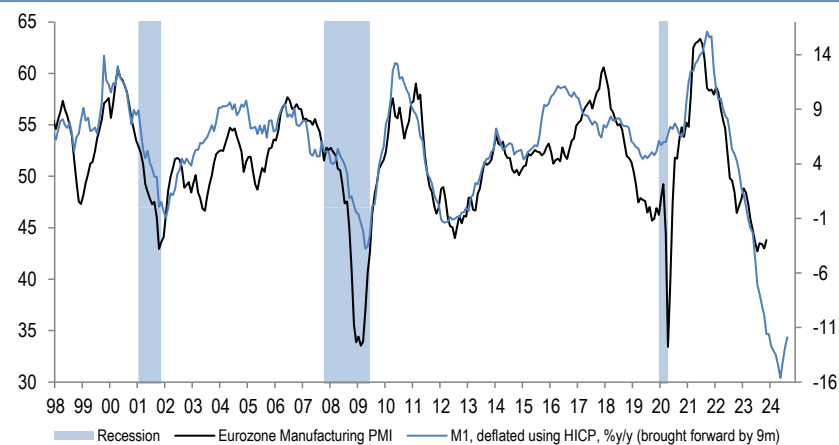
Source: Bloomberg Finance L.P.

Japan M1, %y/y



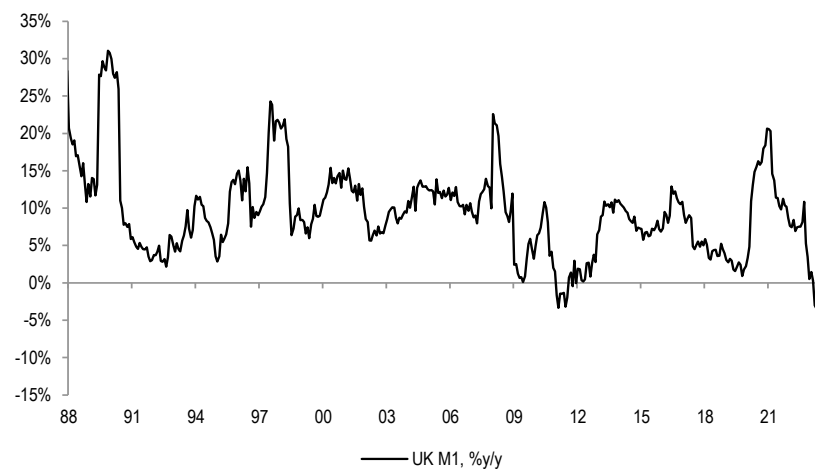
Source: Bloomberg Finance L.P.

Eurozone M1 growth (deflated by HICP) vs PMI



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

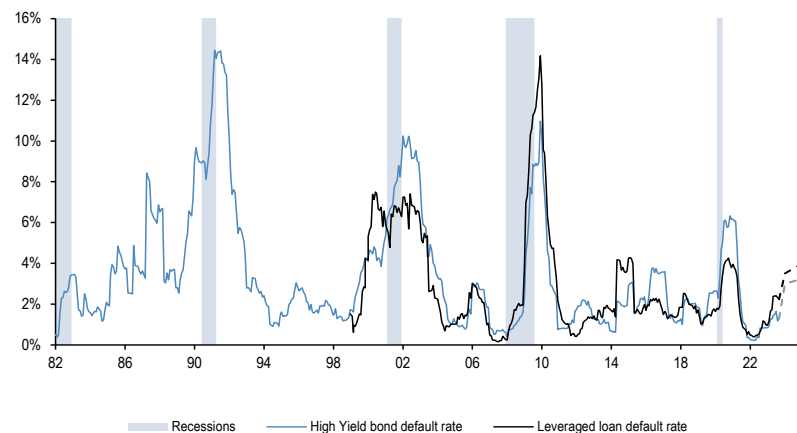
UK M1, %y/y



Source: Bloomberg Finance L.P.

# Default rates are low, but will that hold?

## US HY and leveraged loan default rate



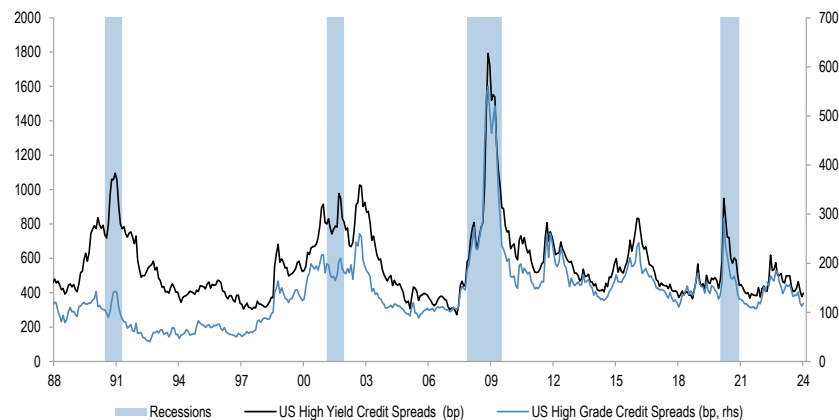
Source: J.P. Morgan

## HY credit spreads and recessions

| Past recessions | Trough in HY spreads | # months to recession | Move in spreads: trough to recession (bp) |
|-----------------|----------------------|-----------------------|---|
| 1990            | Jul-88               | 25                    | 327                                       |
| 2001            | Mar-98               | 37                    | 513                                       |
| 2008            | Jun-07               | 7                     | 325                                       |
| 2020            | Oct-18               | 17                    | 784                                       |
| <b>Median</b>   |                      | <b>21</b>             | <b>420</b>                                |
| <b>Average</b>  |                      | <b>22</b>             | <b>487</b>                                |

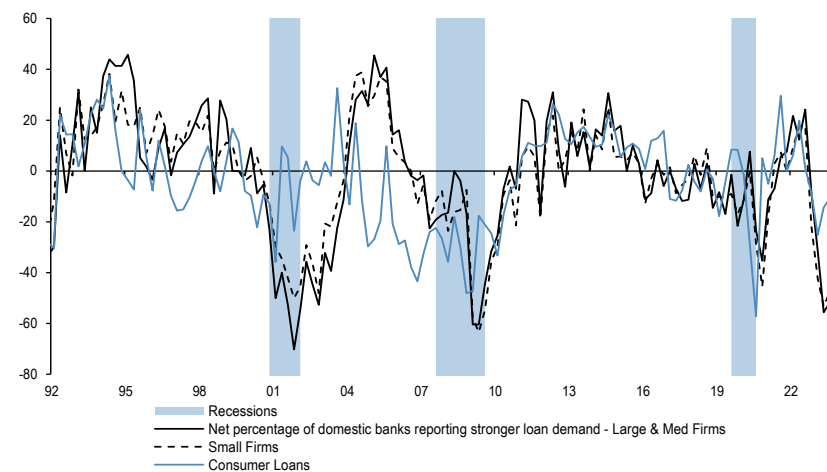
Source: J.P. Morgan, \*move from trough to present

## US HY and HG credit spreads



Source: J.P. Morgan, NBER

## % of US banks reporting stronger loan demand



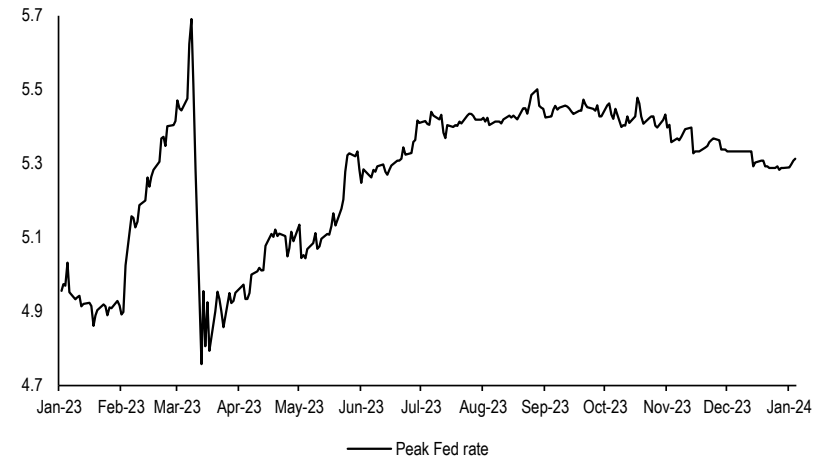
Source: FRB

J.P.Morgan

## 2) Fed pivot could end up accompanied by activity weakness... the impact of tightening took historically a while to feed into the real economy

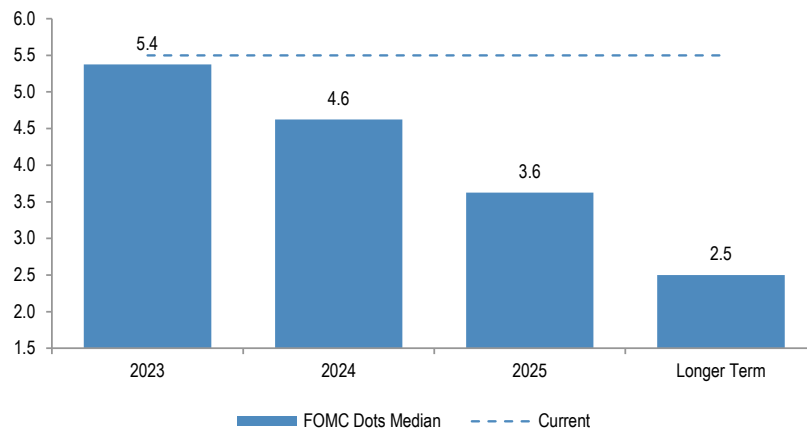
- Fed is likely to stay “higher for longer”, until the market weakness forces them to reconsider, in our view. We are unlikely to see more aggressive cuts that what is already priced in without softer macro momentum in the background.

Fed Funds Futures - peak Fed rate



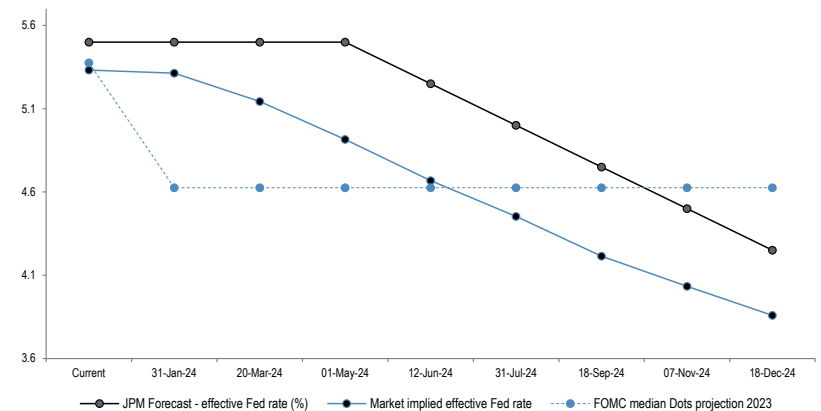
Source: Bloomberg Finance L.P.

FOMC Dots median



Source: Bloomberg Finance L.P.

JPM expected and market implied Fed funds rate

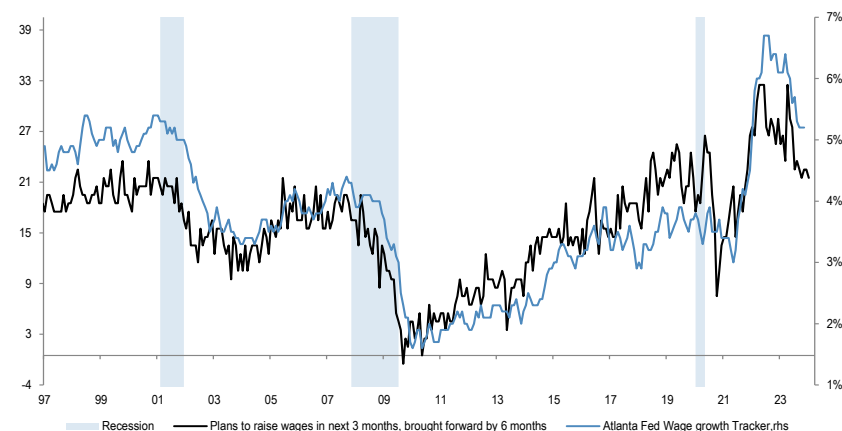


Source: Bloomberg Finance L.P.

## JPM expects inflation to keep moving lower... this should cap bond yields...

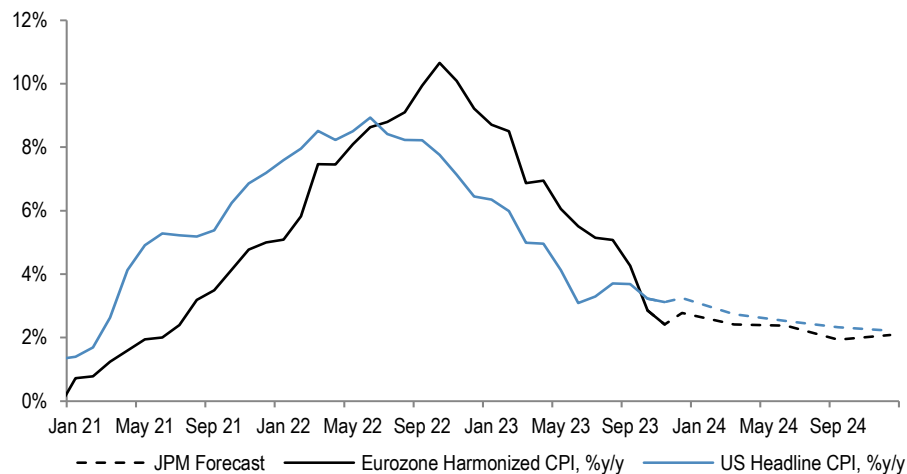
- JPM projection is for a continued move lower in inflation from here.
- Bond yields have moved lower over the last few months and inflation breakevens continue to point to further downside.

### NFIB survey – wage plans vs Atlanta Fed Wage tracker



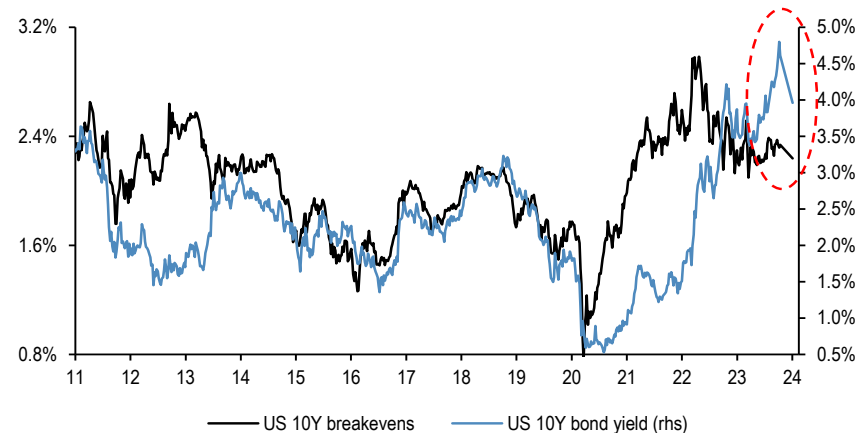
Source: Bloomberg Finance L.P.

### JPM inflation projections



Source: J.P. Morgan

### US 10Y breakevens and 10Y bond yield

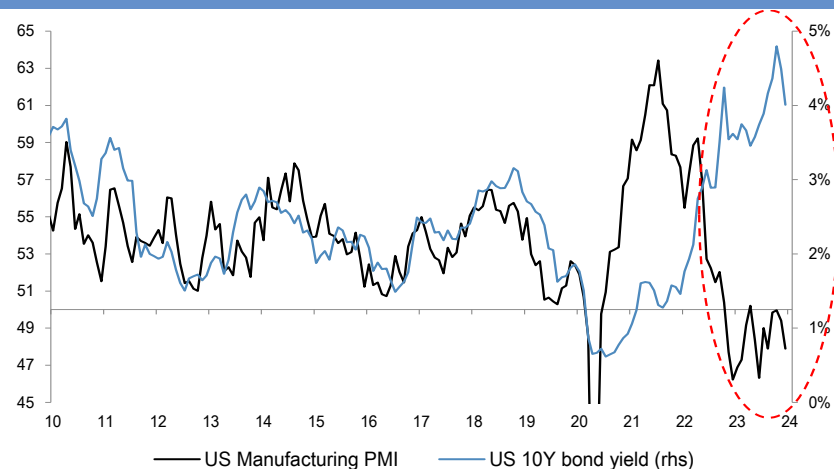


Source: Bloomberg Finance L.P.



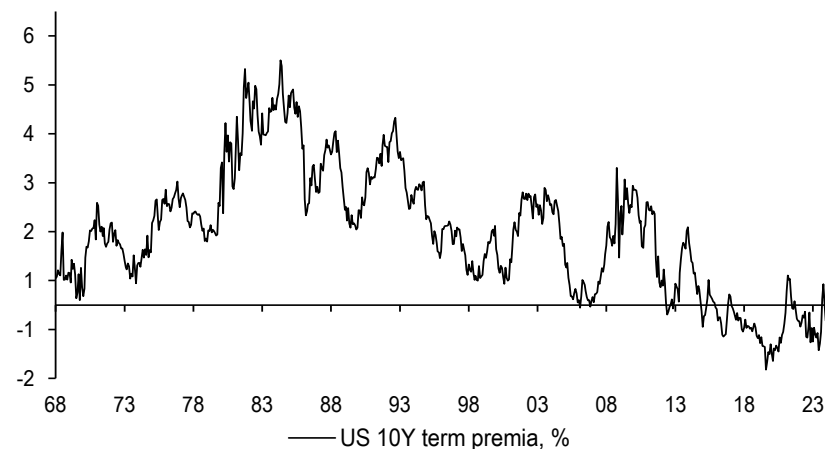
...term premia has moved up, but is still low, but falling inflation and the softening in activity is a constraint to a move higher in bond yields

US manufacturing PMI and US 10Y bond yield



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

US 10-year term-premia



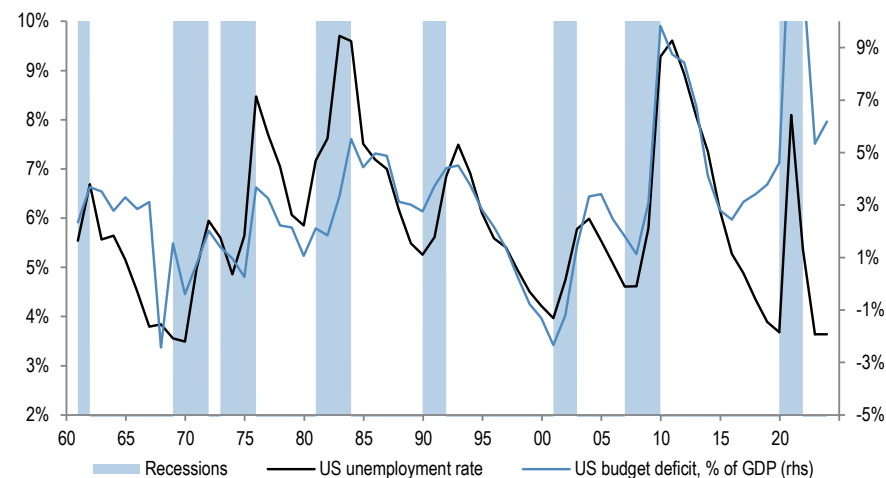
Source: J.P. Morgan

Move in yields during past Fed hiking cycles

| Fed hiking cycles | Move in                      |                     |                       |
|-------------------|------------------------------|---------------------|-----------------------|
|                   | 10Y - 2Y<br>yield curve (bp) | 10Y bond yield (bp) | 2Y bond yield<br>(bp) |
| Oct '80 - May '81 | -85                          | 157                 | 241                   |
| Mar '83 - Aug '84 | -65                          | 268                 | 333                   |
| Apr '87 - May '89 | -113                         | 116                 | 229                   |
| Feb '94 - Feb '95 | -118                         | 157                 | 275                   |
| Jun '99 - May '00 | -75                          | 57                  | 132                   |
| Jun '04 - Jun '06 | -215                         | 50                  | 265                   |
| Dec '15 - Dec '18 | -112                         | 48                  | 160                   |
| Current           | -90                          | 202                 | 292                   |

Source: J.P. Morgan

US unemployment rate and budget deficit



Source: J.P. Morgan

# The question is over the impact of liquidity withdrawal on stocks

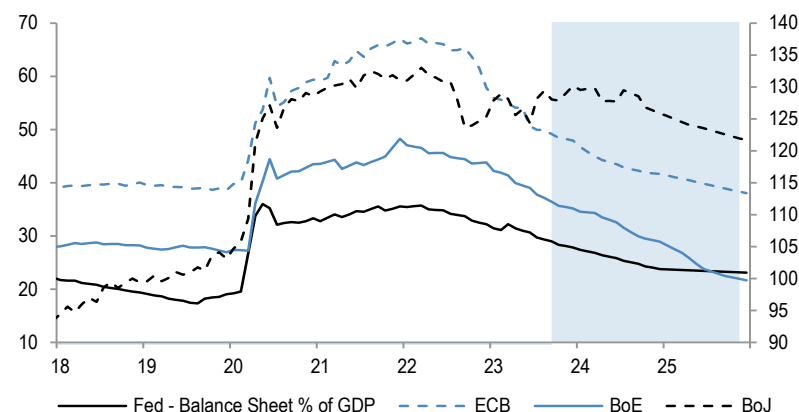
- The aggregate central banks balance sheet is set to contract, in an accelerating manner.

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

|              | 2018      | 2019       | 2020        | 2021        | 2022         | 2023         | 2024         |
|--------------|-----------|------------|-------------|-------------|--------------|--------------|--------------|
| Fed          | -385      | 115        | 3161        | 1431        | -258         | -754         | -930         |
| ECB          | 244       | -32        | 2473        | 1695        | -639         | -1109        | -776         |
| BoJ          | 204       | 139        | 860         | 141         | -132         | 401          | -66          |
| BoE          | 34        | -12        | 388         | 274         | -27          | -188         | -177         |
| <b>Total</b> | <b>97</b> | <b>210</b> | <b>6882</b> | <b>3541</b> | <b>-1056</b> | <b>-1650</b> | <b>-1949</b> |

Source: J.P. Morgan Economics Research

Central Bank Balance sheets as a share of GDP



Source: J.P. Morgan Economics Research

G5 Central Bank Balance sheet and Nominal GDP

|   | CB Balance Sheet (\$Tn) |       |       |       | Expansion     |               |                |
|---|-------------------------|-------|-------|-------|---------------|---------------|----------------|
|   | 2022                    | 2023e | 2024e | 2025e | 2023e vs 2022 | 2024e vs 2023 | 2025e vs 2024e |
| FED   | 8.6                     | 7.8   | 6.8   | 6.6   | -9%           | -12%          | -3%            |
| ECB   | 8.7                     | 7.5   | 6.8   | 6.2   | -13%          | -10%          | -9%            |
| BoE   | 1.4                     | 1.2   | 1.1   | 0.8   | -10%          | -15%          | -25%           |
| BoJ   | 5.2                     | 5.2   | 5.1   | 4.9   | -1%           | -1%           | -3%            |
| PBOC  | 6.0                     | 5.9   | 5.9   | 5.9   | -1%           | 0%            | 0%             |
| G3 Aggregate CB Balance Sheet                       | 22.5                    | 20.5  | 18.7  | 17.7  | -9%           | -9%           | -5%            |
| G5 Aggregate CB Balance Sheet                       | 29.9                    | 27.6  | 25.7  | 24.4  | -7%           | -7%           | -5%            |
| G3 Nominal GDP Growth                               |                         |       |       |       | 8%            | 3%            | 4%             |
| G5 Nominal GDP Growth                               |                         |       |       |       | 7%            | 4%            | 4%             |
| G3 Aggregate CB Balance Sheet vs Nominal GDP Growth |                         |       |       |       | -17%          | -12%          | -9%            |
| G5 Aggregate CB Balance Sheet vs Nominal GDP Growth |                         |       |       |       | -15%          | -11%          | -9%            |

Source: J.P. Morgan Economics Research

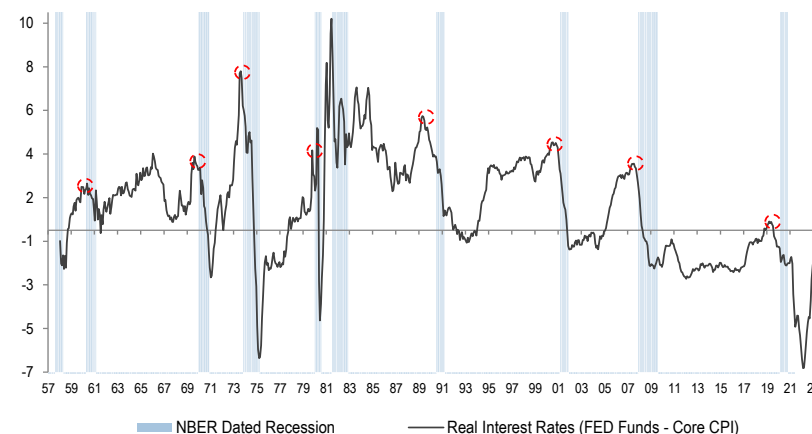
# Real rates are near highs, and could stay so as inflation comes down

## US real rates



Source: Bloomberg Finance L.P.

## US real policy rates and recessions



Source: Bloomberg Finance L.P.

## US real rates entering recessions

| Recession Start | Real Interest Rate<br>(Fed Funds - Core CPI, %yoy) |                                      |
|-----------------|--|--------------------------------------|
|                 | Level at the start of recession                    | 6m avg before the start of recession |
| 1960            | 1.9%   | 1.9%                                 |
| 1969            | 2.8%   | 3.0%                                 |
| 1973            | 5.5%   | 6.3%                                 |
| 1980            | 1.8%   | 2.2%                                 |
| 1990            | 3.2%   | 3.4%                                 |
| 2001            | 2.6%   | 3.4%                                 |
| 2007            | 1.8%   | 2.6%                                 |
| 2020            | -0.8%  | -0.7%                                |
| <b>Average</b>  | <b>2.4%</b>  | <b>2.8%</b>                          |
| <b>Median</b>   | <b>2.3%</b>  | <b>2.8%</b>                          |
| <b>Current</b>  | <b>1.3%</b>  | <b>0.9%</b>                          |

Source: Bloomberg Finance L.P.

## US real rates at the point of curve inversion

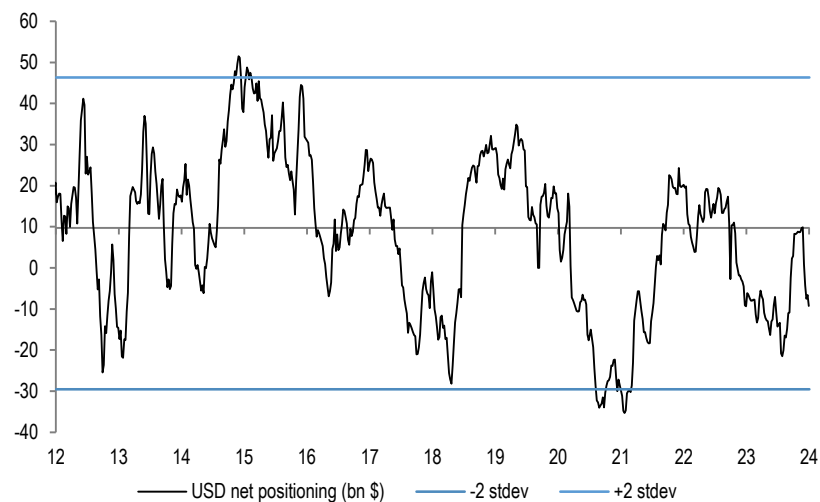
| Yield Curve inversion date | Real Interest Rate<br>(Fed Funds - Core CPI, %yoy) |             |
|----------------------------|--|-------------|
|                            | Latest reading                                     | 6m Avg      |
| Dec-67                     | 0.6%   | 0.5%        |
| Mar-73                     | 3.8%   | 2.9%        |
| Aug-78                     | 0.4%   | 0.5%        |
| Dec-88                     | 4.0%   | 3.7%        |
| Feb-00                     | 3.5%   | 3.3%        |
| Jan-06                     | 2.2%   | 1.8%        |
| Aug-19                     | 0.2%   | 0.2%        |
| <b>Average</b>             | <b>2.1%</b>  | <b>1.9%</b> |
| <b>Median</b>              | <b>2.2%</b>  | <b>1.8%</b> |

Source: Bloomberg Finance L.P.

## USD could strengthen again

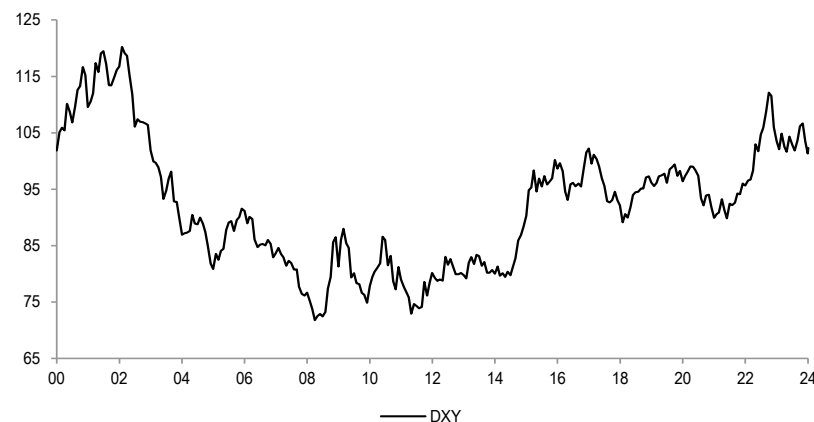
- USD is supported by the still elevated interest rate differential.
- USD positioning is not stretched by any means. We think that the dollar could show a rebound.

### USD net positioning



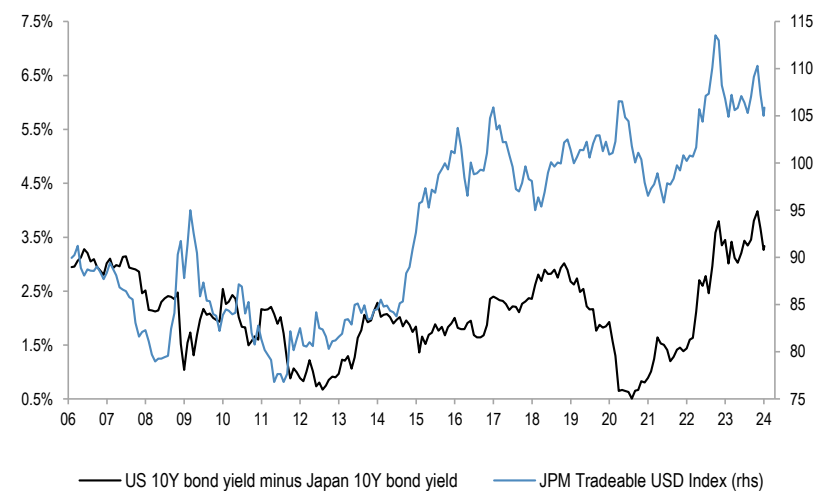
Source: J.P. Morgan

### DXY



Source: Bloomberg Finance L.P.

### US-Japan 10Y bond yield differential and USD

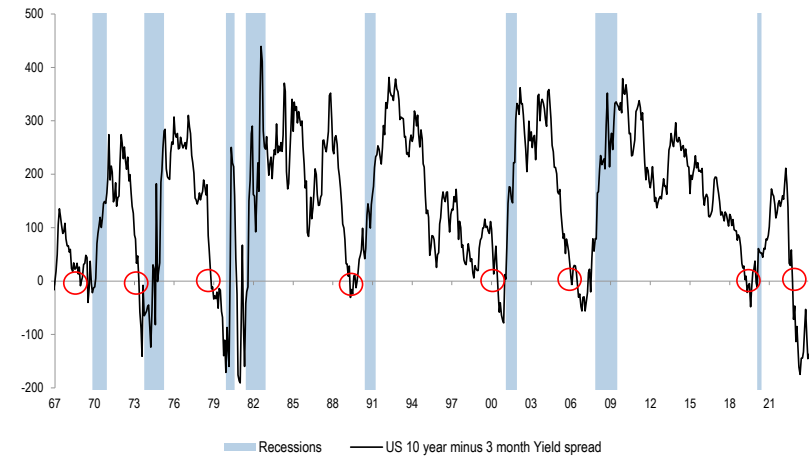


Source: Bloomberg Finance L.P.

# Yield curve framework is sending a recession signal, it was never wrong

- The US 10Y/2Y yield curve, which has been a reliable recession indicator in the past, has been inverted for more than a year now. That is typically the length of time it takes from the inversion to the equity market peak.
- US 10Y/3M yield spreads, another reliable recession indicator, is also inverted.

US 10Y-3M yield curve



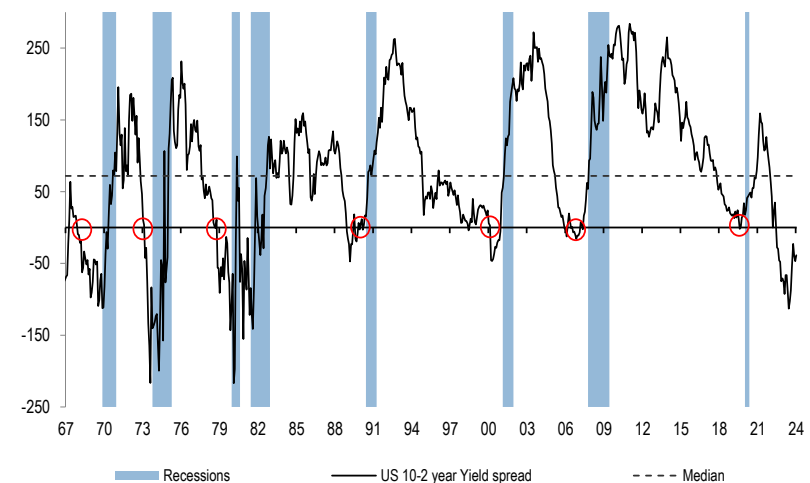
Source: Bloomberg Finance L.P.

SPX move from yield curve inversion to the market peak

| # months between                   |                                  |                      |                                   |   |
|------------------------------------|----------------------------------|----------------------|-----------------------------------|---|
| Yield Curve inversion date (10-2Y) | Yield curve inversion & SPX peak | SPX peak & recession | Yield curve inversion & recession | SPX move from YC inversion to SPX peak* |
| Dec-67                             | 11                               | 13                   | 24                                | 14%                                     |
| Mar-73                             | -2                               | 10                   | 8                                 | -4%                                     |
| Aug-78                             | 18                               | -1                   | 17                                | 13%                                     |
| Dec-88                             | 19                               | 0                    | 19                                | 34%                                     |
| Feb-00                             | 2                                | 12                   | 13                                | 8%                                      |
| Jan-06                             | 20                               | 2                    | 23                                | 22%                                     |
| Aug-19                             | 6                                | 0                    | 6                                 | 18%                                     |
| <b>Median</b>                      | <b>11</b>                        | <b>2</b>             | <b>17</b>                         | <b>14%</b>                              |
| <b>Average</b>                     | <b>11</b>                        | <b>5</b>             | <b>16</b>                         | <b>15%</b>                              |

Source: Bloomberg Finance L.P.

US 10Y-2Y yield curve



Source: Bloomberg Finance L.P.

### 3) Most were skeptical about earnings over the last two years, to be now turning more constructive... this could be a mistake...

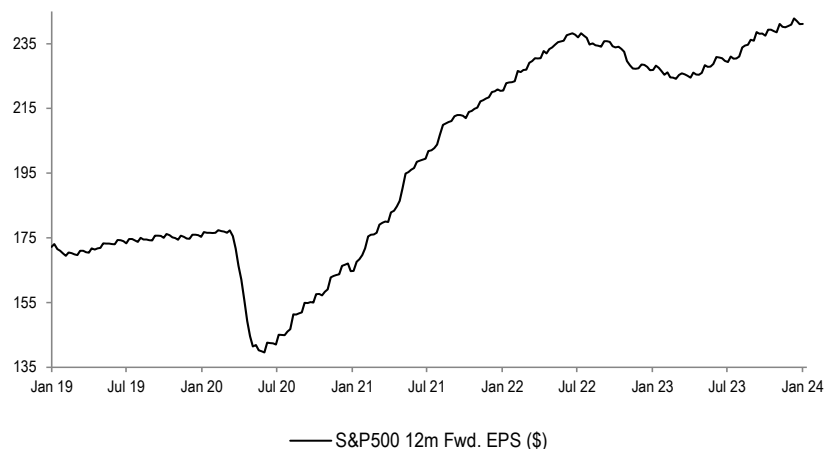
- Earnings have been very resilient over the past 2 years, taking advantage of rising input costs in order to boost pricing power, and drive higher profit margins.
- Consensus expects EPS to have a meaningful move up this year. We believe there are downside risks to these earnings projections.

#### US and Europe EPS Growth consensus projections

|           | EPS Growth |       |       |
|-----------|------------|-------|-------|
|           | 2023e      | 2024e | 2025e |
| S&P 500   | 1.5%       | 10.8% | 12.8% |
| Stoxx 600 | -0.8%      | 6.0%  | 9.1%  |

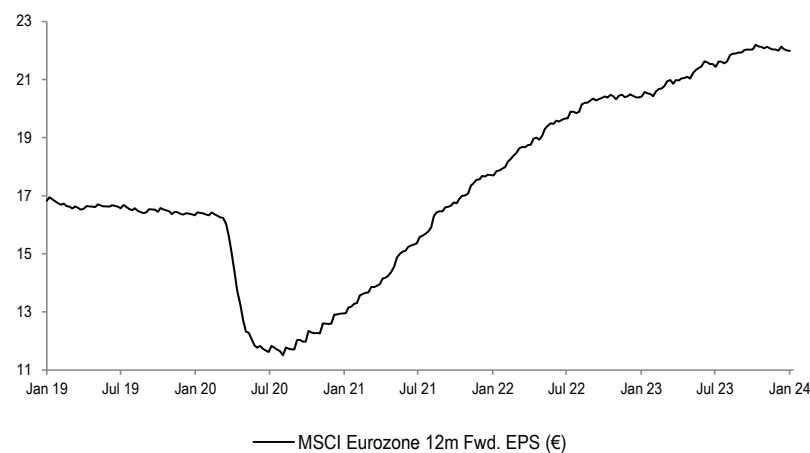
Source: IBES

#### US 12-month forward EPS



Source: IBES

#### Eurozone 12-month forward EPS

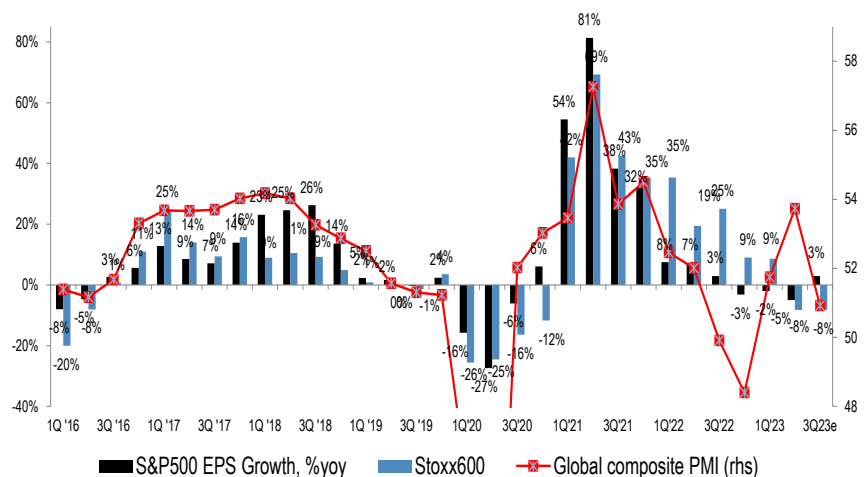


Source: IBES

...the slowdown in macro activity could weigh on earnings... consensus estimates to move lower...

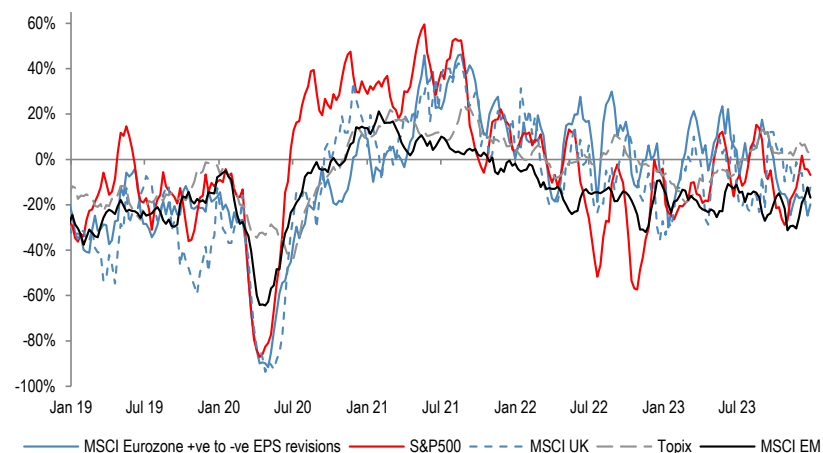
- PMI momentum weakened on a sequential basis in Q3/Q4 '23, pointing to a slowdown in earnings.

US and European quarterly EPS growth and global composite PMI



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

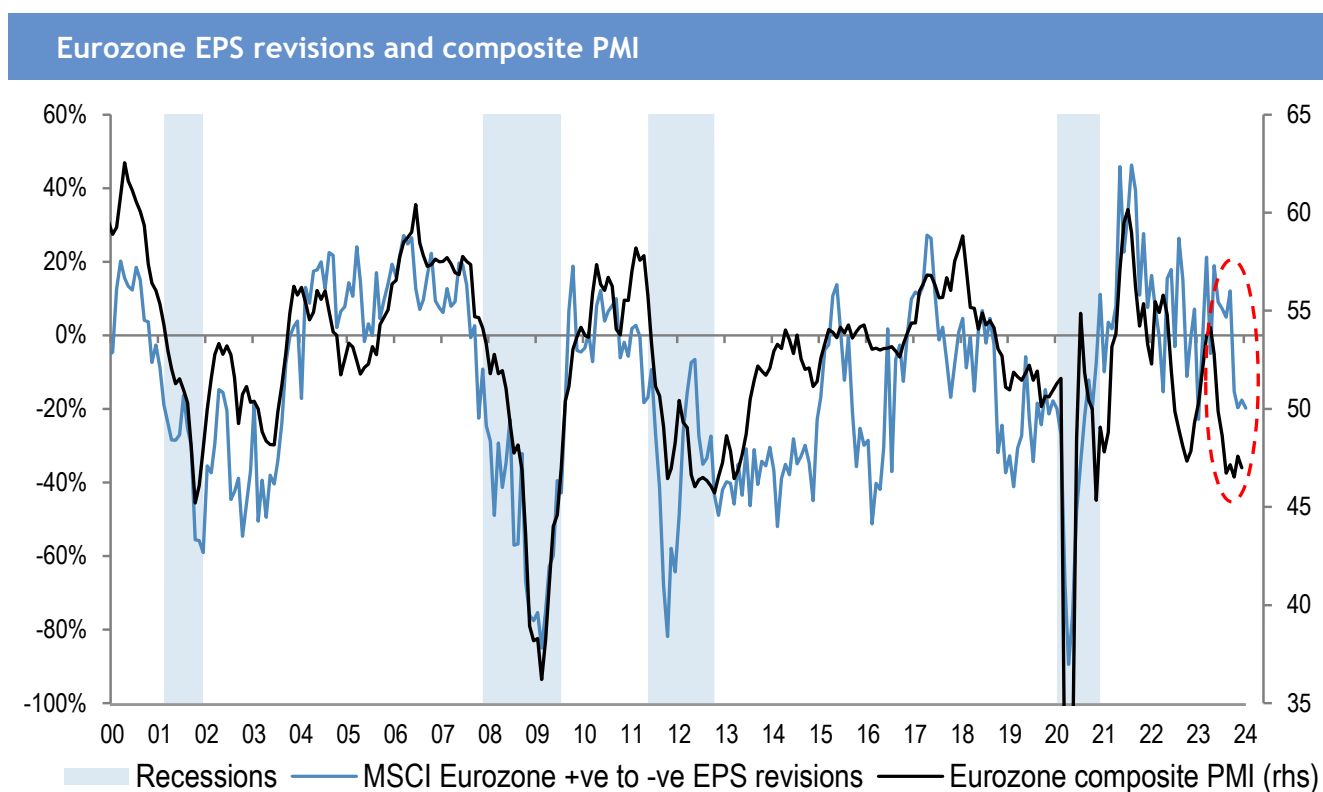
Weekly EPS revisions in different regions



Source: IBES

...earnings revisions are unlikely to be positive; they need PMIs to sustain above 54 in order to be above zero...

- Historically, PMIs below 54 have been consistent with negative EPS revisions.

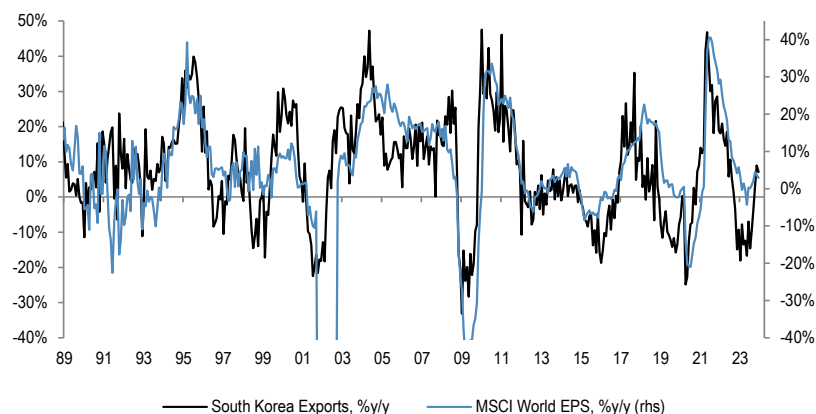


Source: Bloomberg Finance L.P. , S&P Global



## ...various activity indicators are pointing to earnings weakness... operating leverage is likely to be softer, too

Korean exports vs global earnings



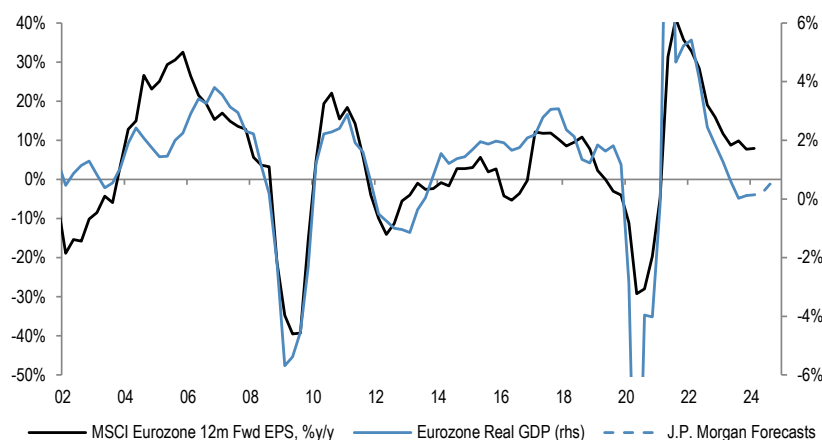
Source: IBES, KOSTAT

Profit margins and EPS growth vs GDP growth regimes

| US Real GDP, % y/y | Profit Margins, yoy, bps | S&P 500 EPS %yoy |
|--------------------|--------------------------|------------------|
| <-3%               | -51                      | -79%             |
| -3% to -2%         | -96                      | -26%             |
| -2% to -1%         | -68                      | -3%              |
| -1% to 0%          | 11                       | -3%              |
| 0% to 1%           | -29                      | -13%             |
| 1% to 2%           | -42                      | -1%              |
| 2% to 3%           | 17                       | 9%               |
| 3% to 4%           | 59                       | 16%              |
| 4% to 5%           | 24                       | 15%              |
| >5%                | 85                       | 24%              |

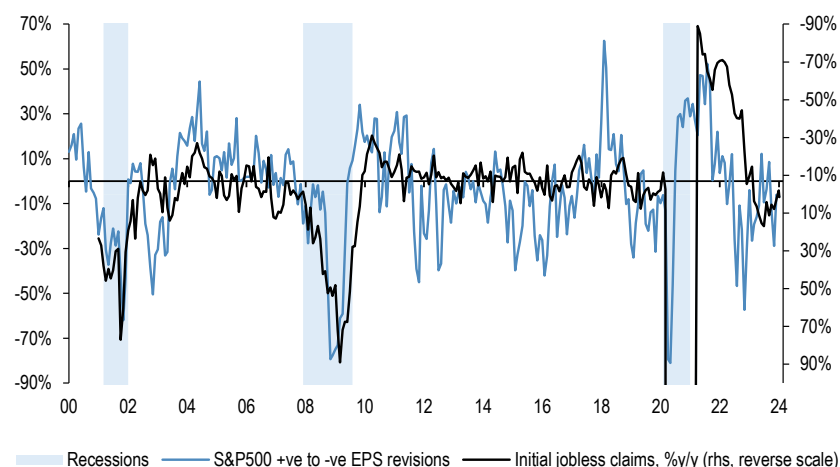
Source: Bloomberg Finance L.P.

Eurozone EPS growth vs GDP growth



Source: IBES, J.P. Morgan

S&P500 EPS revisions and jobless claims



Source: IBES

## The earnings downside in past recessions was material

- Earnings declines in past recessions were very significant. This might not be the case this time around if the topline keeps growing, despite real GDP falls. Further, interest rates are still likely to be significantly below nominal growth, and below inflation rates, in contrast to the 1970-ies experience. Still, there is likely to be a certain level of earnings weakness.

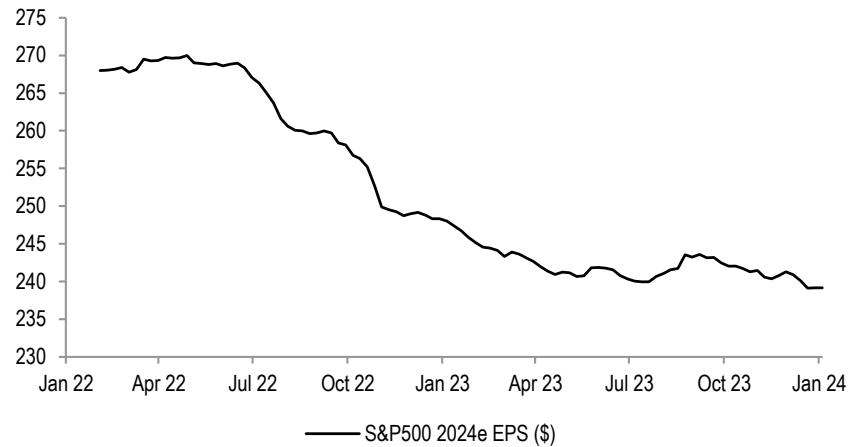
### Changes in Eurozone equities, earnings and GDP during past recessions

| Recession      | Peak in MSCI Eurozone | Trough In MSCI Eurozone | MSCI Eurozone peak to trough move | 12m Fwd P/E at MSCI Eurozone trough | 12m Fwd P/E at trough - Eurozone vs US | Peak in MSCI Eurozone Fwd. EPS | Trough In MSCI Eurozone Fwd. EPS | MSCI Eurozone Fwd. EPS peak to trough move | Peak to Trough - MSCI Eurozone actual EPS | MSCI Eurozone actual EPS peak to trough move | Peak in Euro Area real GDP | Trough in Euro Area real GDP | Euro Area real GDP peak to trough move |
|----------------|-----------------------|-------------------------|-----------------------------------|-------------------------------------|--|--------------------------------|----------------------------------|--|---|--|----------------------------|------------------------------|--|
| 1990           | Jul-90                | Jan-91                  | -29%                              | 9.7                                 | 0.87                                   | Feb-92                         | May-93                           | -27%                                       | '89 - '93                                 | -55%   | Q1 '92                     | Q1' 93                       | -1.8%                                  |
| 2001           | Mar-00                | Mar-03                  | -64%                              | 11.1                                | 0.76                                   | Oct-01                         | May-03                           | -21%                                       | '00 - '02                                 | -31%   | Q4 '02                     | Q1' 03                       | -0.3%                                  |
| 2008           | Jun-07                | Mar-09                  | -62%                              | 7.5                                 | 0.72                                   | Mar-08                         | May-09                           | -42%                                       | '06 - '09                                 | -43%   | Q1 '08                     | Q2 '09                       | -5.7%                                  |
| 2012           | Feb-11                | Sep-11                  | -32%                              | 7.4                                 | 0.72                                   | Jun-11                         | May-13                           | -20%                                       | '10 - '13                                 | -29%   | Q3 '11                     | Q1' 13                       | -1.8%                                  |
| 2020           | Feb-20                | Mar-20                  | -38%                              | 9.6                                 | 0.73                                   | Mar-20                         | Jul-20                           | -30%                                       | '19 - '20                                 | -35%   | Q4 '19                     | Q2 '20                       | -14.7%                                 |
| <b>Average</b> |                       |                         | <b>-45%</b>                       | <b>9.0</b>                          | <b>0.76</b>                            |                                |                                  | <b>-28%</b>                                |   | <b>-39%</b>                                  |                            |                              | <b>-4.9%</b>                           |

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

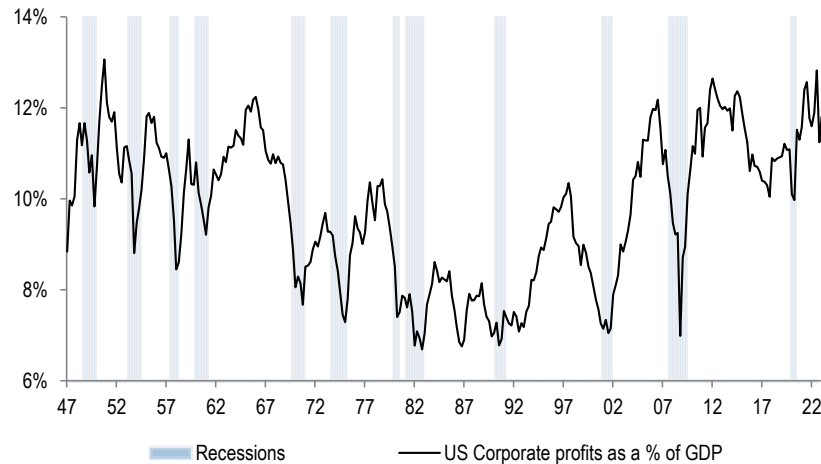
# Profit margins are at risk...

S&P500 2024e EPS (\$)



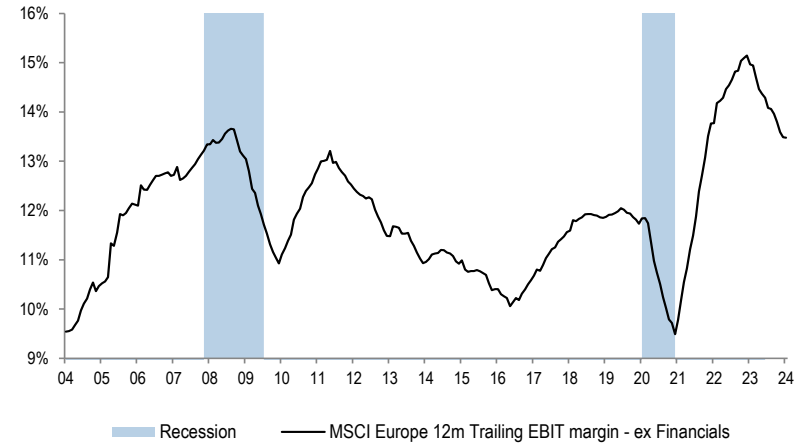
Source: IBES

US corporate profit margins



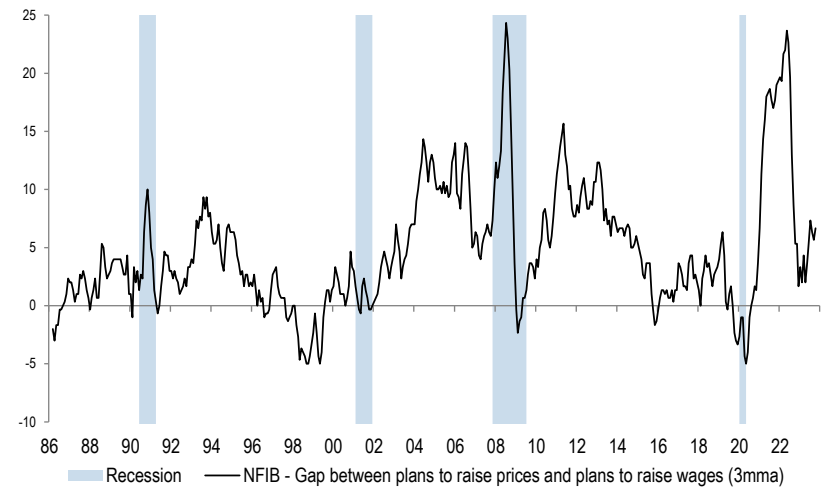
Source: BEA

MSCI Europe 12m Trailing EBIT margin



Source: S&P Global

NFIB survey - Plans to increase prices minus plans to increase wages



Source: Bloomberg Finance L.P.

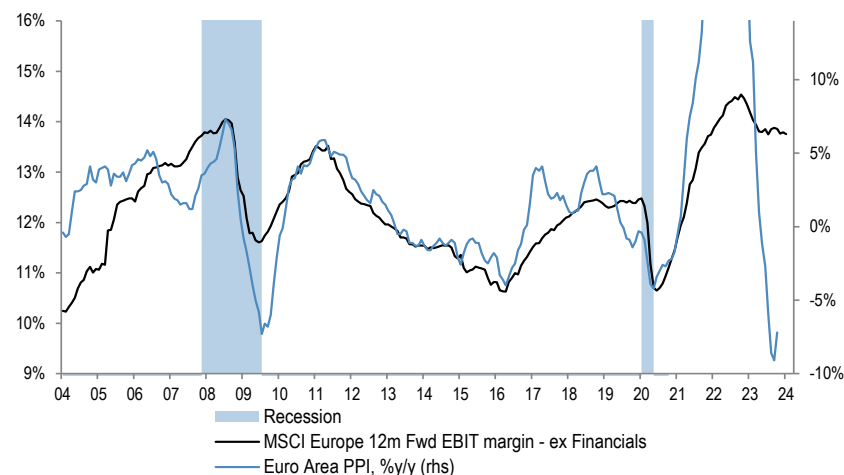
# ...rising PPIs more than CPIs were not usually a concern for margins, but the opposite is

## US profit margins in different PPI and CPI regimes

|         | US Corporate profits as a % of GDP, vs 4q ago (since 1990) |                       |           |
|---------|--|-----------------------|-----------|
|         | PPIs up more than CPI                                      | PPIs up less than CPI | PPIs down |
| Average | 0.2%   | 0.3%                  | -0.3%     |
| Median  | 0.4%   | 0.3%                  | -0.3%     |

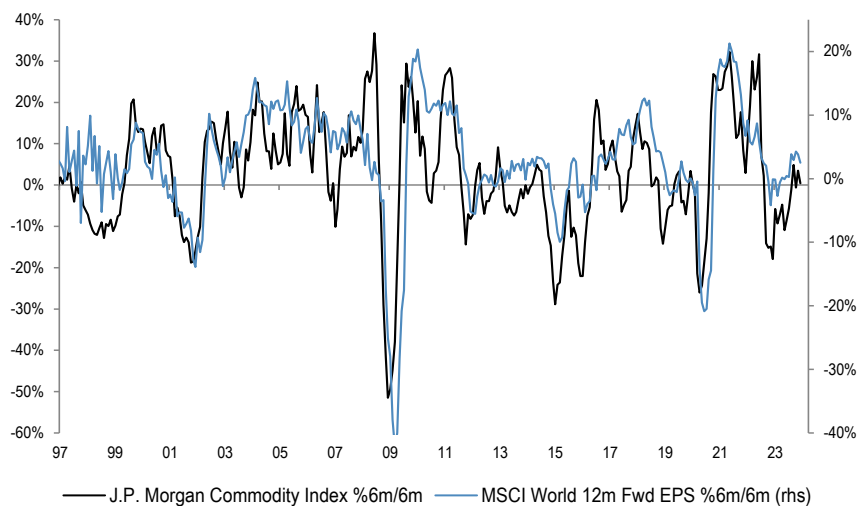
Source: BEA, Bloomberg Finance L.P., J.P. Morgan

## Europe profit margins vs PPI



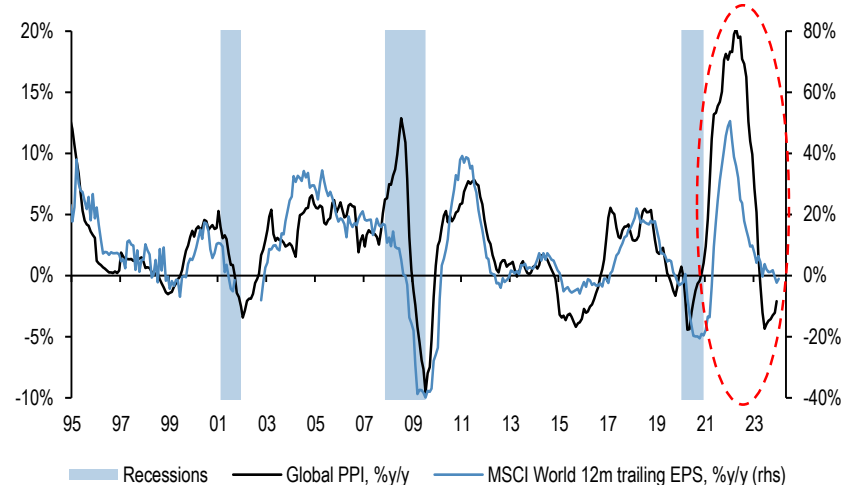
Source: IBES, J.P. Morgan

## MSCI World EPS growth and commodity prices



Source: IBES, J.P. Morgan

## MSCI World EPS vs global PPI



Source: IBES, Bloomberg Finance L.P.

# US earnings typically fell 15%+ in a recession, they are still close to record highs...

- US earnings have recovered strongly from the COVID lows. At present, they are well above trend and may not sustain.

## US 12m Fwd. EPS during past recessions

| MSCI US 12m Fwd. EPS |           |             |                     |
|----------------------|-----------|-------------|---------------------|
| Recession year       | Peak date | Trough date | Peak to trough move |
| 1990                 | Jan-91    | May-91      | -14%                |
| 2001                 | Aug-00    | Nov-01      | -23%                |
| 2008                 | Oct-08    | Apr-09      | -40%                |
| 2020                 | Mar-20    | Sep-20      | -15%                |
| <b>Average</b>       |           |             | -23%                |
| <b>Median</b>        |           |             | -19%                |

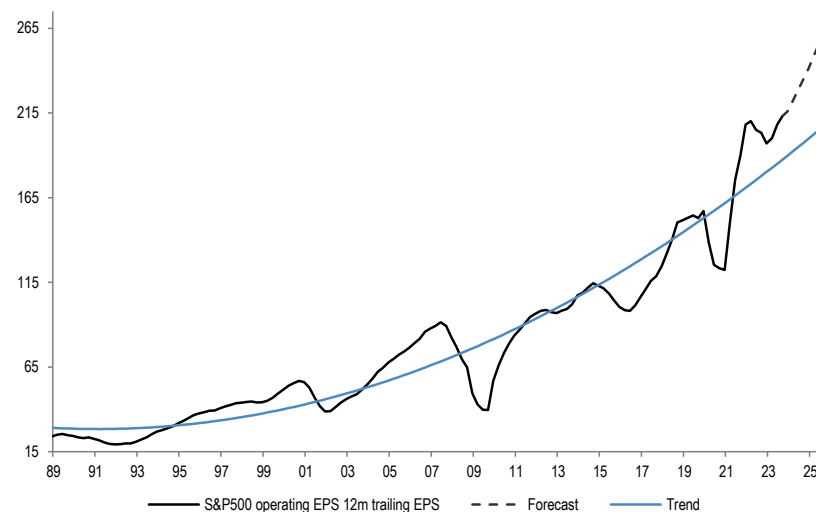
Source: IBES

## Key regions EPS levels 2024 vs 2019

|               | EPS levels |       | 2024e vs 2019 |
|---------------|------------|-------|---------------|
|               | 2024e      | 2019  |               |
| MSCI World    | 44.0       | 30.6  | 44%           |
| S&P 500       | 239.2      | 157.2 | 52%           |
| MSCI Europe   | 155.2      | 112.8 | 38%           |
| MSCI Eurozone | 22.0       | 13.8  | 59%           |
| FTSE 100      | 710.8      | 515.1 | 38%           |

Source: IBES

## S&P500 EPS vs trend

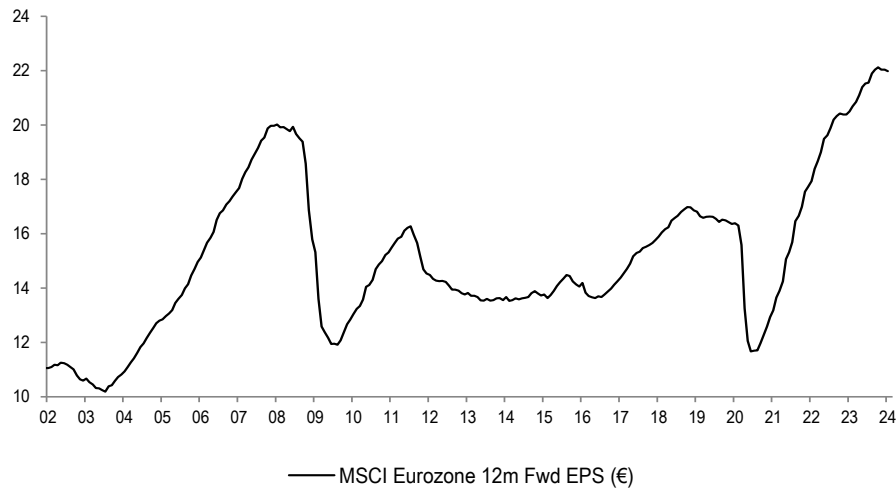


Source: IBES, NBER, Thomson Reuters. \*Trailing EPS

## ...Eurozone earnings have been held back by domestic sectors

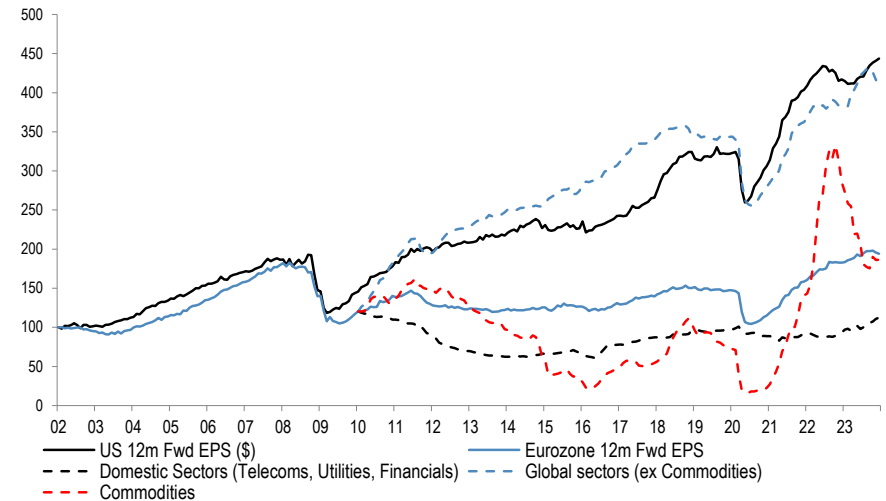
- Within Eurozone, it is the earnings base of domestic plays that has historically been low.

MSCI Eurozone 12m Fwd EPS



Source: IBES

US earnings vs Eurozone earnings, broken down by domestic, global and commodity sectors



Source: IBES. \*Global includes all sectors except Utilities, Telecoms, Financials and commodity sectors

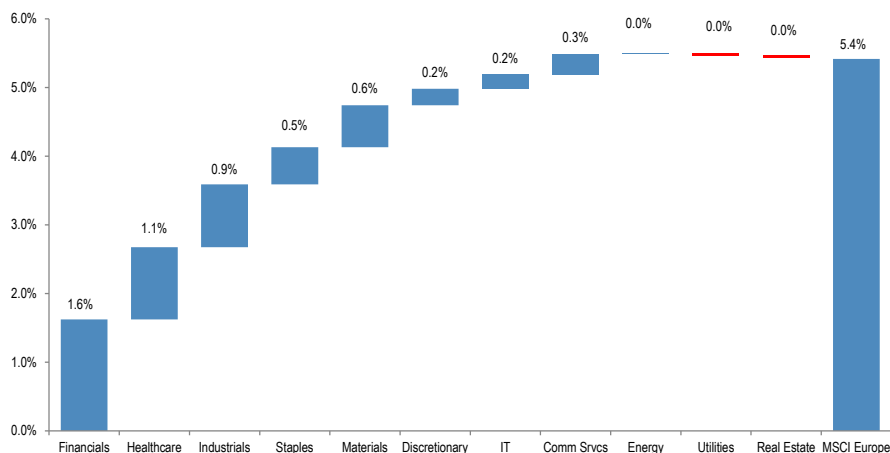
# Sector earnings contribution breakdown

## Regional and sectoral EPS growth projections for 2023 and 2024

|                            | MSCI World  |             | US          |              | Europe       |             | Eurozone     |             | UK            |             | Japan*       |              | EM           |              |
|----------------------------|-------------|-------------|-------------|--------------|--------------|-------------|--------------|-------------|---------------|-------------|--------------|--------------|--------------|--------------|
|                            | 2023e       | 2024e       | 2023e       | 2024e        | 2023e        | 2024e       | 2023e        | 2024e       | 2023e         | 2024e       | 2024e        | 2025e        | 2023e        | 2024e        |
| <b>Market</b>              | <b>0.8%</b> | <b>8.8%</b> | <b>2.0%</b> | <b>10.8%</b> | <b>-2.5%</b> | <b>5.4%</b> | <b>4.6%</b>  | <b>4.6%</b> | <b>-13.0%</b> | <b>5.0%</b> | <b>11.3%</b> | <b>7.2%</b>  | <b>-4.0%</b> | <b>17.6%</b> |
| Energy                     | -25.0%      | -0.9%       | -22.0%      | -2.8%        | -28.5%       | -0.1%       | -23.2%       | -8.4%       | -31.2%        | 7.6%        | 2.8%         | -5.0%        | -21.1%       | -3.1%        |
| Materials                  | -30.2%      | 7.1%        | -22.9%      | 3.5%         | -38.0%       | 10.1%       | -39.9%       | 18.3%       | -41.1%        | 1.3%        | -15.2%       | 22.5%        | -33.6%       | 21.9%        |
| Industrials                | 4.7%        | 9.2%        | 16.3%       | 11.9%        | -0.9%        | 8.3%        | 10.1%        | 15.2%       | 13.3%         | 12.3%       | -15.1%       | 1.7%         | -20.8%       | 17.8%        |
| Discretionary              | 32.2%       | 9.1%        | 44.9%       | 14.0%        | 9.0%         | 2.1%        | 11.5%        | 1.2%        | -11.2%        | 1.0%        | 46.4%        | 6.5%         | 59.4%        | 17.3%        |
| Staples                    | 1.5%        | 5.9%        | 2.1%        | 5.0%         | 1.3%         | 5.5%        | -2.3%        | 9.4%        | 2.0%          | 3.9%        | 0.1%         | 17.9%        | 6.1%         | 15.3%        |
| Healthcare                 | -14.1%      | 14.7%       | -19.4%      | 17.2%        | 2.0%         | 8.9%        | -8.5%        | 5.0%        | 9.8%          | 9.2%        | 4.1%         | 7.0%         | 34.8%        | 23.9%        |
| Financials                 | 13.4%       | 6.2%        | 11.1%       | 7.3%         | 17.5%        | 6.2%        | 29.4%        | 6.9%        | 0.1%          | 3.0%        | 30.0%        | 8.1%         | 14.4%        | 7.8%         |
| IT                         | 3.8%        | 14.7%       | 3.3%        | 15.2%        | 12.1%        | 5.3%        | 17.6%        | 2.6%        | 14.6%         | 10.7%       | -3.9%        | 15.6%        | -44.9%       | 59.2%        |
| Telecoms                   | 22.0%       | 16.2%       | 24.9%       | 16.5%        | -7.3%        | 10.7%       | -3.2%        | 11.4%       | -13.1%        | 8.3%        | 42.5%        | 24.9%        | 32.2%        | 15.1%        |
| Utilities                  | 13.6%       | 2.4%        | 11.3%       | 7.7%         | 1.8%         | -0.7%       | 10.3%        | -7.2%       | 2.1%          | 0.3%        | 389.9%       | -29.7%       | 211.4%       | 33.5%        |
| Real Estate                | -5.5%       | -0.2%       | -12.9%      | -1.6%        | 12.6%        | -3.9%       | 11.4%        | -2.9%       | -0.2%         | 4.0%        | 1.7%         | 4.7%         | -15.4%       | 31.7%        |
| <b>Median</b>              | <b>5.4%</b> | <b>8.0%</b> | <b>4.2%</b> | <b>8.0%</b>  | <b>6.0%</b>  | <b>7.1%</b> | <b>7.6%</b>  | <b>7.1%</b> | <b>3.9%</b>   | <b>6.3%</b> | <b>7.1%</b>  | <b>6.9%</b>  | <b>11.5%</b> | <b>17.6%</b> |
| <b>Median ex-commo</b>     | <b>6.8%</b> | <b>8.0%</b> | <b>5.0%</b> | <b>7.9%</b>  | <b>7.6%</b>  | <b>6.9%</b> | <b>8.5%</b>  | <b>7.1%</b> | <b>5.3%</b>   | <b>6.9%</b> | <b>7.7%</b>  | <b>7.4%</b>  | <b>14.3%</b> | <b>17.3%</b> |
| <b>Median - Cyclicals</b>  | <b>6.8%</b> | <b>9.2%</b> | <b>4.7%</b> | <b>9.3%</b>  | <b>6.3%</b>  | <b>7.1%</b> | <b>8.2%</b>  | <b>8.0%</b> | <b>4.1%</b>   | <b>6.4%</b> | <b>9.6%</b>  | <b>5.6%</b>  | <b>8.0%</b>  | <b>23.5%</b> |
| <b>Median - Defensives</b> | <b>3.9%</b> | <b>7.4%</b> | <b>3.8%</b> | <b>7.3%</b>  | <b>0.7%</b>  | <b>8.0%</b> | <b>-1.6%</b> | <b>8.8%</b> | <b>3.9%</b>   | <b>6.4%</b> | <b>9.8%</b>  | <b>13.9%</b> | <b>14.9%</b> | <b>17.6%</b> |

Source: IBES, \*Japan refers to fiscal year ending March 2024, 2025

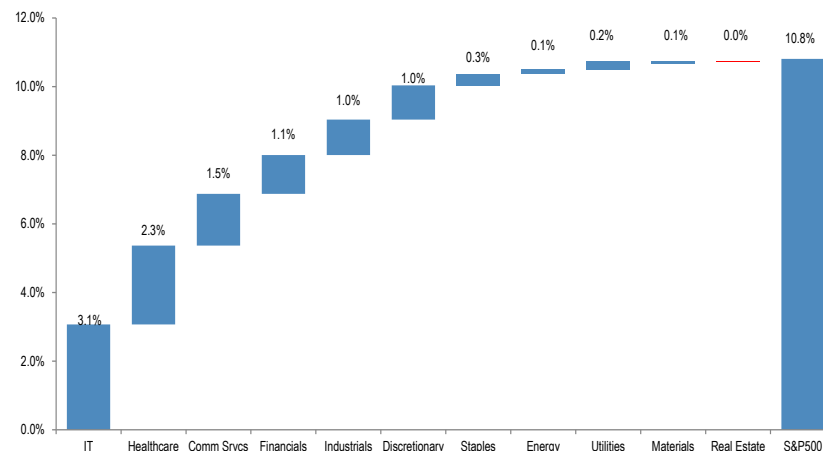
## Sector contribution to MSCI Europe 2024e EPS growth



Sector contribution to MSCI Europe 2024e EPS growth

Source: IBES.

## Sector contribution to S&P500 2024e EPS growth



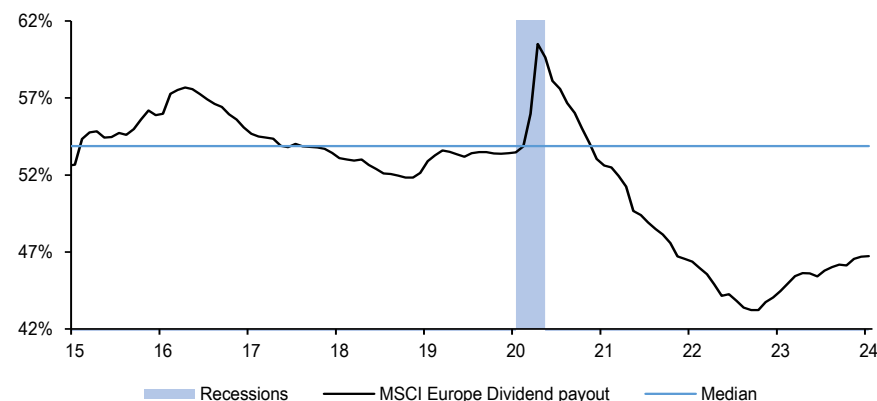
Sector contribution to S&P500 2024e EPS growth

Source: IBES.

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

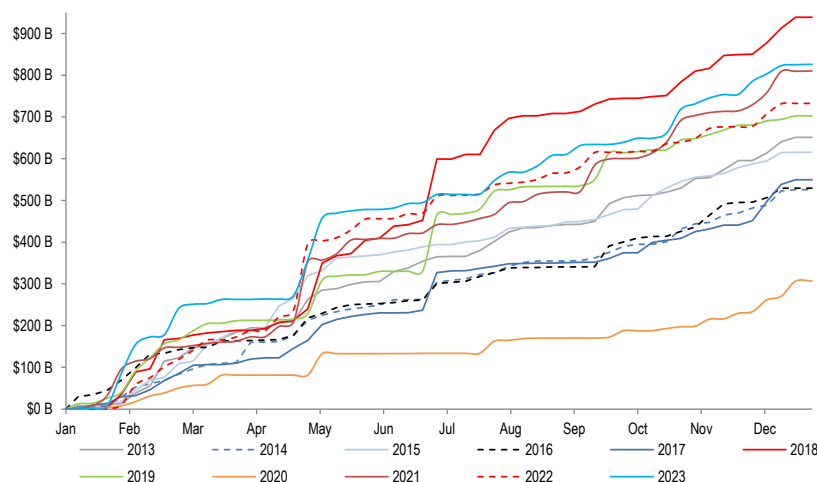
- We have seen very strong momentum in buyback announcements so far this year.
- Buybacks as a share of profits are still low.
- Dividend payout ratios are low, too.

MSCI Europe dividend payout ratio



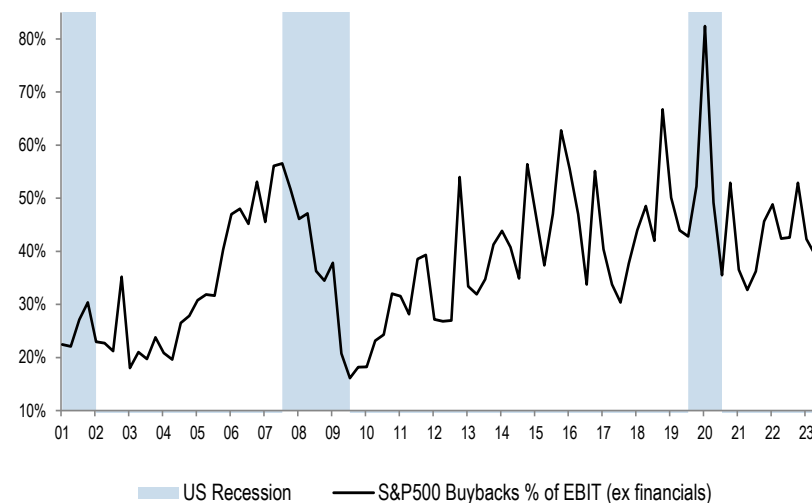
Source: IBES

S&P500 announced buybacks



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

S&P500 buybacks as a % of EBIT



Source: Bloomberg Finance L.P.



#### 4) Equity P/E multiples are generally not stretched outside the US, but the US is at risk... SPX at 20x P/E is far from pricing in any weakness...

12m Fwd. P/E across key geographies

|             | Current | 20Y Median | Current vs Median |
|-------------|---------|------------|-------------------|
| US          | 20.0    | 15.8       | 26%               |
| World       | 17.4    | 15.0       | 16%               |
| Switzerland | 17.2    | 15.1       | 14%               |
| EM          | 13.4    | 12.8       | 5%                |
| France      | 11.8    | 11.3       | 4%                |
| Japan       | 14.1    | 14.2       | -1%               |
| Eurozone    | 12.3    | 12.8       | -4%               |
| Germany     | 11.3    | 12.4       | -9%               |
| Spain       | 10.8    | 12.4       | -13%              |
| UK          | 10.3    | 11.9       | -14%              |
| Italy       | 8.3     | 11.9       | -30%              |

Source: IBES

Fall in MSCI US P/E during past recessions

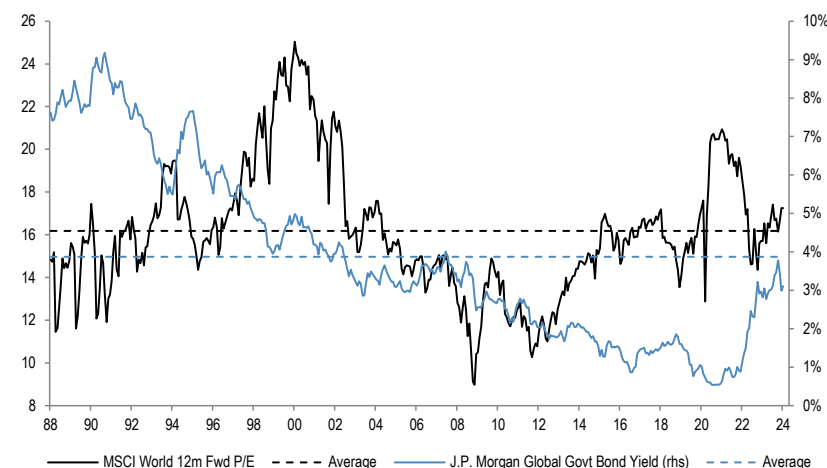
| Recession      | Market Peak | Market Trough | MSCI US peak to trough move | 12m Fwd P/E at MSCI US peak | 12m Fwd P/E at MSCI US trough | Move in MSCI US 12m Fwd P/E from peak to trough |
|----------------|-------------|---------------|-----------------------------|-----------------------------|-------------------------------|---|
| 1990           | Jul-90      | Oct-90        | -20%                        | 12.8                        | 10.4                          | -19%  |
| 2001           | Mar-00      | Oct-02        | -51%                        | 25.7                        | 13.8                          | -46%  |
| 2008           | Oct-07      | Mar-09        | -56%                        | 15.4                        | 10.4                          | -32%  |
| 2020           | Feb-20      | Mar-20        | -34%                        | 19.6                        | 13.2                          | -33%  |
| <b>Average</b> |             |               | <b>-40%</b>                 |                             |                               | <b>-33%</b>                                     |

Source: IBES

## ...DY-BY gap no longer appears attractive, with the exception of Japan

- DY-BY gaps have closed, and reversed, as yields moved higher.
- US P/Es are high considering the rising levels of real bond yields.

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



Source: Datastream, IBES

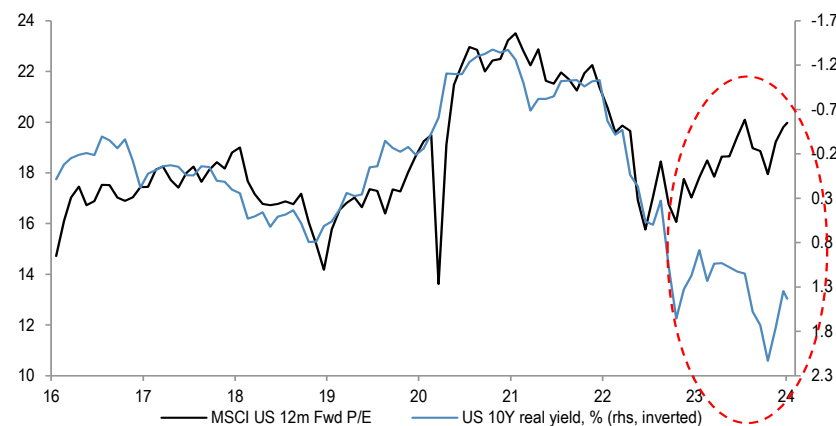
DM yield gap in the historical context

|          | Dividend yield | 10Y Bond yield | Dividend yield minus bond yield | Average since '00 | Current vs Average (bp) |
|----------|----------------|----------------|---------------------------------|-------------------|-------------------------|
| US       | 1.5%           | 4.0%           | -2.6%                           | -1.4%             | -118                    |
| Japan    | 2.2%           | 0.6%           | 1.6%                            | 0.9%              | 71                      |
| Eurozone | 3.1%           | 2.7%           | 0.4%                            | 0.5%              | -6                      |
| UK       | 3.6%           | 3.7%           | -0.1%                           | 0.6%              | -65                     |

\*Current as of 2<sup>nd</sup> Jan'24

Source: Datastream

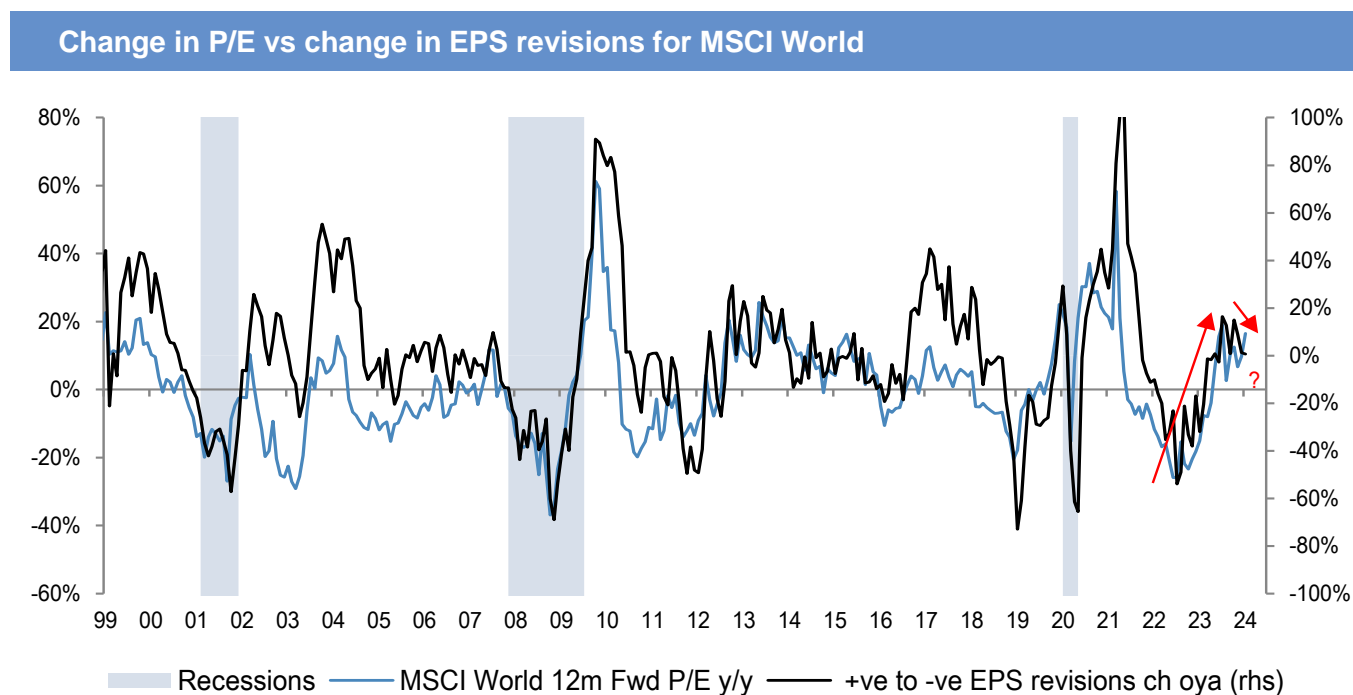
US 12m Fwd. P/E vs US real yield



Source: Datastream

## P/E multiples show a positive correlation with EPS momentum... EPS revisions might turn lower again

- The moves in P/E are strongly positively correlated with EPS revisions.

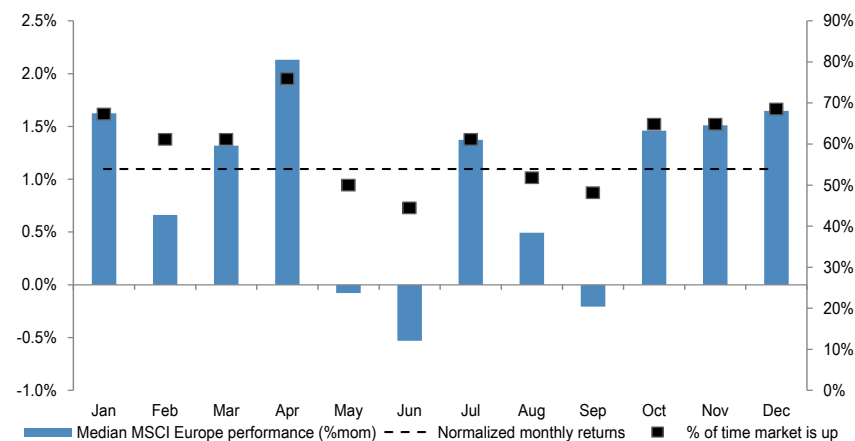


Source: IBES

## 5) Sentiment and positioning are far from depressed, especially post the Nov-Dec rally...

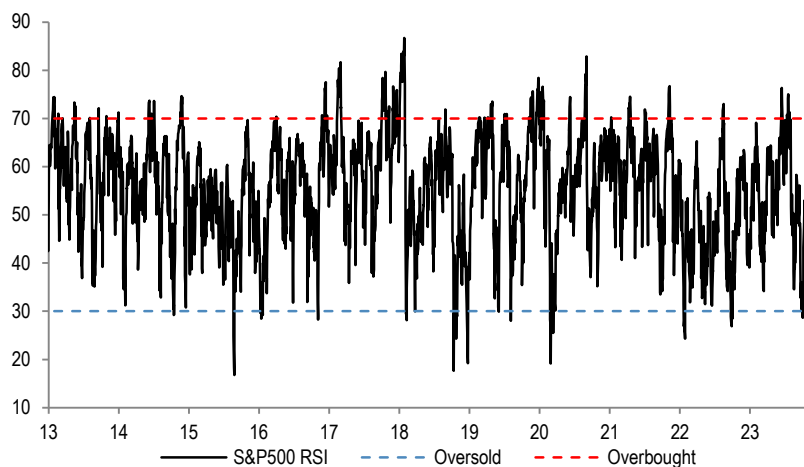
- November-December rally has led to overbought conditions.
- On the positive side, seasonality is typically supportive in Jan-April.

Seasonality\* of MSCI Europe performance



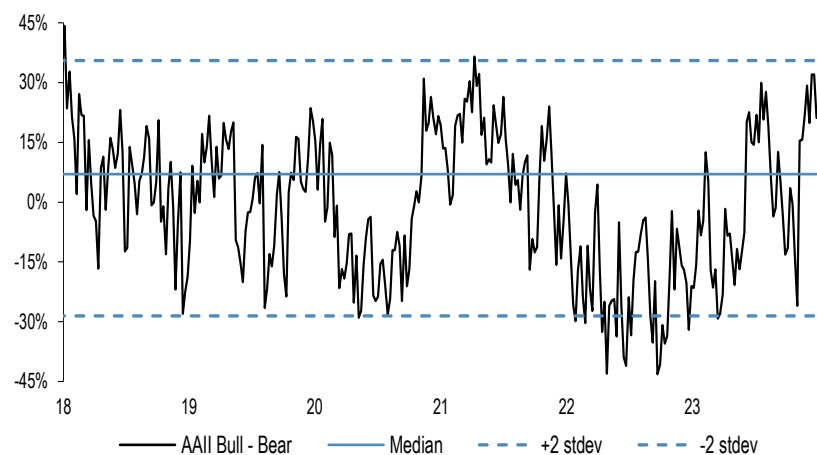
Source: Datastream, \*Median since 1970

S&P500 RSI



Source: Bloomberg Finance L.P.

AAll Bull - Bear

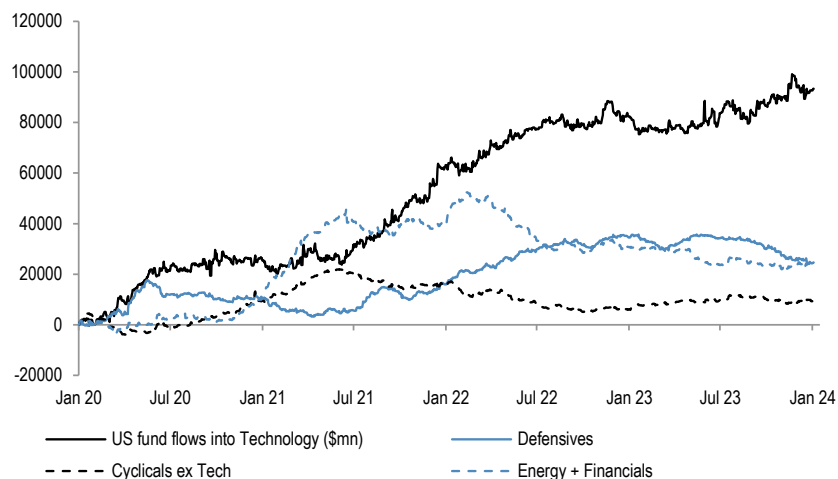


Source: Bloomberg Finance L.P.

## ...positioning is generally stretched

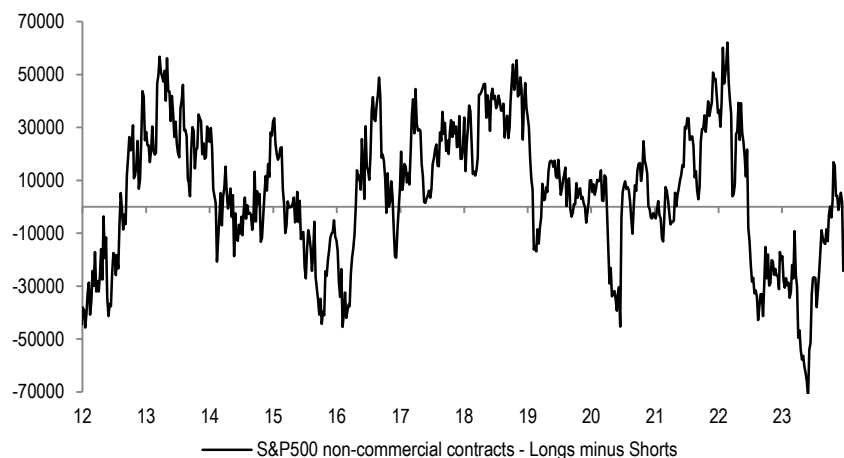
- Full list of technical indicators is in the last section of the chartbook.

### Flows into US sectors



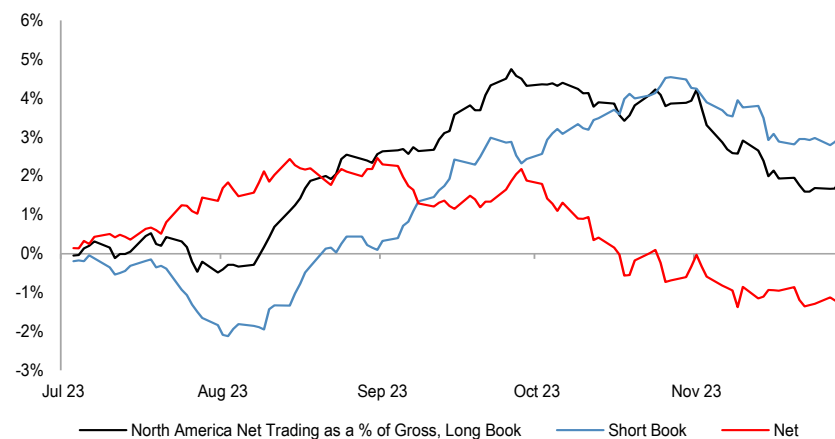
Source: Bloomberg Finance L.P.

### Speculative positions on S&P500 futures contracts



Source: Bloomberg Finance L.P.

### N. America net trading, % Gross



Source: JPMorgan Positioning Intelligence.

### Positions in US Equity futures by Asset Managers

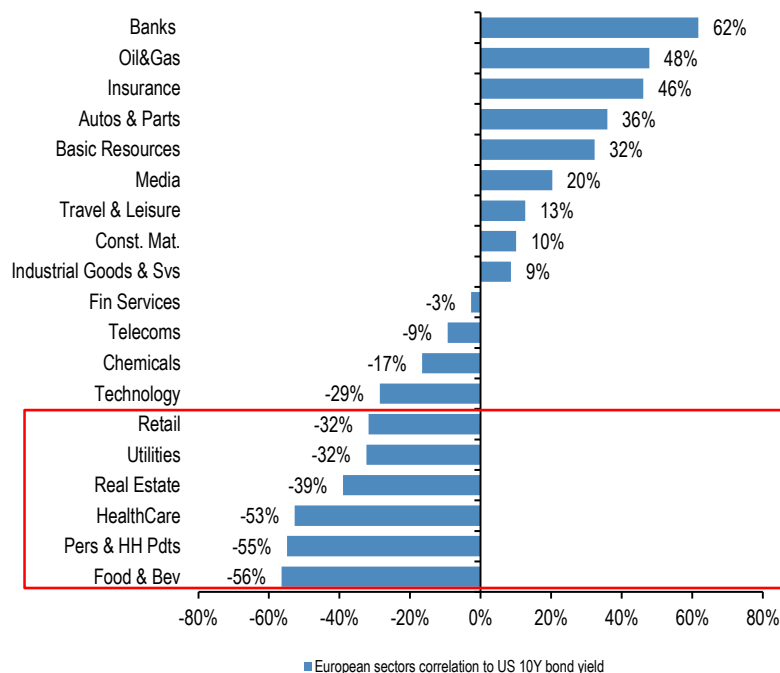


Source: J.P. Morgan. Flows and Liquidity Team

# Key drivers of sector performance: 1) Bond yields... Cyclical and Financials typically show positive correlation to yields...

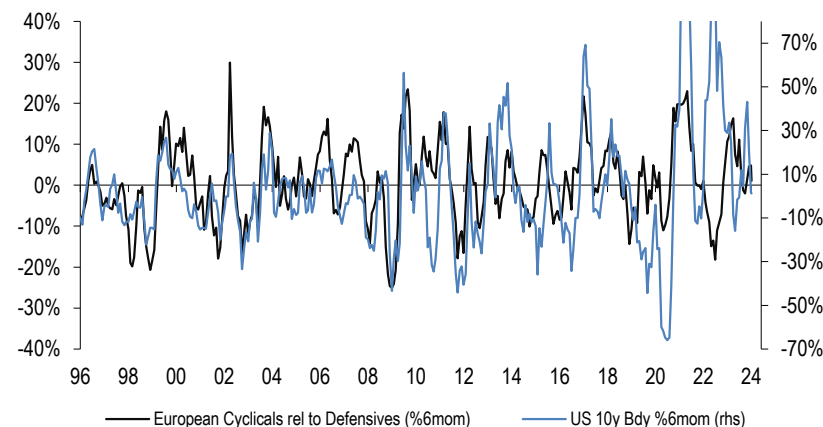
- Cyclical and Banks show the highest correlation to bond yields, out of any sector. We believe that these sectors will likely struggle if yields move lower in the coming months.

European sectors correlation to bond yields



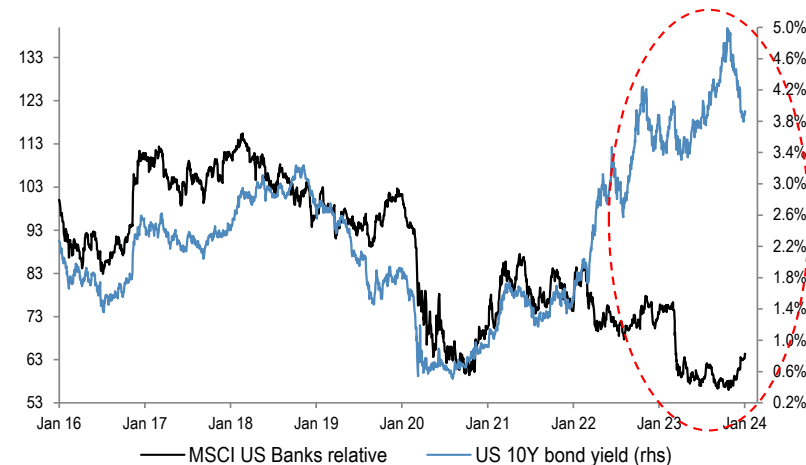
Source: Bloomberg Finance L.P.

European Cyclical versus Defensives and bond yields



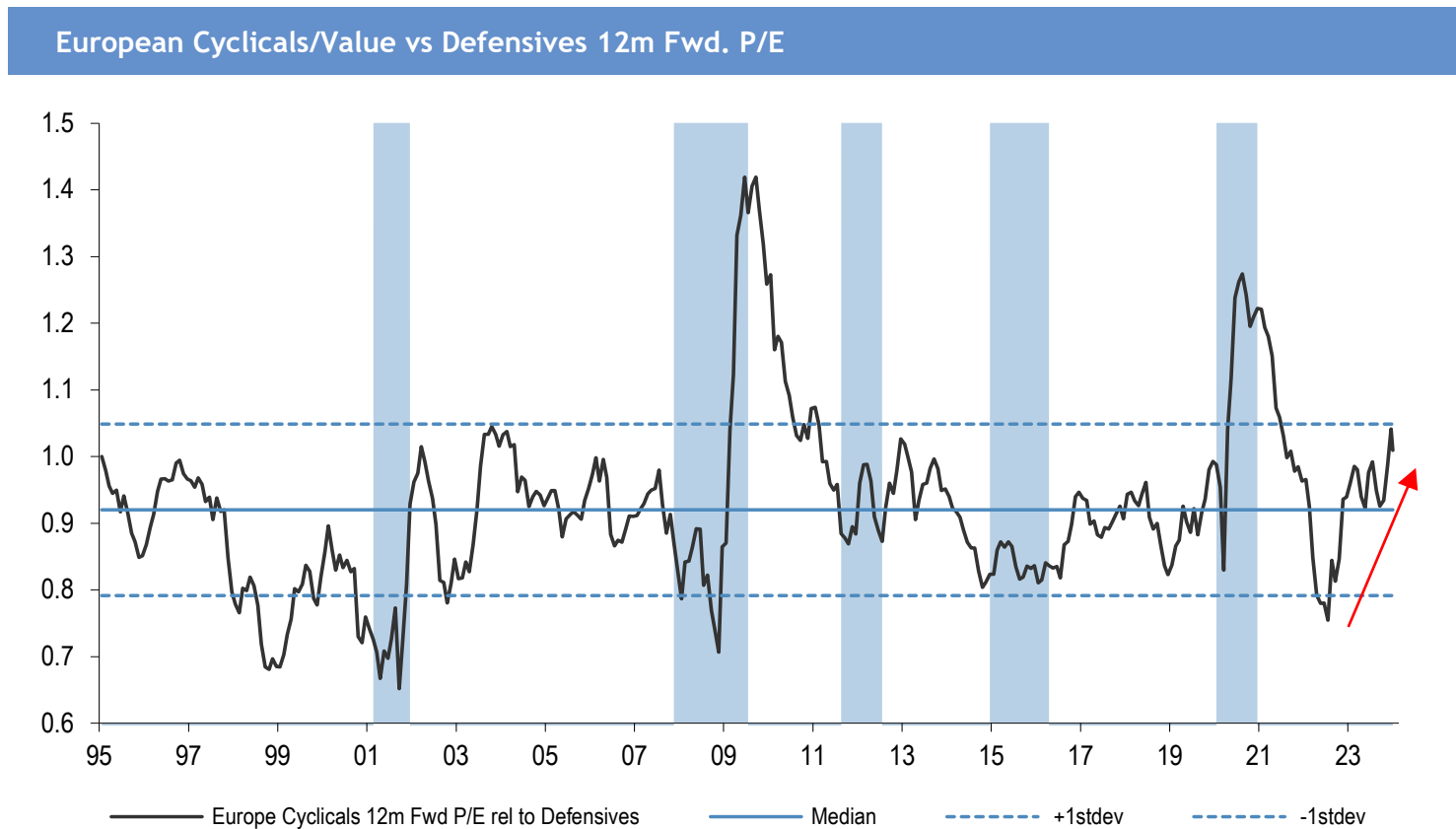
Source: Datastream

US Banks relative vs US 10-year yield



Source: Datastream

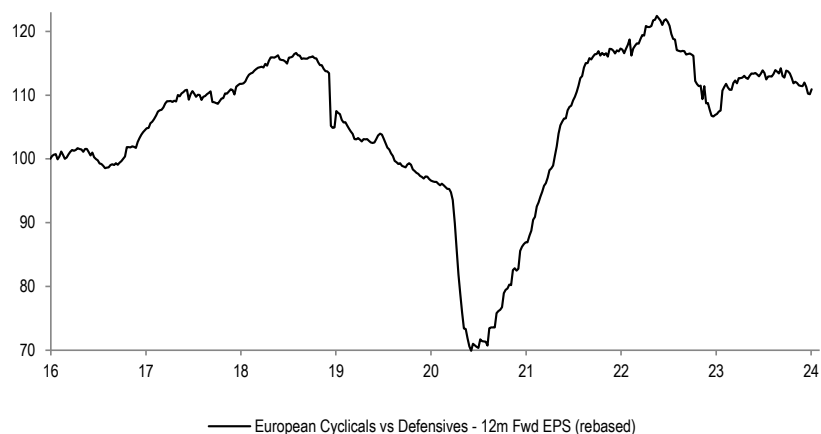
...Cyclicals do not look cheap anymore vs Defensives...



Source: IBES

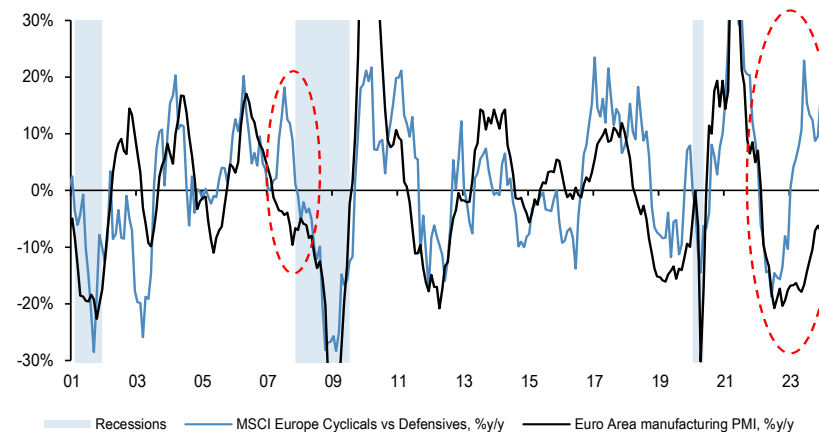
## ... the earnings of Cyclical are likely to move lower

European Cyclical vs Defensives forward EPS relative



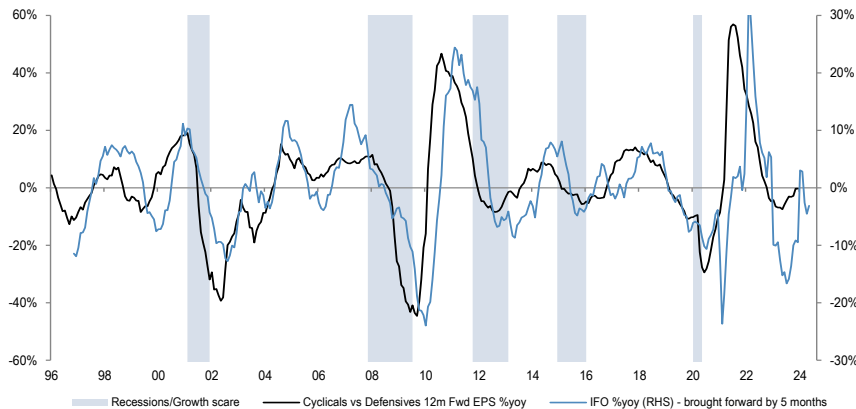
Source: Datastream

European Cyclical vs Defensives and Manufacturing PMI



Source: Datastream, S&P Global

Cyclicals EPS relative to Defensives vs IFO



Source: Bloomberg Finance L.P., IBES

Cyclicals vs Defensives EPS trend in different PMI regimes

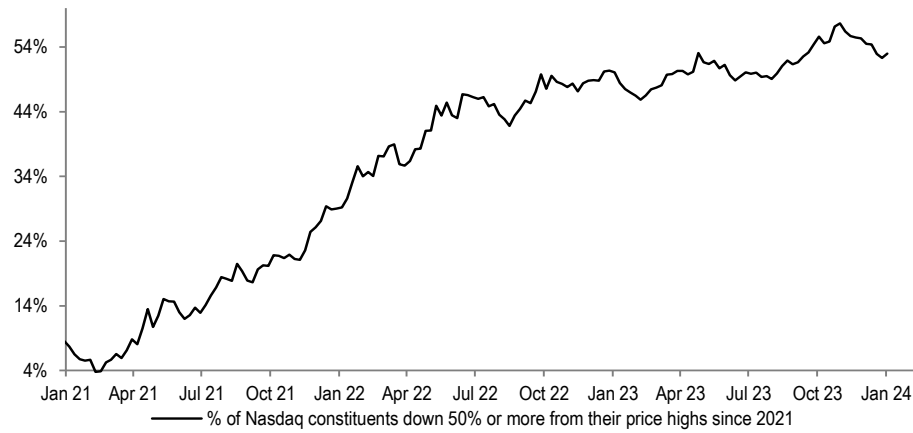
| Euro Area<br>Manufacturing<br>PMI | European Cyclical vs Defensives 12m Fwd EPS<br>forward change |        |         |        |
|-----------------------------------|---|--------|---------|--------|
|                                   | Median  |        | Average |        |
|                                   | +3m   | +6m    | +3m     | +6m    |
| 30-35                             | -13.6%  | -14.2% | -14.2%  | -13.5% |
| 35-40                             | -6.2%   | 3.7%   | -9.7%   | -5.2%  |
| 40-45                             | -2.9%   | -1.8%  | -9.6%   | -7.6%  |
| 45-50                             | -1.5%   | -2.6%  | -1.5%   | -3.2%  |
| 50-55                             | 1.2%  | 2.1%   | 1.5%    | 2.8%   |
| 55-60                             | 2.6%  | 3.6%   | 2.7%    | 3.7%   |
| 60-65                             | 3.9%  | 4.9%   | 5.2%    | 5.4%   |

Source: IBES



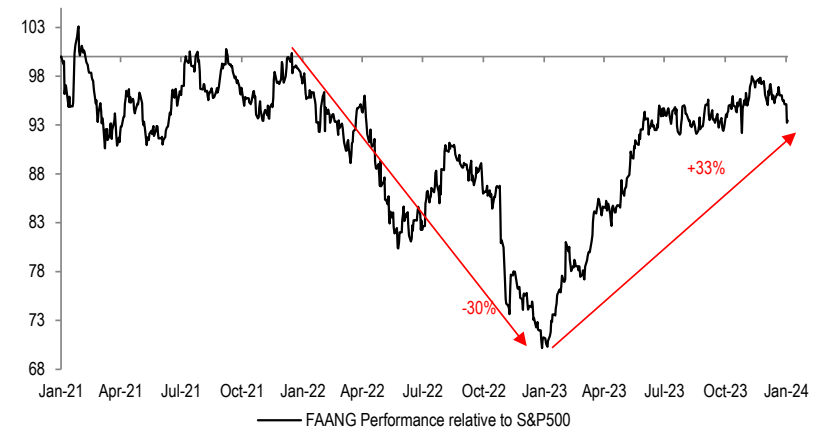
# We called in October '22 for the quality Growth part of the market to recover... almost half of Nasdaq traded at least 50% down vs highs since 2021

% of Nasdaq constituents down 50% or more from price highs



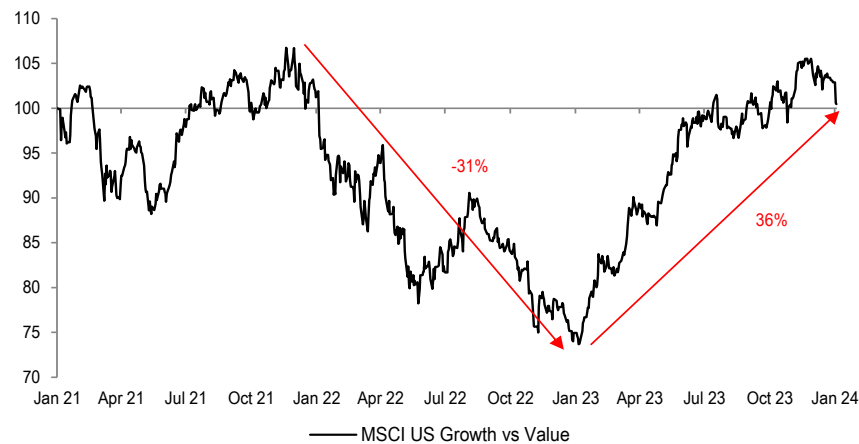
Source: Datastream

FAANG price relative



Source: Bloomberg Finance L.P.

MSCI US Growth vs Value



Source: Bloomberg Finance L.P.

Global Fintech Index relative



Source: Bloomberg Finance L.P.

# While we called for a tactical bounce in Growth vs Value last year, we would still prefer Value over the long term

## MSCI World Value and Growth FCF yield



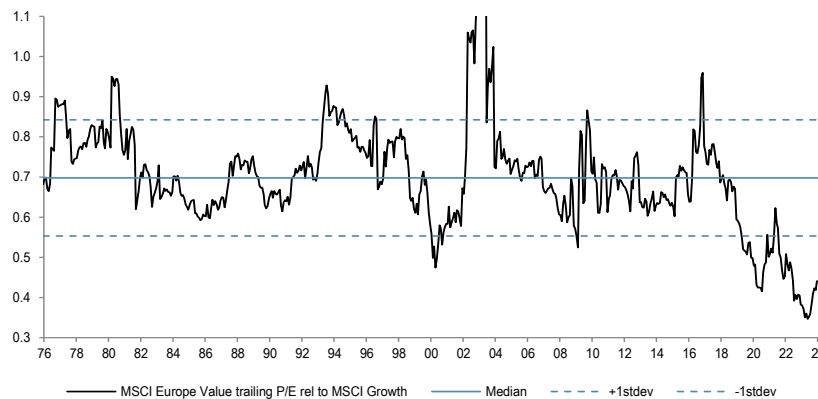
Source: Datastream

## MSCI World Value vs Growth P/Book



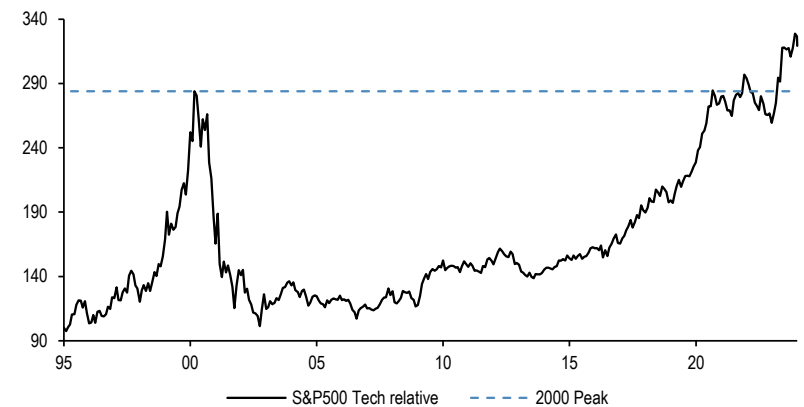
Source: Datastream

## MSCI Europe Value vs Growth P/E



Source: Datastream

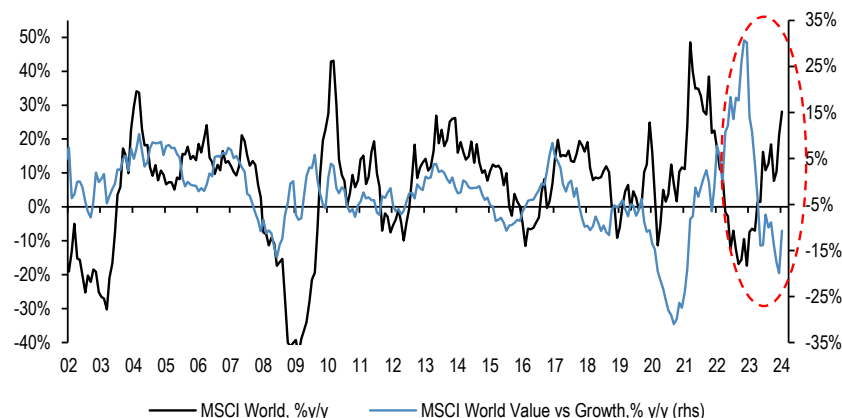
## S&P500 Tech relative



Source: Datastream

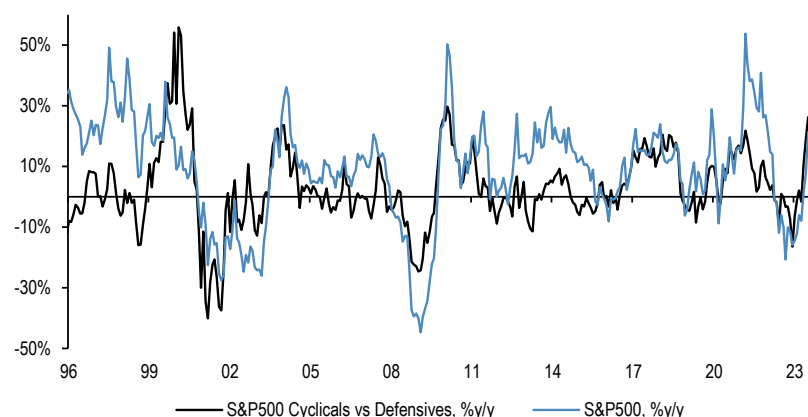
# Growth is a large part of market cap, but notably market direction and Cyclicals/Value leadership are typically positively correlated

MSCI World and MSCI World Value vs Growth



Source: Datastream

S&P500 Cyclicals vs Defensives and market



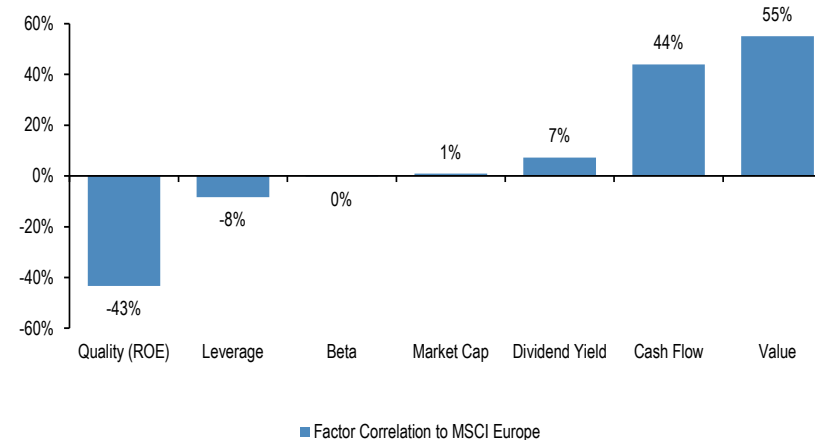
Source: Datastream

Periods of outperformance of US Cyclicals vs Defensives

| Trough         | Peak      | # Months   | Move in Cyclicals vs Defensives | Move in SPX |
|----------------|-----------|------------|---------------------------------|-------------|
| 20-Sep-01      | 08-Jan-02 | 3.6        | 36%                             | 18%         |
| 09-Oct-02      | 19-Jan-04 | 15.3       | 39%                             | 47%         |
| 12-Aug-04      | 06-Dec-04 | 3.8        | 14%                             | 12%         |
| 15-Apr-05      | 19-Apr-06 | 12.1       | 13%                             | 15%         |
| 27-Jul-06      | 19-Jul-07 | 11.7       | 17%                             | 23%         |
| 17-Jan-08      | 15-May-08 | 3.9        | 16%                             | 7%          |
| 23-Feb-09      | 26-Apr-10 | 14.1       | 50%                             | 63%         |
| 31-Aug-10      | 14-Feb-11 | 5.5        | 19%                             | 27%         |
| 03-Oct-11      | 19-Mar-12 | 5.5        | 16%                             | 28%         |
| 22-Apr-13      | 31-Dec-13 | 8.3        | 19%                             | 18%         |
| 21-Aug-15      | 06-Nov-15 | 2.5        | 10%                             | 7%          |
| 05-Jul-16      | 06-Jun-18 | 23         | 51%                             | 33%         |
| 21-Dec-18      | 18-Apr-19 | 3.9        | 19%                             | 20%         |
| <b>Average</b> |           | <b>5.5</b> | <b>19%</b>                      | <b>20%</b>  |
| <b>Median</b>  |           | <b>8.7</b> | <b>25%</b>                      | <b>24%</b>  |

Source: Datastream

Factor performance correlation to market

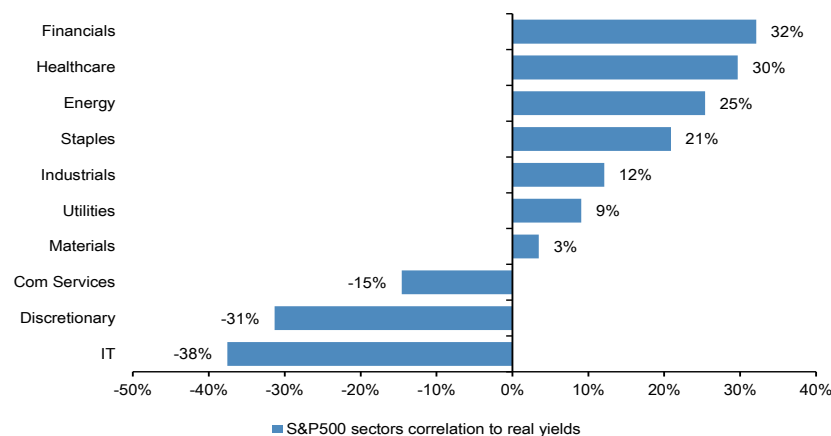


Source: Datastream, J.P. Morgan

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

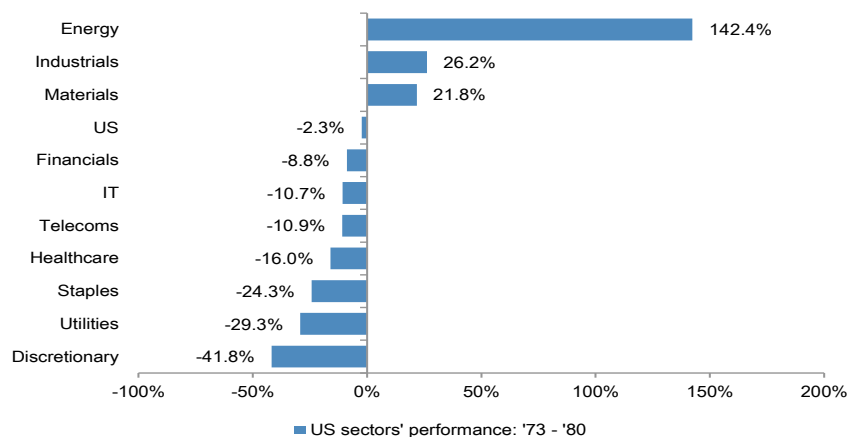
- Financials performed well, outside recessions, in 1970-ies.
- Financials are the most positively correlated to real rates, and Tech the most negatively.

US sectors correlation to real yields, last 7 years



Source: Bloomberg Finance L.P.

US sectors performance in '70s episode



Source: Datastream, JP Morgan

US Banks relative in 70ies



Source: Datastream

## 2) USD direction matters for regional calls, in particular for EM equities, and for commodities... equities typically preferred falling USD

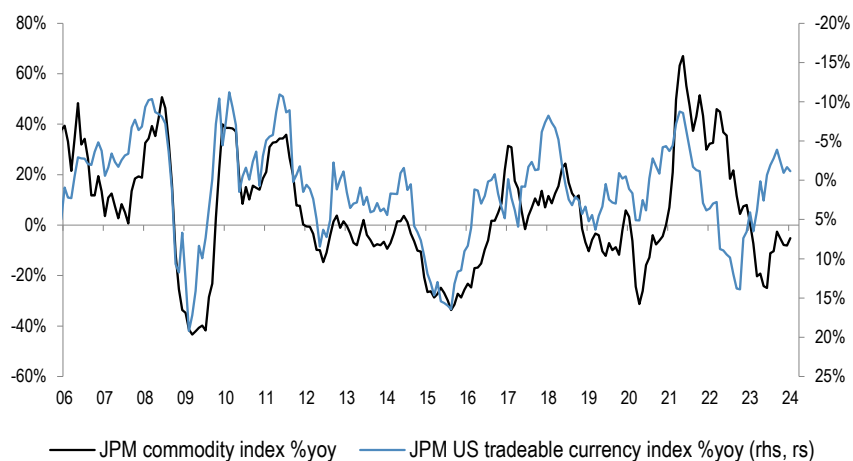
- Historically, equities did better in weaker USD regimes, especially the EMs.
- Commodities are inversely correlated to the USD.

### MSCI World performance in different DXY regimes

| MSCI World (\$) monthly performance since '10 |        |          |
|---|--------|----------|
|   | DXY up | DXY down |
| Average                                       | -1.2%  | 2.7%     |
| Median  | -0.2%  | 2.5%     |
| % positive                                    | 43%    | 79%      |

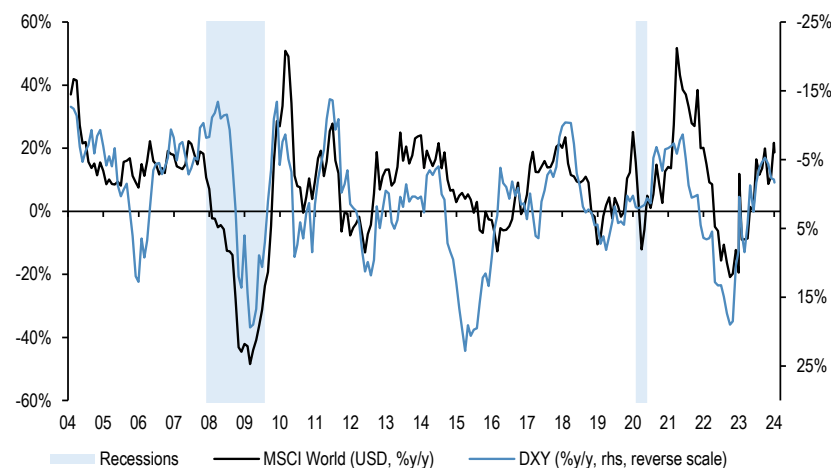
Source: Bloomberg Finance L.P.

### Commodity index and trade-weighted USD



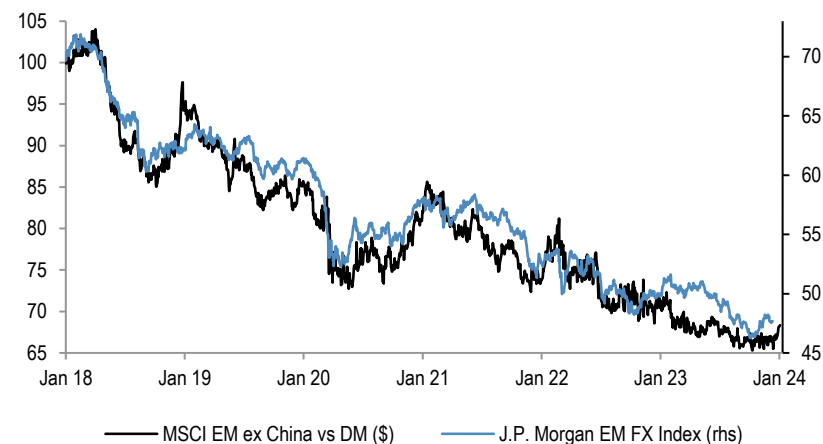
Source: Bloomberg Finance L.P., J.P.Morgan

### MSCI World performance and DXY



Source: Bloomberg Finance L.P.

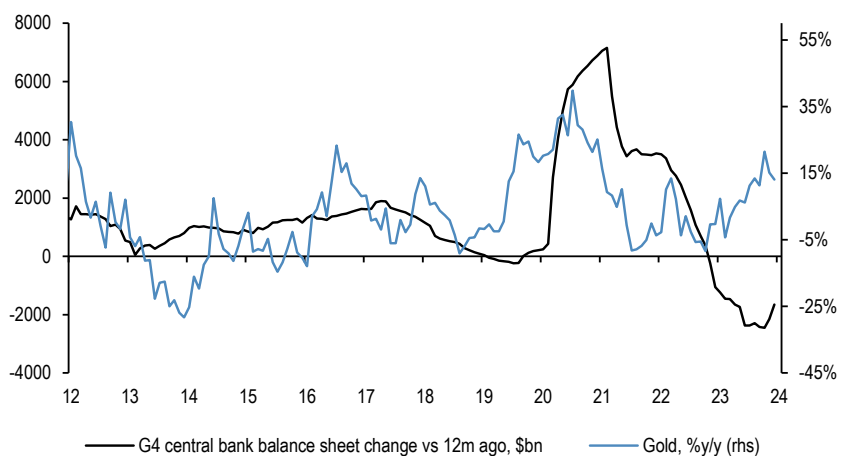
### MSCI EM ex China vs DM and EM FX



Source: Bloomberg Finance L.P.

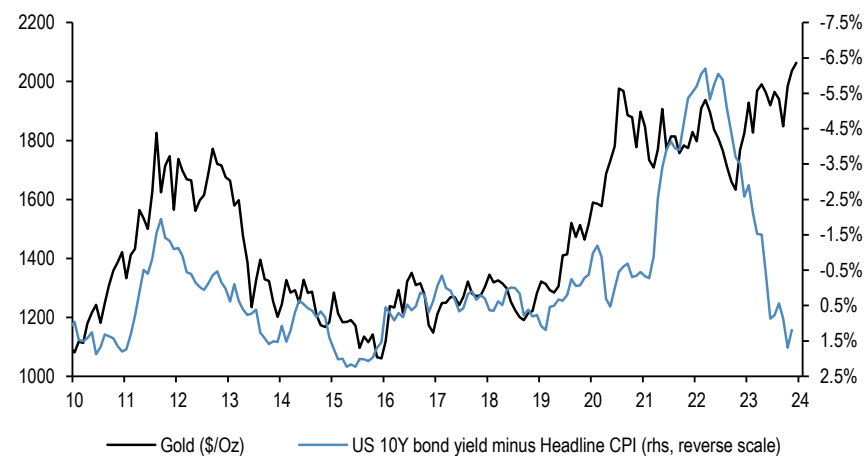
## Gold near term is a “safe” haven, but medium-term outlook is not too bullish

### Gold and central bank balance sheet



Source: Bloomberg Finance L.P., JP Morgan

### Gold and 10Y real yield

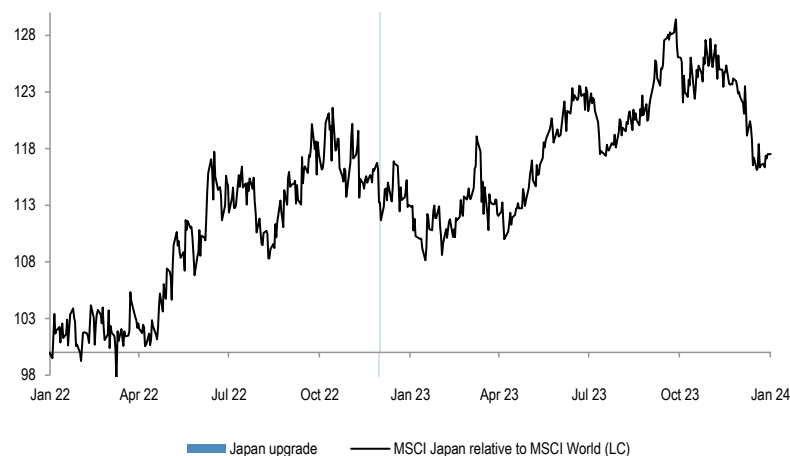


Source: Bloomberg Finance L.P.

## Regional Allocation: 1) OW Japan – Diverging policy path to the rest of DM, reflation and rerating could be the tailwinds...

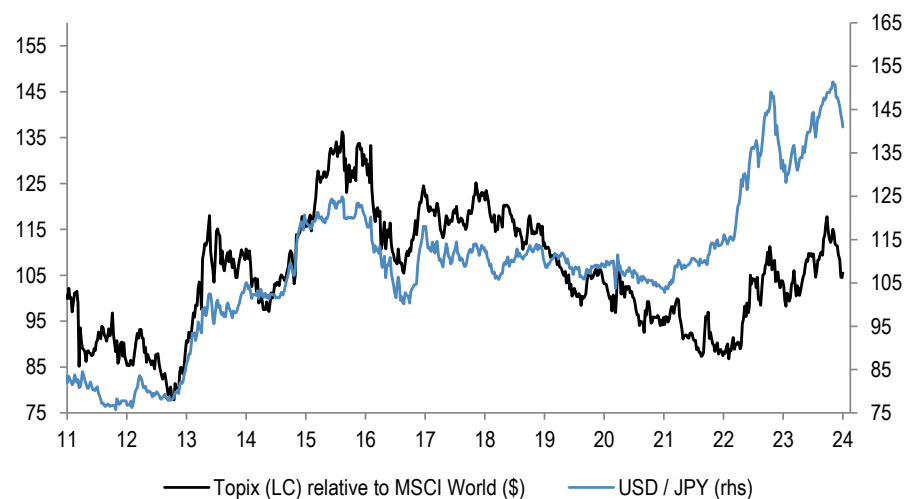
- We have been bullish on Japanese equities last year, upgraded to OW last December, driven by the corporate reform and reflation themes. Our view last year was to hedge the FX, but we think that into 2024 one might not need to do this, anymore.
- The weaker JPY last year has been helpful, given the clear inverse correlation between Topix relative performance and Yen. While FX is likely to firm up this year, in our view, leading to some pressure on earnings, a stronger yen implies global investors would no longer need to hedge currency.

MSCI Japan relative



Source: Datastream

Topix relative and yen



Source: IBES

## The region remains underowned and cheap

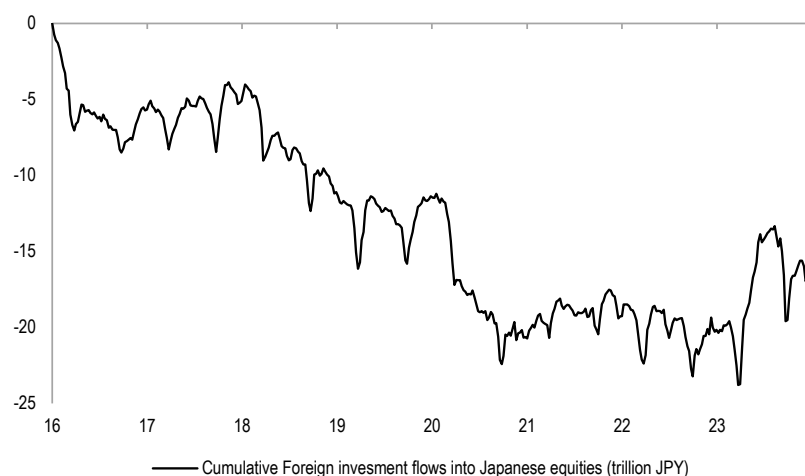
- Despite the strong returns last year, Japan still trades 2.5 standard deviations below its long-term median.
- Foreign investor interest in Japan has increased last year, and the region has seen inflows. Still, positioning is light in a longer-term context.

MSCI Japan Price to Book relative



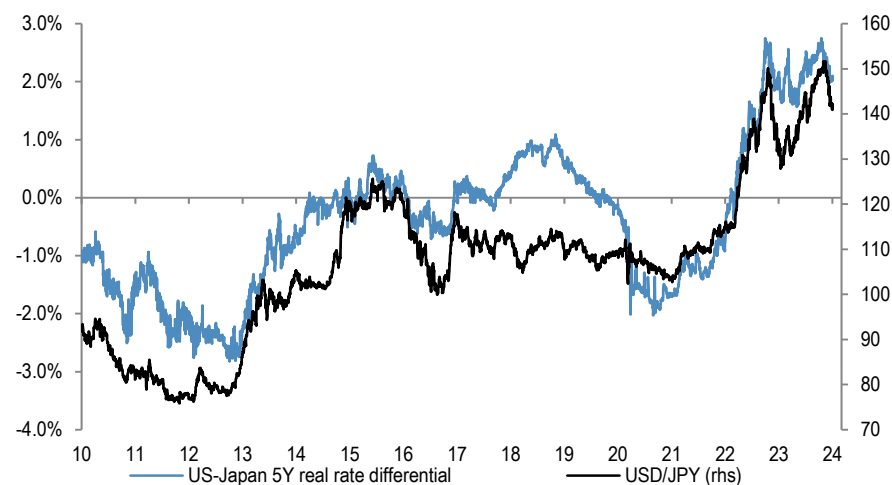
Source: IBES

Foreign investment flows into Japanese equities



Source: JPM Japan Equity Strategy

Topix relative and yen



Source: IBES



## ...hurdle rate is low...

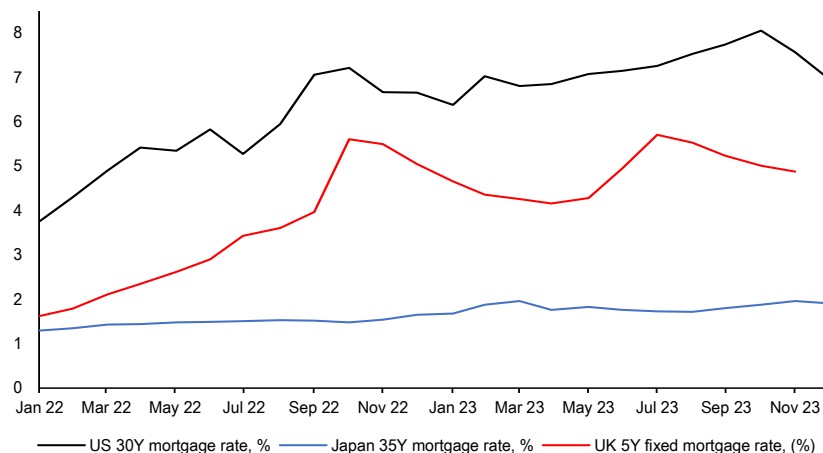
- Japan is typically a global cycle play, with its earnings strongly leveraged to the global macro environment. This time around, however, we think that the Japan outlook is not too dependent on the global cycle view.
- The interest rate cycles have diverged. Mortgage rates, for example, have not increased by the same magnitude in Japan as they have in other countries.
- At the same time, Japan is benefitting from the exit from deflation. Wage growth appears to be improving, after years of stagnation, as are house prices. Earnings are rebounding strongly as well.

### Japan monthly earnings



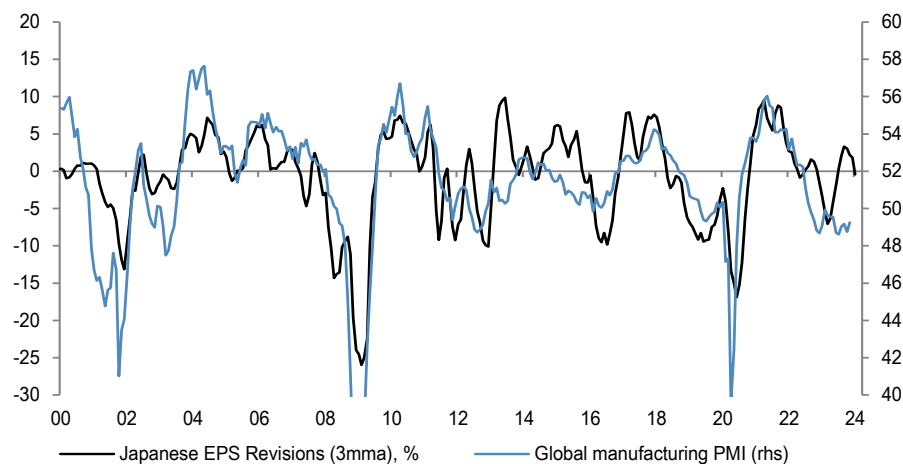
Source: J.P.Morgan Economics

### US, UK and Japan mortgage rates



Source: Bloomberg Finance L.P.

### Japan EPS revisions and Global manufacturing PMI

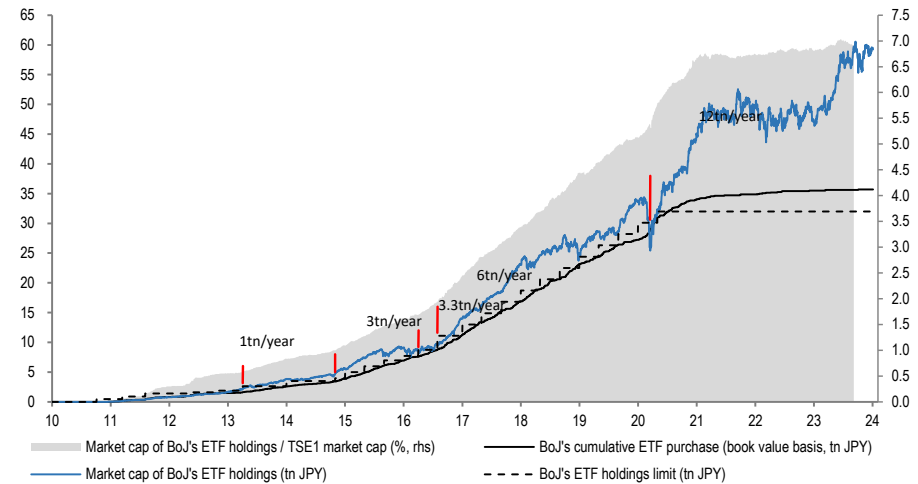


Source: Datastream, J.P. Morgan

## ...Investor positioning is still subdued...

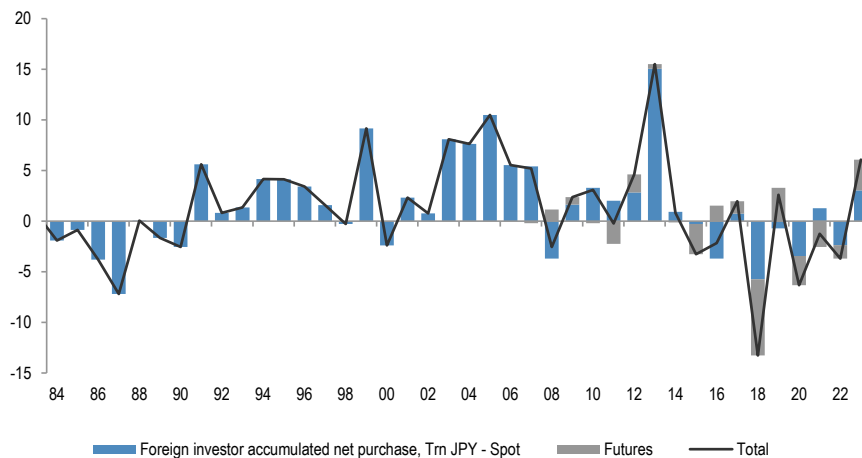
- Until last year, foreign investors had sold over ¥ 5 trillion of Japanese equities since 2020. While this is less than the ¥13 trillion outflows from the region in 2018, we note that positioning in Japanese equities is net short in the average investor portfolio. So far, we have seen strong inflows since Jan'23, a trend we believe will continue.

### BoJ ETF ownership



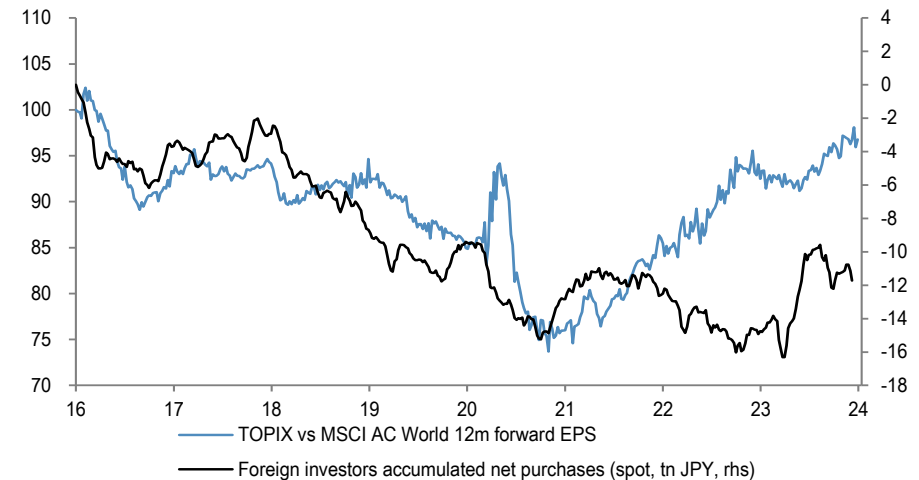
Source: BoJ, J.P. Morgan

### Foreign investors accumulated net purchases



Source: Japan Exchange Group (JPX)

### Foreign investors accumulated net spot purchases and TOPIX EPS relative

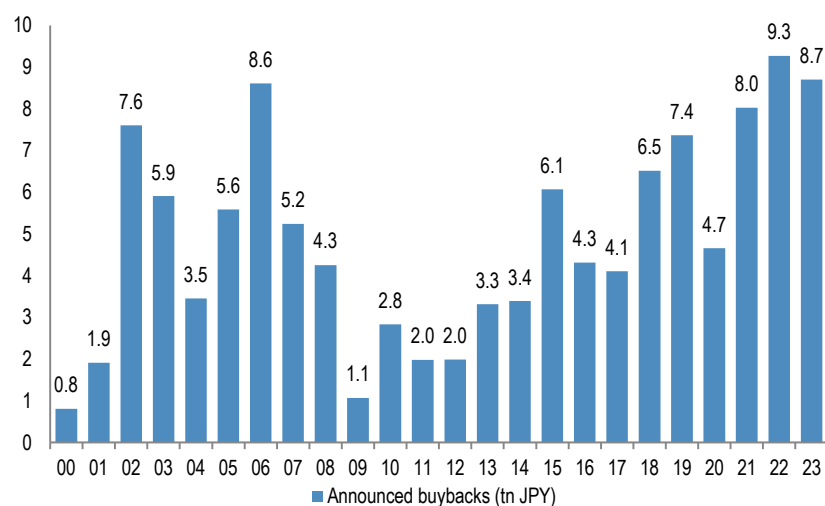


Source: Japan Exchange Group (JPX), IBES

## ...corporate balance sheets are net cash, TSE initiative is likely to drive rerating

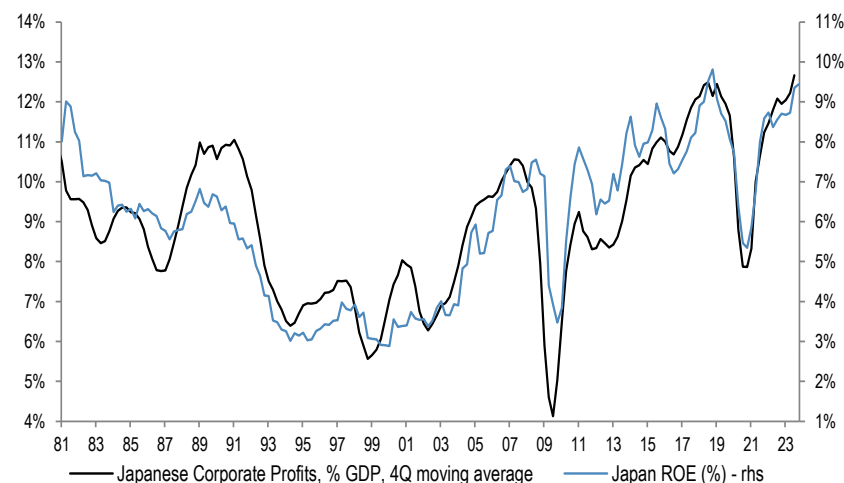
- One of the key drivers of Japanese equities is the TSE directive to better manage cost of capital, which incentivizes companies to raise their RoE. The region has a higher proportion of net cash companies vs others, which can be used towards measures to raise RoE. This in turn is likely to boost corporate profitability.
- Japanese companies are also seeing elevated buyback announcements.

### Announced buybacks - TOPIX universe



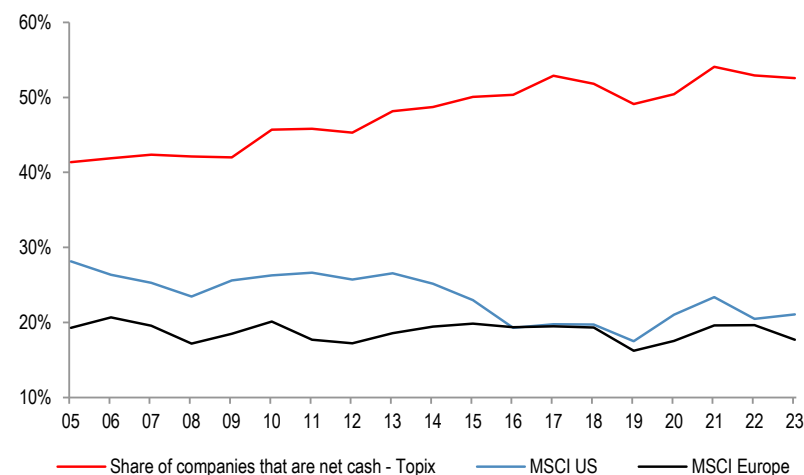
Source: Bloomberg Finance L.P. 2023 refers to annualized numbers; buybacks till October

### Japanese profit margins and RoE



Source: ESRI, Bloomberg Finance L.P.

### Net cash firm weightings



Source: Bloomberg Finance L.P.

# Impact of YCC adjustment is likely to be limited

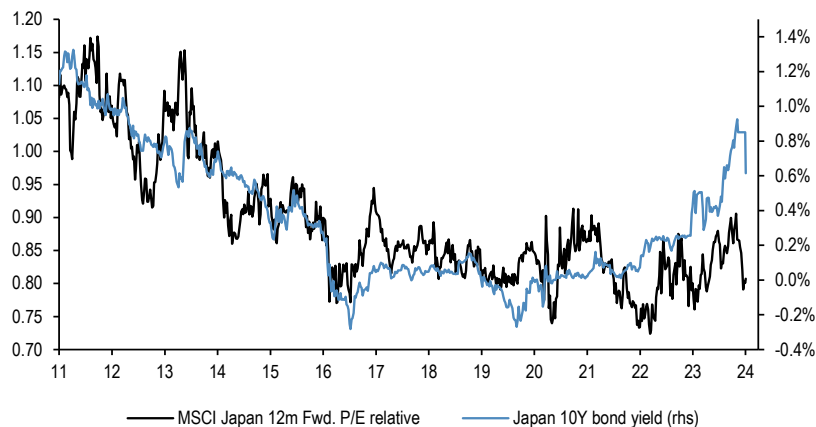
- A final potential positive argument for Japan is that the rising bond yields and/or inflation should not be seen as impediments for the region's performance. Our fixed income team forecasts limited upside for Japanese yields from current levels.
- We keep our regional relative trade of OW Japanese Banks vs global Banks, started in April.

## JPM forecasts for Japan 10Y bond yield (%)

| Current | Forecast for the end of |        |        |        |
|---------|-------------------------|--------|--------|--------|
|         | Mar 24                  | Jun 24 | Sep 24 | Dec 24 |
| 0.61    | 0.85                    | 0.90   | 1.00   | 1.00   |

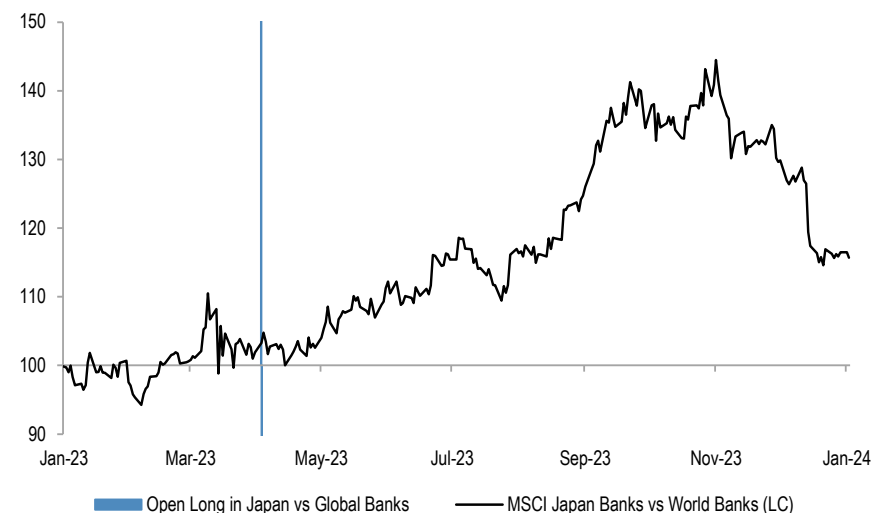
Source: Bloomberg Finance L.P., J.P. Morgan

## MSCI Japan 12m forward P/E and bond yields



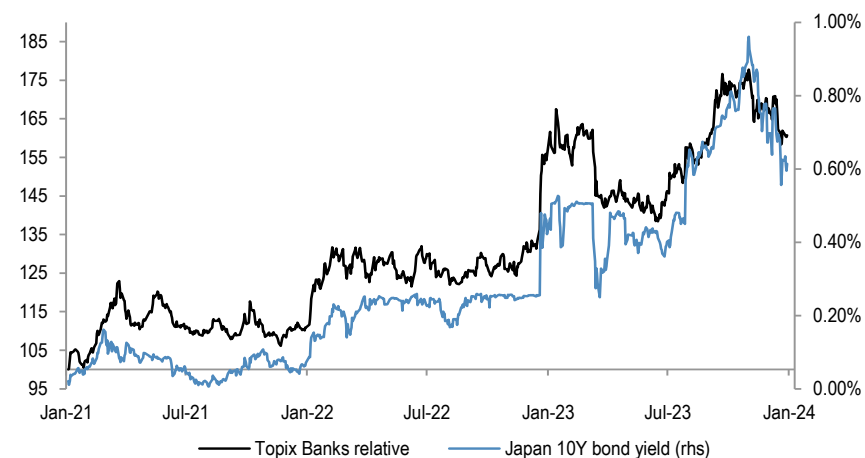
Source: Bloomberg Finance L.P., J.P. Morgan

## MSCI Japan Banks relative to Eurozone Banks



Source: Datastream

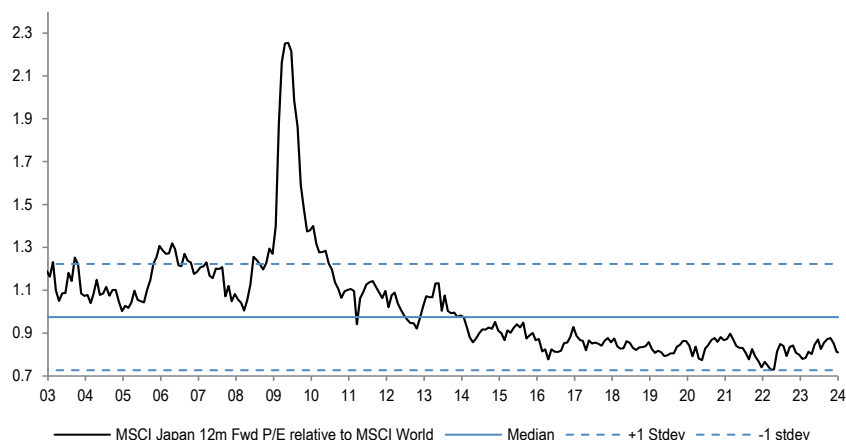
## Japan Banks relative to 10Y bond yield



Source: Bloomberg Finance L.P.

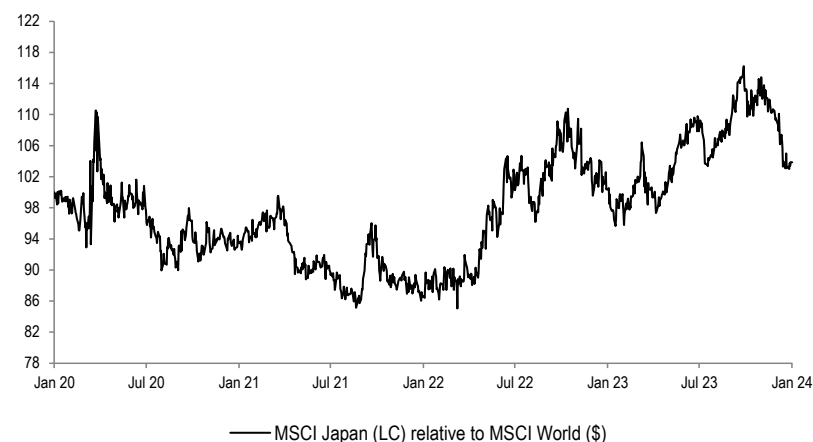
# Japan snapshot

MSCI Japan 12m Fwd PE relative to MSCI World



Source: IBES

MSCI Japan performance relative to MSCI World



Source: Datastream

## Japan Sector snapshot

|                   |                      |                              | Weight in Index |               | 12m Fwd P/E |                     | EPS growth*, % |              |
|-------------------|----------------------|------------------------------|-----------------|---------------|-------------|---------------------|----------------|--------------|
|                   | Since Jan'23 Perf, % | Since Jan'23 Total Return, % | Japan           | vs MSCI World | Current     | vs Median since '06 | 2023e          | 2024e        |
| Japan             | 25.9%                | 29.0%                        | 100.0%          | 0.0%          | 14.1        | 0.3%                | 11.3%          | 7.2%         |
| Energy            | 29.6%                | 35.2%                        | 0.8%            | -3.7%         | 6.9         | -27.3%              | 3.0%           | -4.9%        |
| Materials         | 39.8%                | 44.1%                        | 5.1%            | 1.0%          | 12.9        | -0.6%               | -15.3%         | 22.9%        |
| Industrials       | 29.7%                | 32.8%                        | 22.1%           | 11.0%         | 13.6        | 2.6%                | -15.3%         | 2.1%         |
| Discretionary     | 32.1%                | 35.0%                        | 19.0%           | 8.1%          | 11.2        | -12.8%              | 46.3%          | 6.5%         |
| Staples           | 7.4%                 | 9.9%                         | 5.8%            | -1.0%         | 19.7        | -5.4%               | 0.1%           | 17.8%        |
| Healthcare        | 2.6%                 | 4.6%                         | 8.3%            | -3.8%         | 24.4        | 7.2%                | 4.6%           | 6.8%         |
| Financials        | 25.6%                | 30.6%                        | 12.2%           | -2.9%         | 10.4        | -5.2%               | 30.0%          | 8.1%         |
| IT                | 42.1%                | 44.4%                        | 15.0%           | -8.0%         | 21.9        | 26.7%               | -3.7%          | 15.6%        |
| Telecoms          | 14.4%                | 17.6%                        | 7.2%            | 0.0%          | 18.3        | 38.9%               | 43.6%          | 21.9%        |
| Utilities         | 38.9%                | 42.1%                        | 1.2%            | -1.5%         | 7.1         | -42.3%              | 389.9%         | -29.7%       |
| Real Estate       | -3.8%                | 0.4%                         | 3.2%            | 0.8%          | 14.7        | -5.6%               | 1.7%           | 4.5%         |
| <b>Cyclicals</b>  | <b>34.0%</b>         | <b>37.0%</b>                 | <b>61.3%</b>    | <b>12.1%</b>  | <b>13.8</b> | <b>0.5%</b>         | <b>3.4%</b>    | <b>7.5%</b>  |
| <b>Defensives</b> | <b>9.1%</b>          | <b>11.7%</b>                 | <b>22.4%</b>    | <b>-6.3%</b>  | <b>19.3</b> | <b>11.4%</b>        | <b>33.8%</b>   | <b>12.5%</b> |

Source: IBES, Datastream, \*for the year ending March 2024 and 2025

## 2) OW UK - attractive valuations, high dividend yield, lower than 1 beta and weak GBP to help

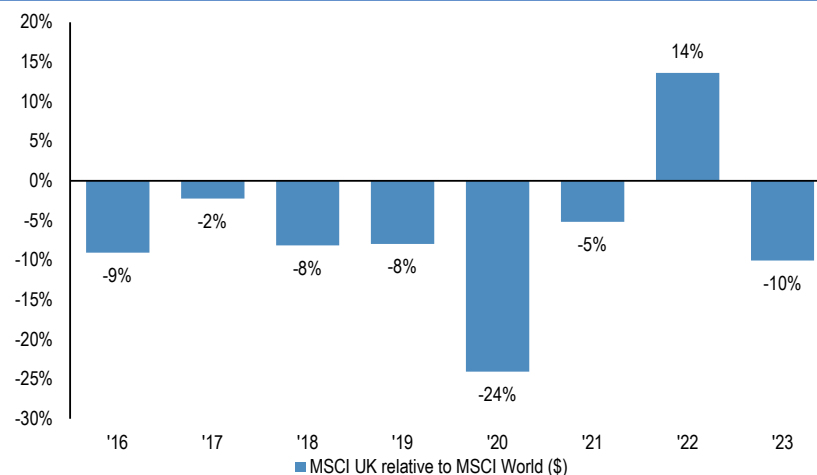
- We held a longstanding cautious call on UK equities, ever since 2016. In July '20, post the particularly brutal spell of underperformance for UKX, as the worst of the COVID-19 crisis and resulting dividend cancellations were priced in, we closed our short, moving the UK to Neutral.
- In November '21, we took a step further, and raised the UK to an OW in a European and in a Global portfolio.

MSCI UK relative to MSCI World



Source: Datastream

UK relative performance since 2016



Source: Bloomberg Finance L.P.

## UK is still record cheap

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

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



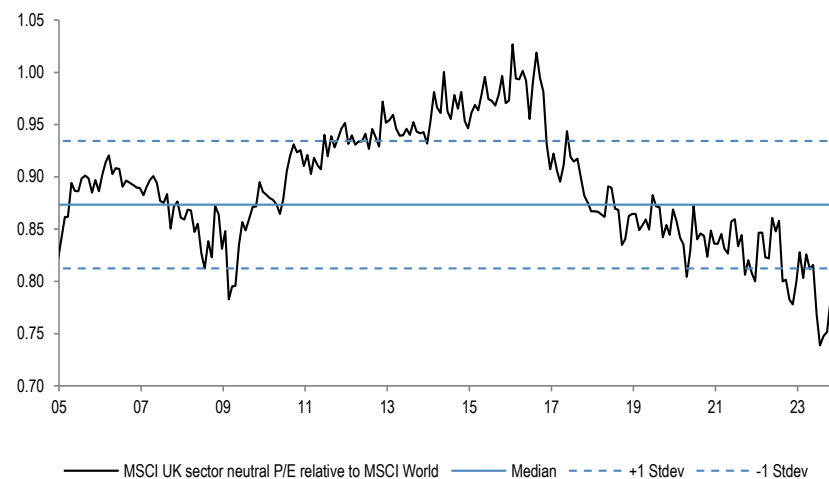
Source: Datastream

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



Source: Datastream

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

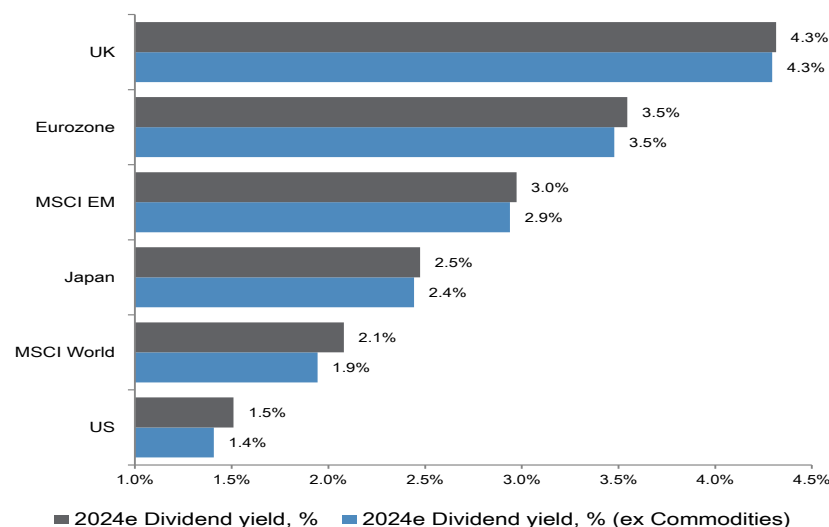


Source: Datastream

## The UK offers the highest dividend yield of any of the big DM's

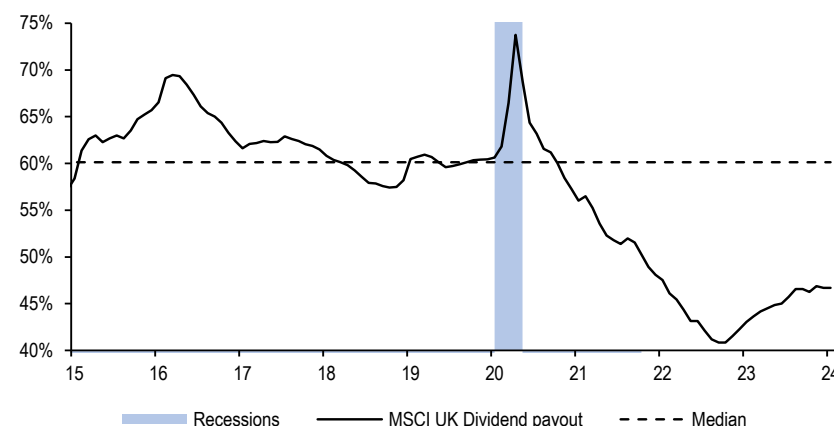
- From a total return perspective, the UK offers a much higher dividend yield compared to other regions, even excluding commodity sectors.
- Even though dividend yield looks attractive, the payout ratio is still meaningfully below average. In addition, dividend strategies are likely to gain traction if our view that bond yields move lower is vindicated.
- The UK, which has a high proportion of income funds, could benefit as investors turn to dividend strategies.

### Dividend yield for key regional markets



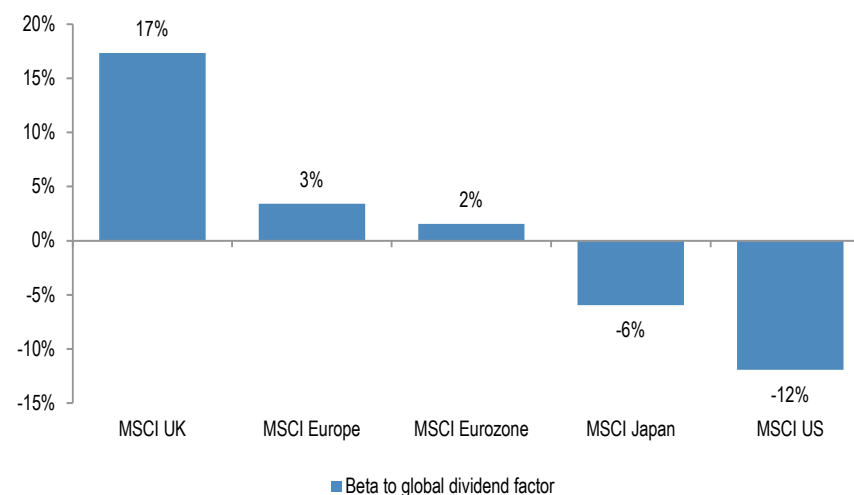
Source: Bloomberg Finance L.P.

### UK dividend payout ratio



Source: Datastream

### Beta to dividend factor



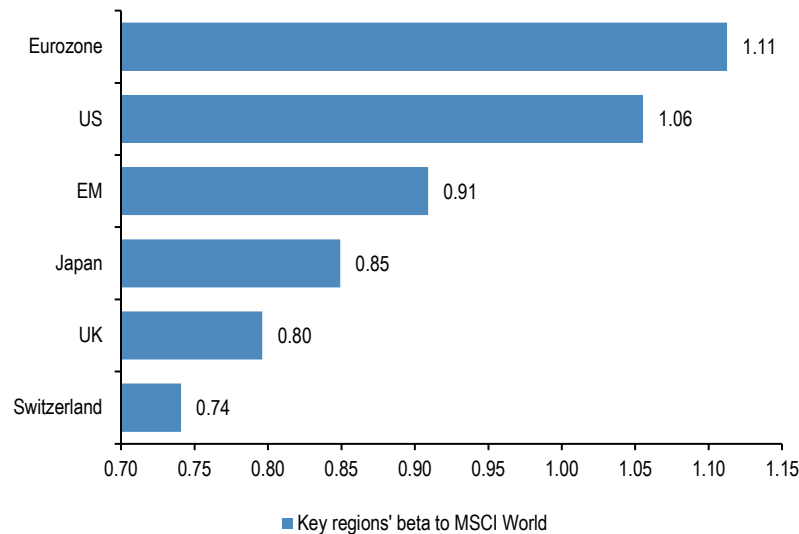
Source: Bloomberg Finance L.P.



## UK shows a below 1 beta to global equity direction

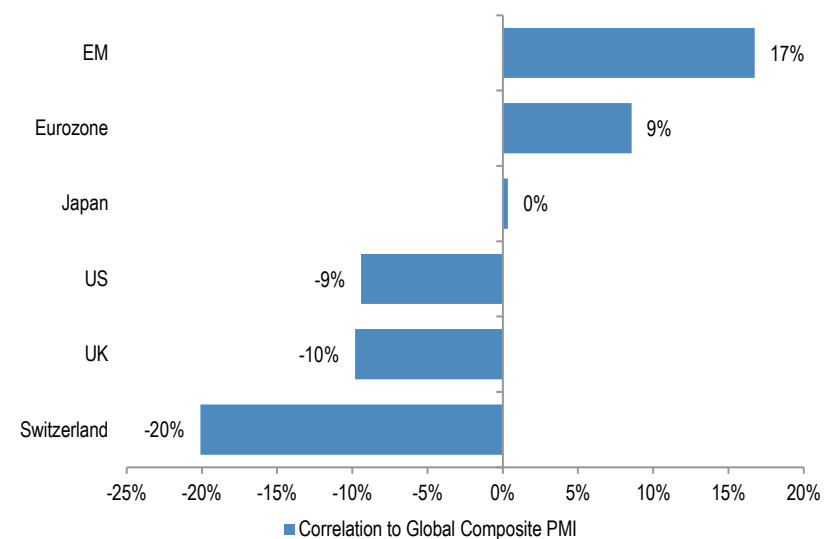
- The UK has traditionally been a low beta, Defensive market, which performs well on a relative basis during downturns. If global equities struggle for direction in 1H, as we expect, the UK could be a relative winner.
- UK and Switzerland display the lowest correlation to global PMI momentum, of the main regions, and should fare better if PMIs stay subdued.

Key regions' beta to MSCI World



Source: Datastream, \*MoM relative to MSCI World in LC, since 2000

Regional correlation to global composite PMI



Source: Datastream, S&P Global, PGlobal. \*MoM relative to MSCI World in LC, since 2000

## Weaker GBP would be a tailwind for FTSE100

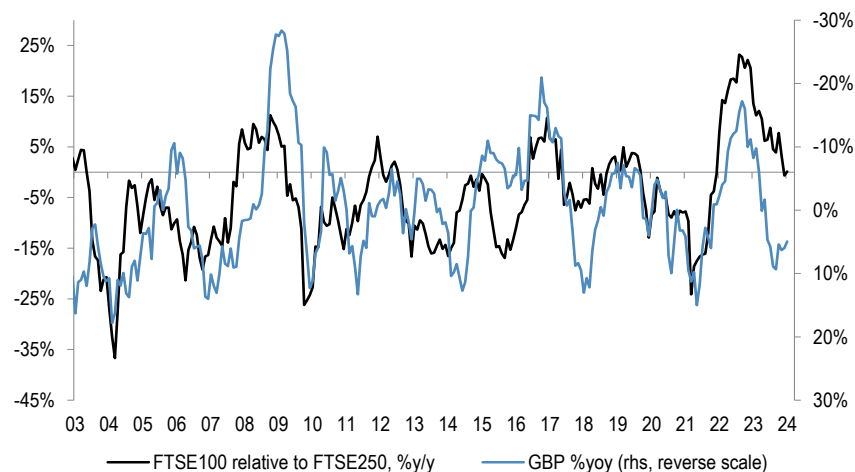
- We note that our economists expect subdued UK growth outturn this year. Our bullish stance is not predicated on a strong domestic economic recovery.
- FTSE100 shows a strong inverse correlation to the GBP, as over 75% of the index revenues are derived from outside the UK. A potentially weaker GBP should help the group this year.

### JPM UK GDP and CPI projections

|   | 3Q23 | 4Q23E | 1Q24E | 2Q24E | 3Q24E | 4Q24E |
|---|------|-------|-------|-------|-------|-------|
| <b>UK Real GDP (% over previous period, saar)</b> | -0.5 | 0.0   | 1.0   | 0.5   | -0.8  | -1.0  |
| <b>UK CPI (% oya)</b>                             | 6.7  | 4.5   | 4.4   | 2.8   | 3.2   | 3.1   |

Source: J.P. Morgan Economics Research

### FTSE100 relative to World and GBP



Source: Datastream

### Foreign revenue exposure of FTSE100 and FTSE250

|               | Ex UK Exposure |            |
|---------------|----------------|------------|
|               | FTSE100        | FTSE250    |
| Energy        | 88%            | 93%        |
| Healthcare    | 96%            | 74%        |
| Materials     | 97%            | 80%        |
| Telecoms      | 66%            | 48%        |
| Real Estate   | 20%            | 58%        |
| Industrials   | 82%            | 49%        |
| IT            | 83%            | 69%        |
| Utilities     | 32%            | 2%         |
| Discretionary | 55%            | 72%        |
| Staples       | 60%            | 27%        |
| Financials    | 46%            | 46%        |
| <b>Market</b> | <b>76%</b>     | <b>57%</b> |

Source: Bloomberg Finance L.P.

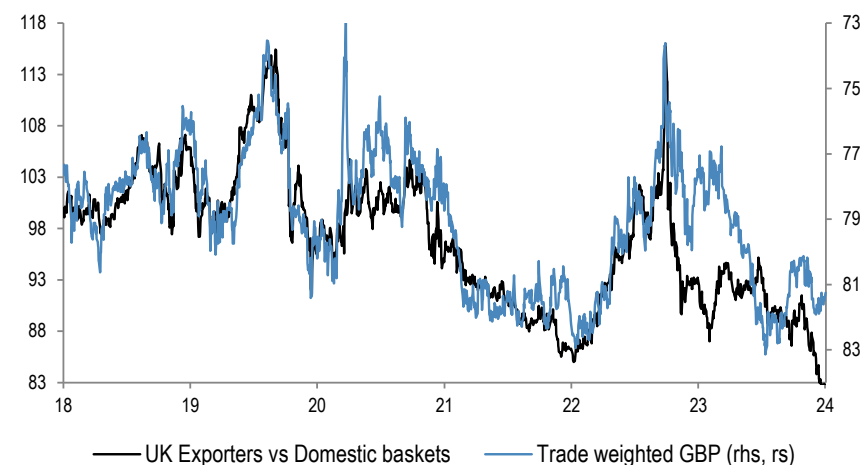
We have been OW FTSE100 vs FTSE250 for almost 2 years and believe there is more to go... UK domestic names to stay under pressure...

### FTSE100 vs FTSE250



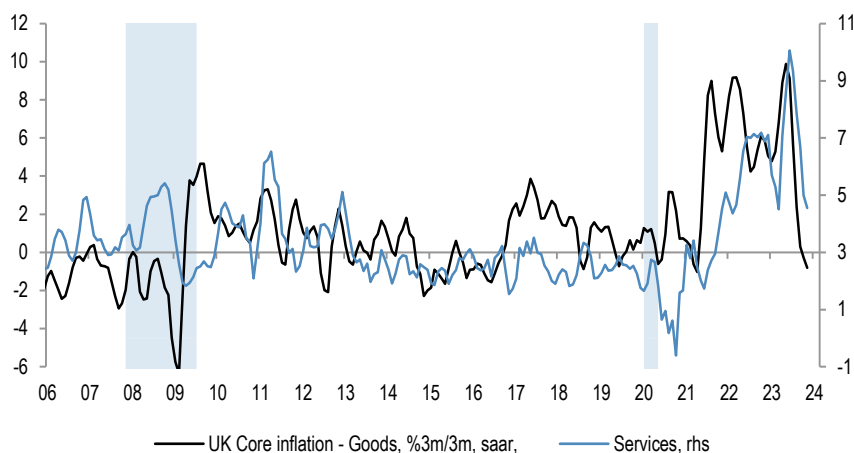
Source: Datastream

### UK Exporters vs Domestics vs Trade-Weighted GBP



Source: Bloomberg Finance L.P.

### UK Core Inflation



Source: JPM Economics team

### Exporters vs Domestic basket composition

|               | Domestics weight | Exporters weight | Exporters - Domestics |
|---------------|------------------|------------------|-----------------------|
| HEALTH CARE   | 0%               | 13%              | 13%                   |
| INDUSTRIALS   | 10%              | 13%              | 2%                    |
| ENERGY        | 0%               | 0%               | 0%                    |
| STAPLES       | 0%               | 0%               | 0%                    |
| MATERIALS     | 0%               | 0%               | 0%                    |
| DISCRETIONARY | 0%               | 0%               | 0%                    |
| IT            | 0%               | 0%               | 0%                    |
| COMM. SRVCS   | 0%               | 0%               | 0%                    |
| UTILITIES     | 3%               | 0%               | -3%                   |
| FINANCIALS    | 28%              | 21%              | -7%                   |
| REAL ESTATE   | 7%               | 0%               | -7%                   |

Source: J.P. Morgan

## ...UK domestics tended to rally only after BoE starts cutting rates

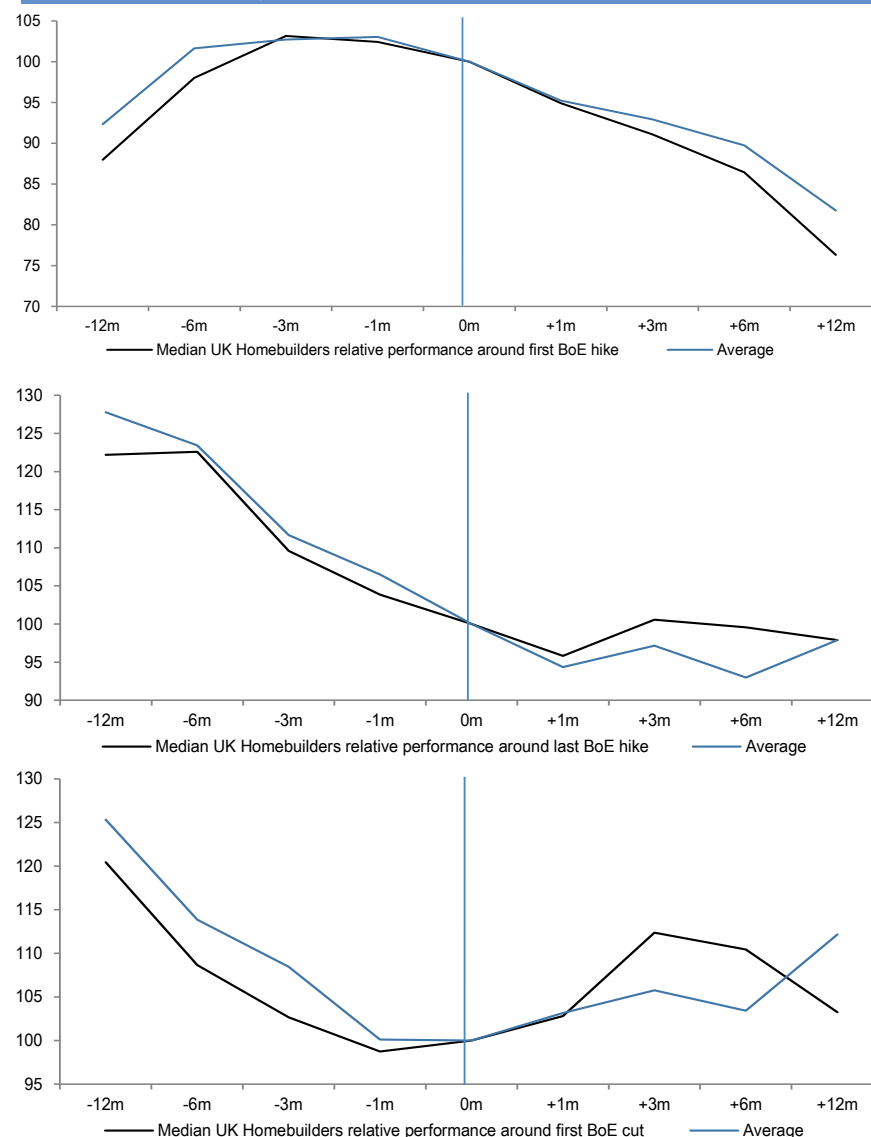
- UK homebuilders have underperformed over the last 1.5 years and have been trying to bounce recently. This underperformance is consistent with how the sector typically performs during a hiking cycle. We think that the time might be coming to be more positive on the space.
- On the other side, post the final BoE hike, Homebuilders stocks do not underperform increasingly more, but still struggle for direction. While there is anticipation that the Bank of England will pause, JPM economists do not expect this to happen. In our view, one needs to see the BoE outright cutting rates for the sector's performance to pick up.

### UK Homebuilders relative



Source: Datastream

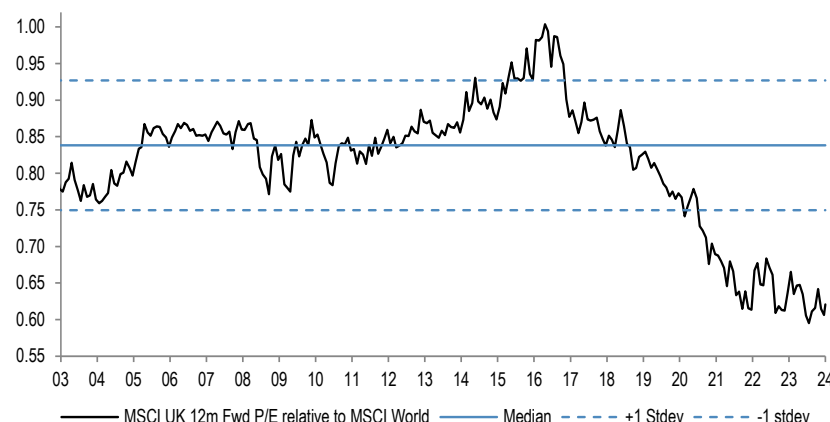
### Median UK Homebuilders relative performance around first BOE hike, last BOE hike and first BOE cut



Source: Datastream

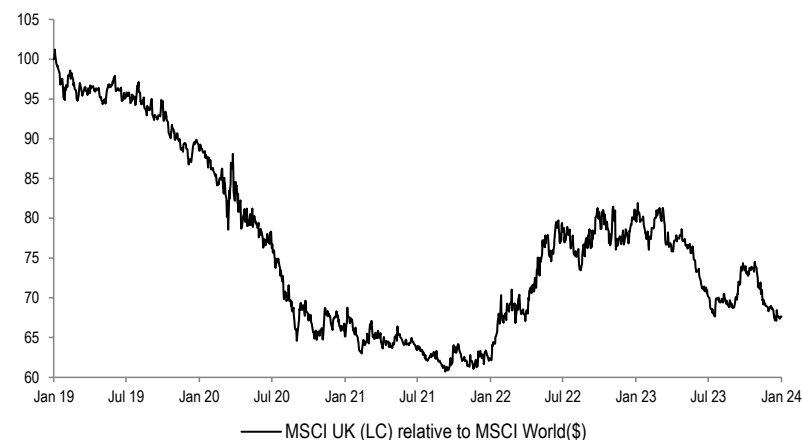
# UK snapshot

MSCI UK 12m Fwd PE relative to MSCI World



Source: IBES

MSCI UK performance relative to MSCI World



Source: Datastream

## UK Sector snapshot

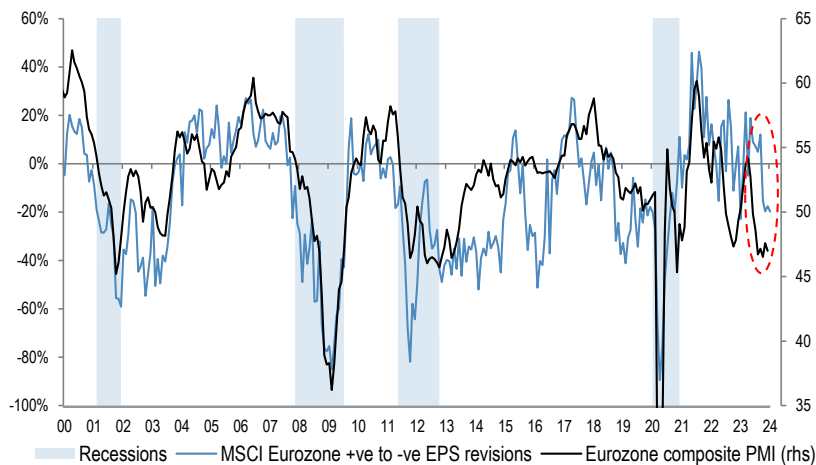
|                   | Since Jan'23 Perf, Since Jan'23 Total |              | Weight in Index |               | 12m Fwd P/E |                     | EPS growth, % |             |
|-------------------|---------------------------------------|--------------|-----------------|---------------|-------------|---------------------|---------------|-------------|
|                   |                                       |              | UK              | vs MSCI World | Current     | vs Median since '06 | 2023e         | 2024e       |
| UK                | 3.3%                                  | 7.7%         | 100.0%          | 0.0%          | 10.8        | -9.7%               | -13.0%        | 5.1%        |
| Energy            | 6.3%                                  | 10.8%        | 13.3%           | 8.9%          | 7.1         | -30.6%              | -31.2%        | 7.7%        |
| Materials         | -11.3%                                | -5.1%        | 10.8%           | 6.7%          | 11.9        | 6.8%                | -41.1%        | 1.4%        |
| Industrials       | 29.9%                                 | 32.4%        | 12.1%           | 1.0%          | 20.3        | 60.6%               | 13.3%         | 12.3%       |
| Discretionary     | 14.9%                                 | 18.3%        | 6.0%            | -4.9%         | 17.1        | 31.3%               | -11.1%        | 1.0%        |
| Staples           | -11.7%                                | -7.9%        | 17.3%           | 10.4%         | 12.2        | -11.0%              | 2.2%          | 3.8%        |
| Healthcare        | -3.6%                                 | -1.1%        | 12.6%           | 0.5%          | 13.5        | 8.2%                | 9.3%          | 9.4%        |
| Financials        | 11.2%                                 | 17.2%        | 18.9%           | 3.7%          | 7.6         | -29.0%              | 0.3%          | 3.0%        |
| IT                | 35.1%                                 | 37.0%        | 1.1%            | -21.9%        | 29.3        | 59.7%               | 14.6%         | 10.7%       |
| Telecoms          | 0.5%                                  | 6.6%         | 2.6%            | -4.5%         | 10.0        | -12.3%              | -11.8%        | 8.2%        |
| Utilities         | 8.0%                                  | 13.5%        | 4.3%            | 1.7%          | 13.1        | 7.1%                | 2.2%          | 0.4%        |
| Real Estate       | 11.6%                                 | 16.5%        | 0.8%            | -1.6%         | 20.1        | -0.2%               | -0.5%         | 4.2%        |
| <b>Cyclicals</b>  | <b>11.0%</b>                          | <b>15.2%</b> | <b>30.1%</b>    | <b>-19.1%</b> | <b>15.6</b> | <b>27.1%</b>        | <b>-25.0%</b> | <b>3.6%</b> |
| <b>Defensives</b> | <b>-6.3%</b>                          | <b>-2.5%</b> | <b>36.9%</b>    | <b>8.1%</b>   | <b>12.4</b> | <b>-2.2%</b>        | <b>2.8%</b>   | <b>5.4%</b> |

Source: IBES, Datastream

### 3) UW Eurozone – Growth-Policy tradeoff likely to stay poor

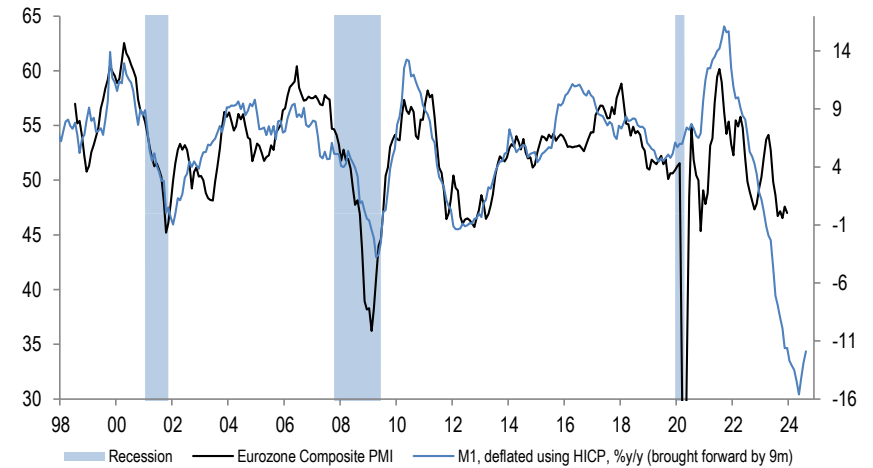
- We had a preference for Eurozone vs US over the past year, but have in May'23 closed the trade, moving Eurozone to outright UW. Despite some lagging performance, we keep our UW rating on Eurozone equities into 2024.
- Crucially, the Growth-Policy tradeoff is still challenging in Eurozone, in our view. Continued weakness in lead indicators like the M1 does not appear to bode well for the region's growth outlook.
- EPS revisions tend to closely follow the PMI, which point to further weakness in the region. Softer GDP growth this year is likely to weigh on earnings delivery, as well.

Eurozone EPS revisions and composite PMI



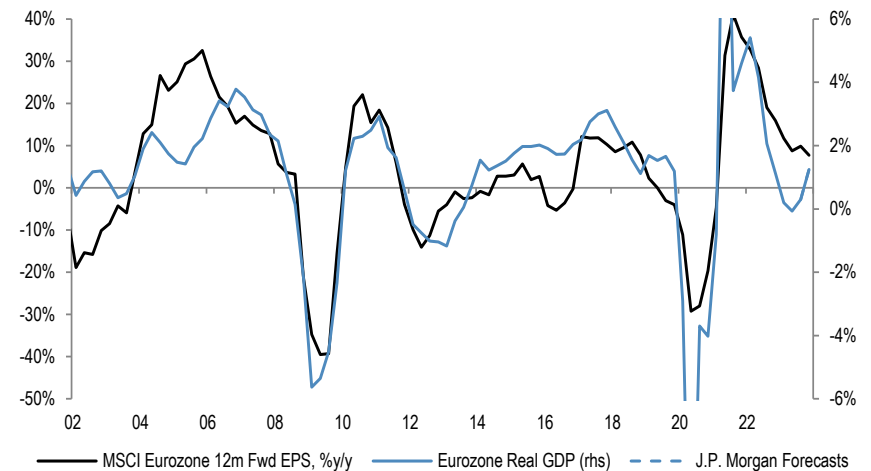
Source: IBES, S&P Global

Eurozone M1 growth (deflated by HICP) vs PMI



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

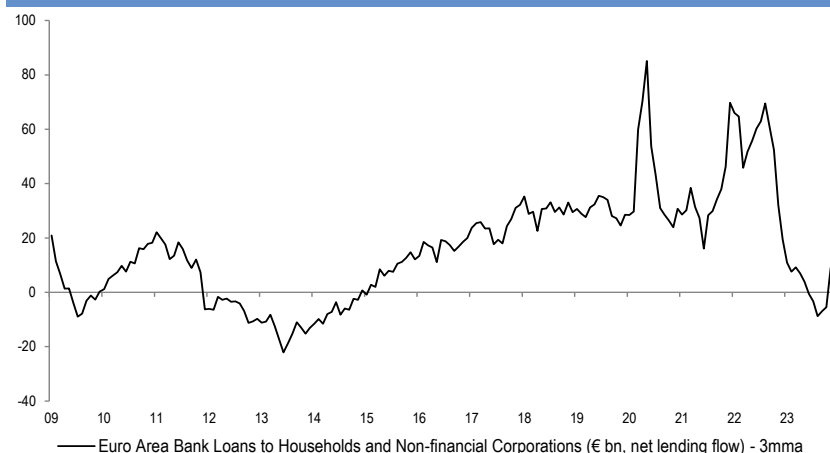
Eurozone earnings vs GDP growth



Source: Datastream

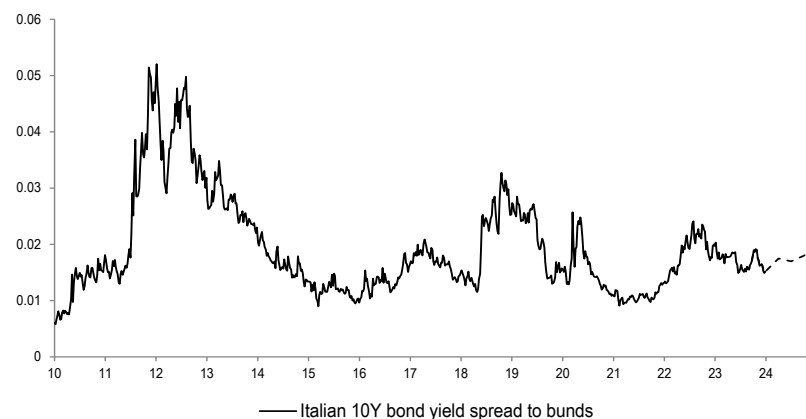
# ECB remains a backstop against any material widening in peripheral spreads... however, bank lending standards and credit demand are worsening...

Eurozone bank loans to HH and nonfinancial corporates



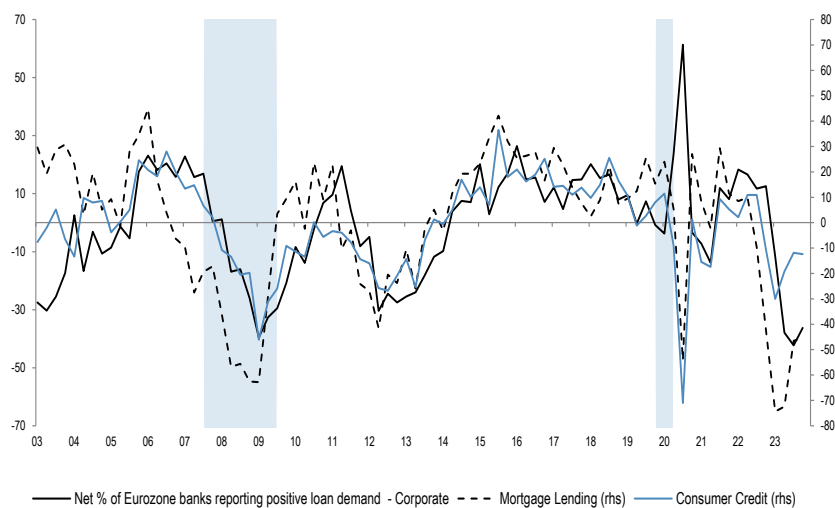
Source: ECB, J.P. Morgan

Peripheral spreads with JPM forecast



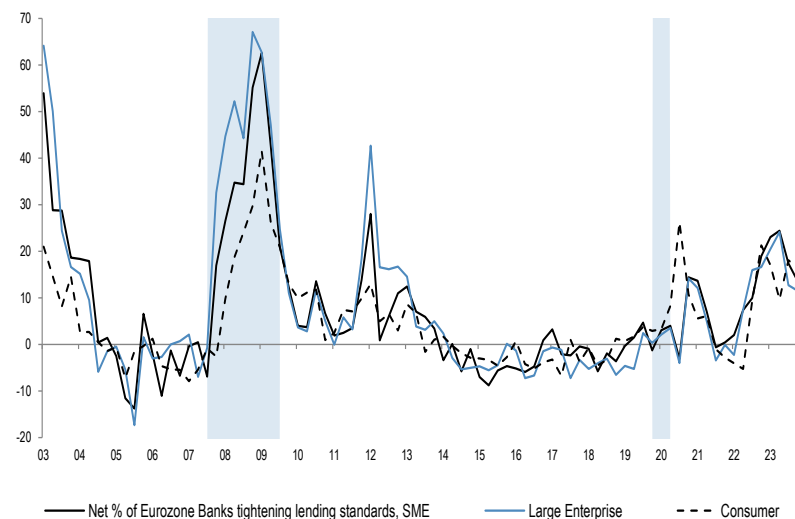
Source: Bloomberg Finance L.P., JPMorgan

% Eurozone banks reporting positive loan demand



Source: ECB

% of Eurozone banks tightening lending standards



Source: ECB

## ...Eurozone's fiscal position is better than for other regions; Fiscal expansion to support energy independence, defense and infrastructure underway

- From a fiscal standpoint, Eurozone scores better than the US, UK or Japan.

### US, EMU, Japan and UK fiscal positions (% of GDP)

|                | Gross Debt (% of GDP) |       |       |       |       |       | Net Debt (% of GDP) |       |       |       |       |       | Primary Balance (% of GDP) |      |      |      |      |      |
|----------------|-----------------------|-------|-------|-------|-------|-------|---------------------|-------|-------|-------|-------|-------|----------------------------|------|------|------|------|------|
|                | 2021                  | 2022  | 2023  | 2024  | 2025  | 2026  | 2021                | 2022  | 2023  | 2024  | 2025  | 2026  | 2021                       | 2022 | 2023 | 2024 | 2025 | 2026 |
| United States  | 126.4                 | 121.3 | 123.3 | 126.9 | 130.3 | 132.9 | 98.3                | 95.1  | 96.7  | 100.7 | 104.0 | 106.6 | -9.3                       | -1.3 | -5.5 | -4.3 | -4.2 | -3.5 |
| Euro area      | 94.8                  | 91.0  | 89.6  | 88.3  | 87.1  | 86.1  | 77.7                | 75.3  | 74.6  | 73.9  | 73.2  | 72.7  | -4.0                       | -2.1 | -1.9 | -1.0 | -0.5 | -0.2 |
| Japan          | 255.1                 | 260.1 | 255.2 | 251.9 | 250.6 | 251.1 | 156.7               | 161.5 | 158.5 | 155.8 | 154.0 | 153.5 | -5.6                       | -6.5 | -5.5 | -3.6 | -2.4 | -2.5 |
| United Kingdom | 105.2                 | 101.9 | 104.1 | 105.9 | 107.3 | 108.5 | 94.1                | 98.9  | 99.0  | 99.6  | 97.2  | 96.7  | -6.1                       | -2.2 | -2.0 | -1.9 | -1.5 | -1.4 |

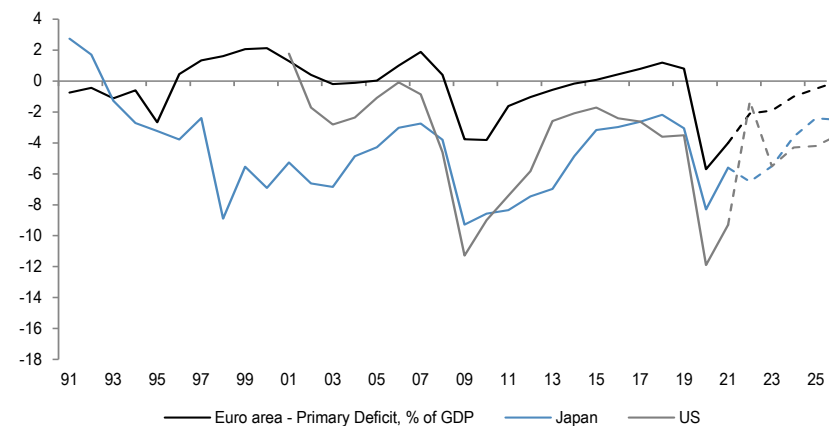
Source: IMF FISCAL MONITOR - October 2023

### Fiscal balance, % GDP

|     | Fiscal balance (% of GDP) |       |         |       |       |        |       |
|-----|---------------------------|-------|---------|-------|-------|--------|-------|
|     | US                        | Japan | Germany | Italy | Spain | France | UK    |
| 22  | -5.4%                     | -6.7% | -2.5%   | -8.0% | -4.7% | -4.8%  | -4.3% |
| 23e | -6.2%                     | -5.5% | -2.4%   | -5.3% | -4.1% | -4.9%  | -5.1% |
| 24e | -6.0%                     | -4.0% | -1.7%   | -4.5% | -3.4% | -4.5%  | -3.6% |
| 25e | -6.2%                     | -3.1% | -1.2%   | -3.8% | -3.1% | -4.2%  | -3.1% |

Source: Bloomberg Finance L.P.

### US, Eurozone and Japanese primary fiscal balance



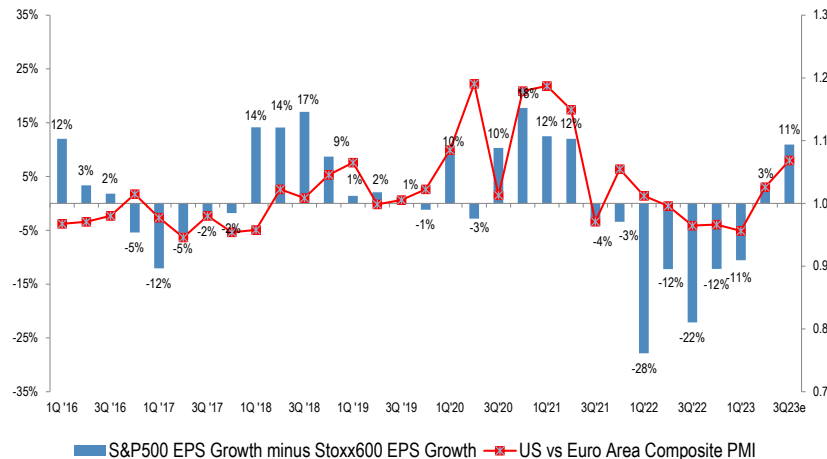
Source: IMF FISCAL MONITOR - October 2023  
dotted lines show IMF forecasts



## In May we called for the end of the Eurozone vs the US outperformance trade

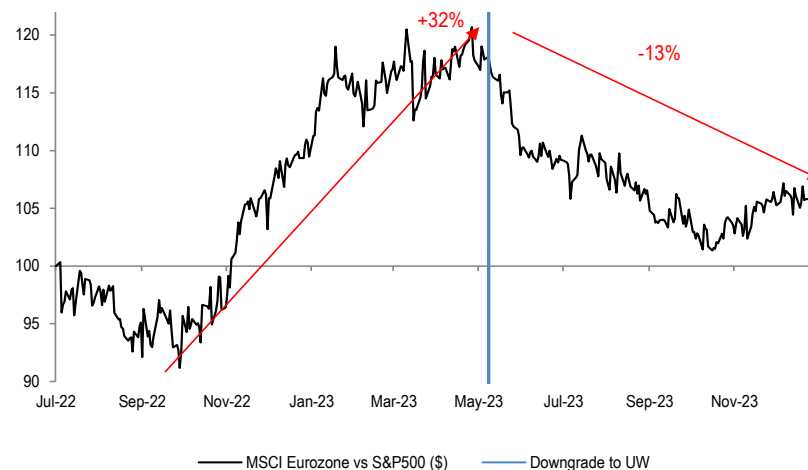
- We reversed our preference for Eurozone equities over the US in May'23 and believe that the region will likely continue to struggle over the next couple of quarters.
- The relative EPS momentum continues to look more favourable for the US.
- Positioning, however, is skewed towards the US, while investors have largely stayed away from Eurozone and Japan.

### S&P500 vs SXXP EPS growth and relative PMI moves



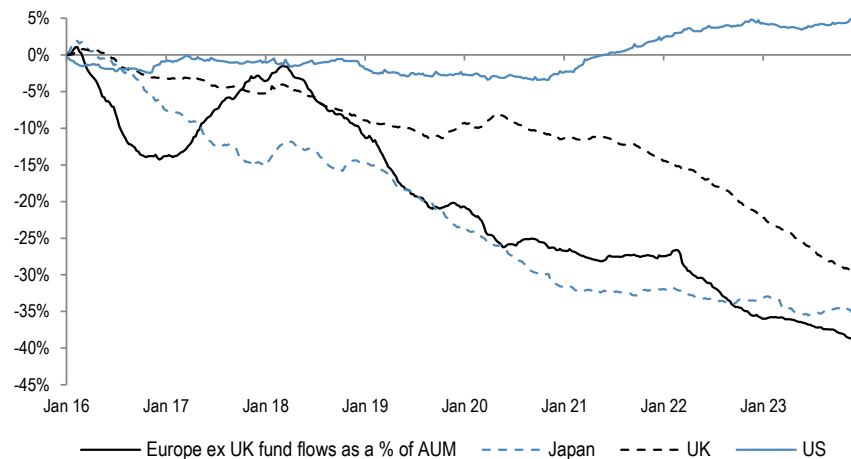
Source: J.P. Morgan, S&P Global

### MSCI Eurozone vs US relative performance



Source: Datastream

### Cumulative fund flows into regional funds

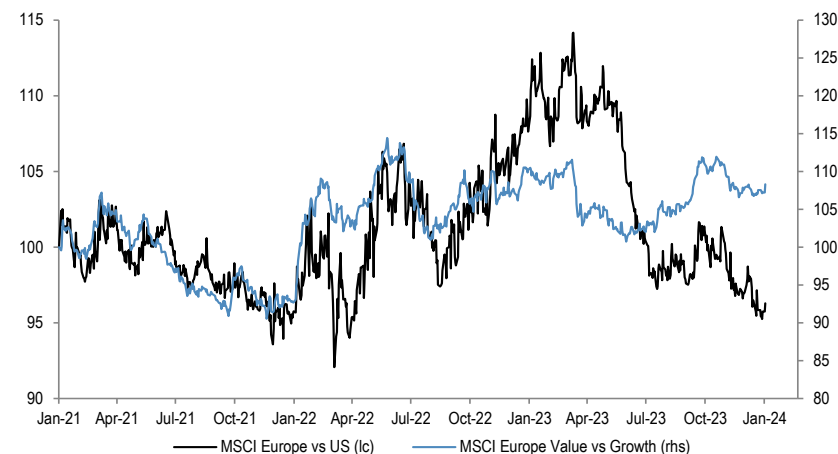


Source: EPFR

# Eurozone relative performance has in the past tracked bond yields, Value/Growth style

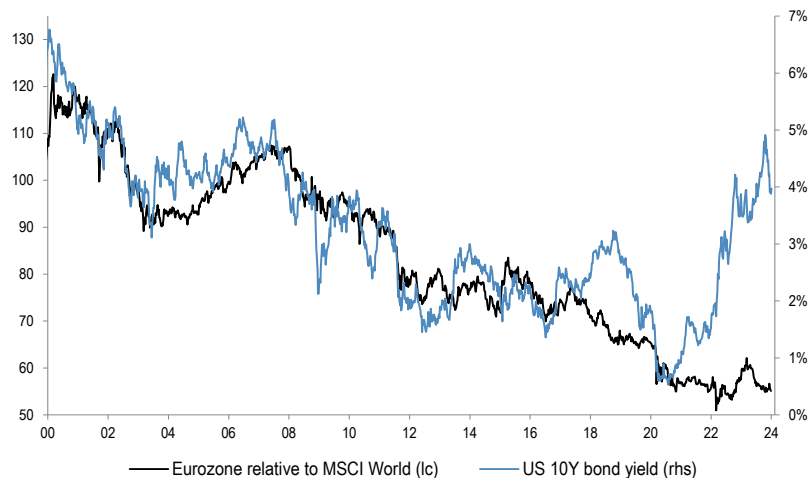
- Eurozone equities are strongly positively correlated to bond yields. The US on the other hand, is more weighted towards Growth/Quality stocks, which could fare better if yields continue to fall.
- Specifically, the Eurozone vs US price differential is leveraged to the relative performance of Tech vs Banks, given the regional sector weight skews.

Eurozone vs US and Value vs Growth



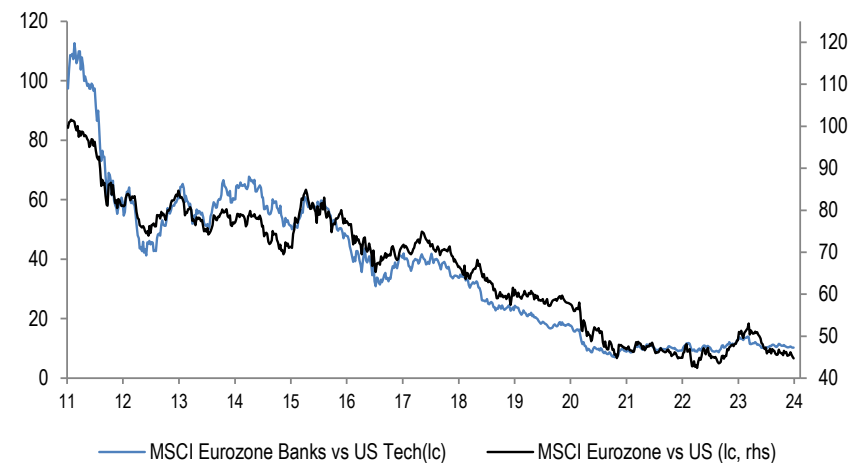
Source: Datastream

Eurozone relative to World and bond yields



Source: Datastream

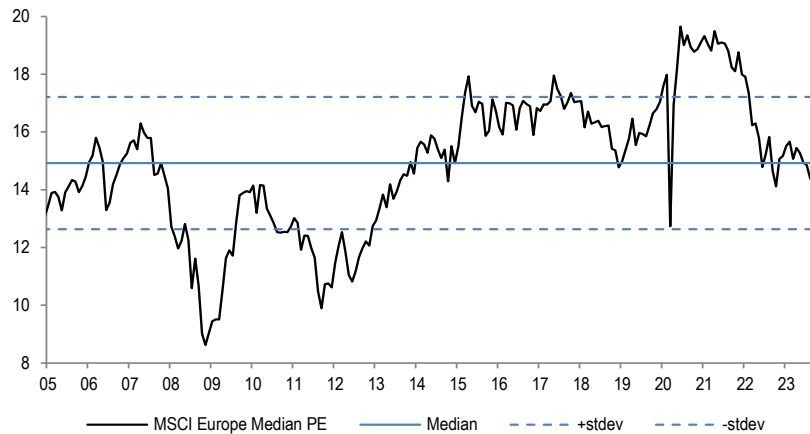
Eurozone vs US and Banks vs Tech



Source: Datastream

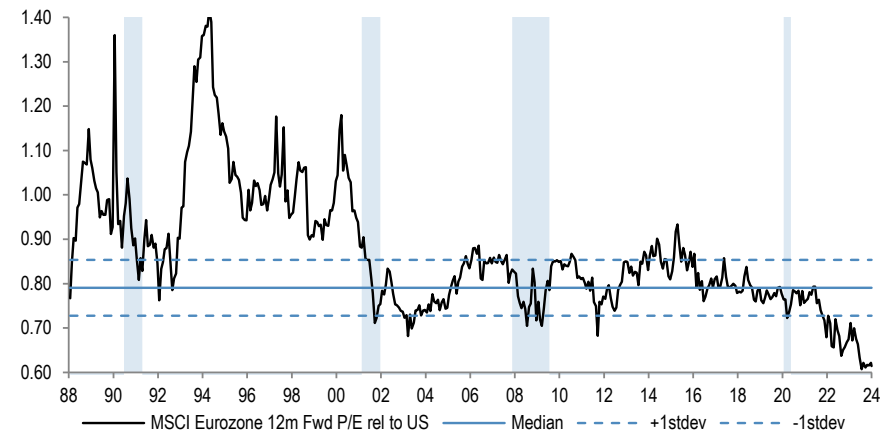
# Eurozone valuations relative to the US remain attractive

MSCI Eurozone median P/E



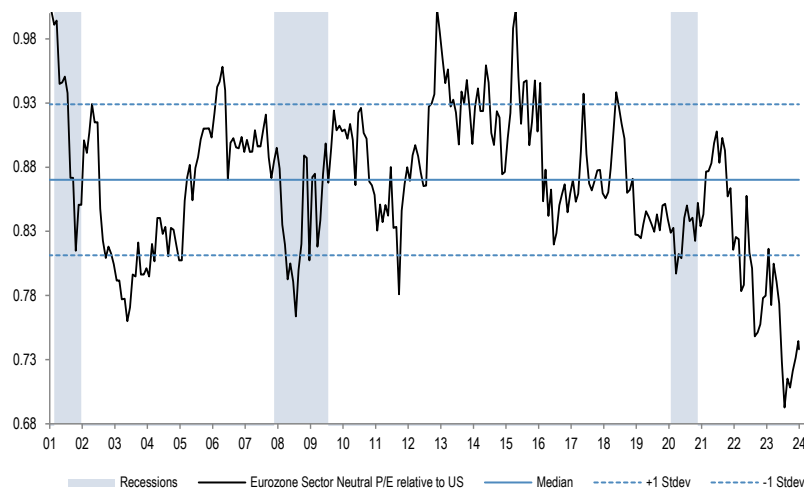
Source: IBES

MSCI Eurozone 12m Fwd PE relative to US



Source: IBES

MSCI Eurozone sector neutral P/E vs US



Source: IBES

MSCI Eurozone vs US P/Book

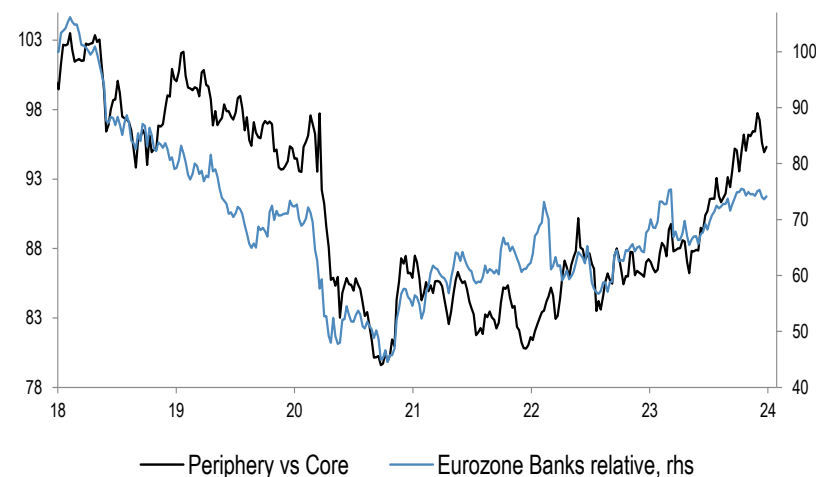


Source: Datastream

## Within Eurozone, we now prefer core over periphery

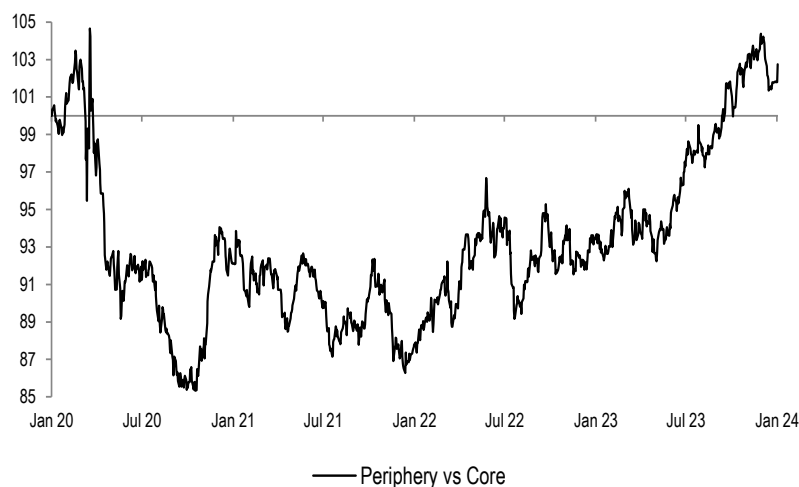
- Given the meaningful weight of Banks in Italy and Spain, performance of Periphery vs Core is closely linked to the performance of Banks relative.
- Periphery has done better than core markets in recent years, but could fall behind if peripheral spreads widen.
- Spanish equities have underperformed Italian equities by around 11% since 2022 summer and could rebound from here given their more defensive nature, and Latam exposure, which we favour.

Periphery vs Core and Banks relative



Source: Datastream

Periphery vs Core performance since Jan 2020



Source: Datastream

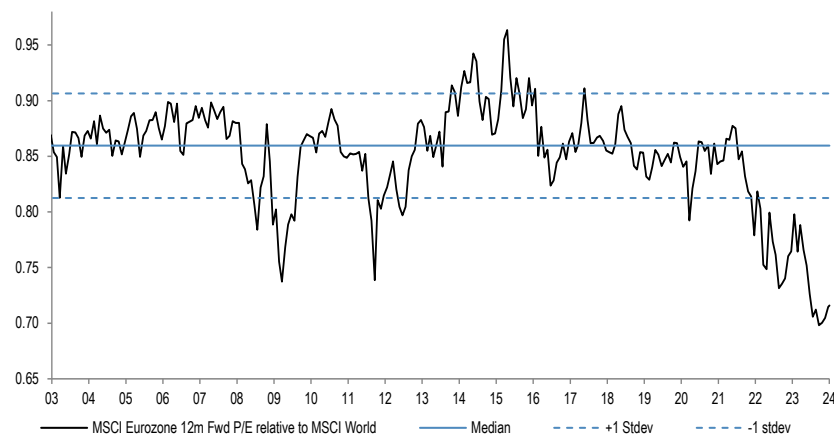
MSCI Spain relative to MSCI Italy



Source: Datastream

# Eurozone snapshot

MSCI Eurozone 12m Fwd PE relative to MSCI World



Source: IBES

MSCI Eurozone performance relative to MSCI World



Source: Datastream

## Eurozone Sector snapshot

|                   | Since Jan'23<br>Performance, % | Since Jan'23 Total<br>Return, % | Weight in Index |               | 12m Fwd P/E |                     | EPS growth, % |             |
|-------------------|--------------------------------|---------------------------------|-----------------|---------------|-------------|---------------------|---------------|-------------|
|                   |                                |                                 | Eurozone        | vs MSCI World | Current     | vs Median since '03 | 2023e         | 2024e       |
| Eurozone          | 16.0%                          | 19.7%                           | 100%            | 0%            | 12.4        | 3.8%                | 4.5%          | 4.6%        |
| Energy            | 2.1%                           | 7.5%                            | 5%              | 0%            | 6.3         | -35.7%              | -23.2%        | -8.5%       |
| Materials         | 15.5%                          | 19.4%                           | 6%              | 2%            | 14.8        | 21.9%               | -39.9%        | 18.1%       |
| Industrials       | 23.3%                          | 26.4%                           | 17%             | 5%            | 15.1        | 14.2%               | 9.9%          | 15.3%       |
| Discretionary     | 13.1%                          | 16.3%                           | 16%             | 5%            | 10.8        | -12.0%              | 11.4%         | 1.3%        |
| Staples           | 10.8%                          | 13.2%                           | 8%              | 1%            | 17.5        | 18.0%               | -2.3%         | 9.4%        |
| Healthcare        | -2.7%                          | -0.2%                           | 7%              | -5%           | 13.2        | -8.2%               | -8.5%         | 5.3%        |
| Financials        | 16.7%                          | 23.4%                           | 18%             | 3%            | 7.2         | -26.7%              | 29.3%         | 6.9%        |
| IT                | 34.2%                          | 35.6%                           | 13%             | -10%          | 22.6        | 30.1%               | 17.6%         | 2.6%        |
| Telecoms          | 14.5%                          | 18.7%                           | 4%              | -3%           | 14.0        | 20.3%               | -3.4%         | 11.8%       |
| Utilities         | 12.2%                          | 17.0%                           | 6%              | 4%            | 11.8        | 3.4%                | 10.2%         | -7.1%       |
| Real Estate       | 16.1%                          | 21.3%                           | 1%              | -1%           | 12.2        | -20.5%              | 11.6%         | -2.8%       |
| <b>Cyclicals</b>  | <b>21.8%</b>                   | <b>24.6%</b>                    | <b>38%</b>      | <b>12%</b>    | <b>14.4</b> | <b>8.9%</b>         | <b>3.5%</b>   | <b>8.1%</b> |
| <b>Defensives</b> | <b>7.6%</b>                    | <b>10.8%</b>                    | <b>26%</b>      | <b>-3%</b>    | <b>13.9</b> | <b>6.8%</b>         | <b>-0.8%</b>  | <b>3.7%</b> |

Source: IBES, Datastream

## 4) N US – historical safe haven, but appear stretched and P/Es are at highs...

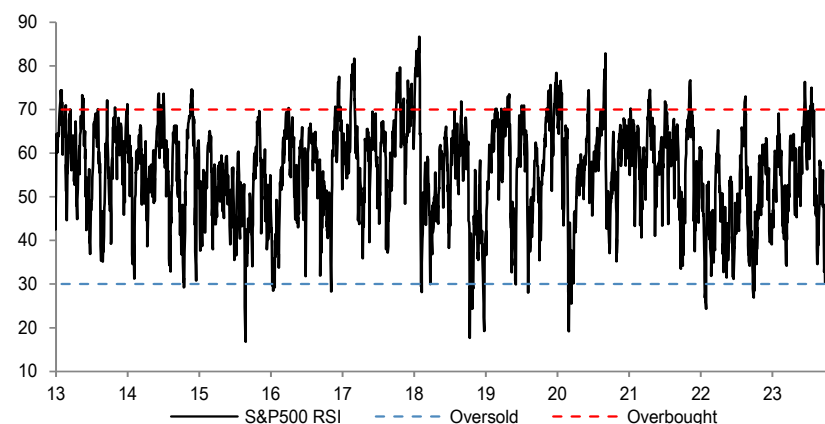
- We like long duration and defensive Growth for 2024. This would naturally favour the US, but post the strong rally, US equities appear stretched on several positioning and technical indicators.
- Relative valuations are a clear challenge, where the region is trading extremely expensive versus peers, on most measures.

MSCI US 12m Fwd. P/E relative



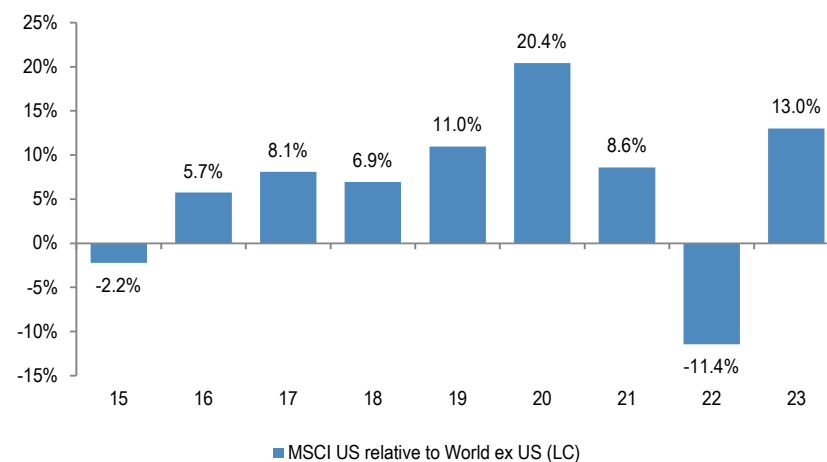
Source: IBES

S&P500 RSI



Source: Bloomberg Finance L.P.

MSCI US relative to MSCI World ex US

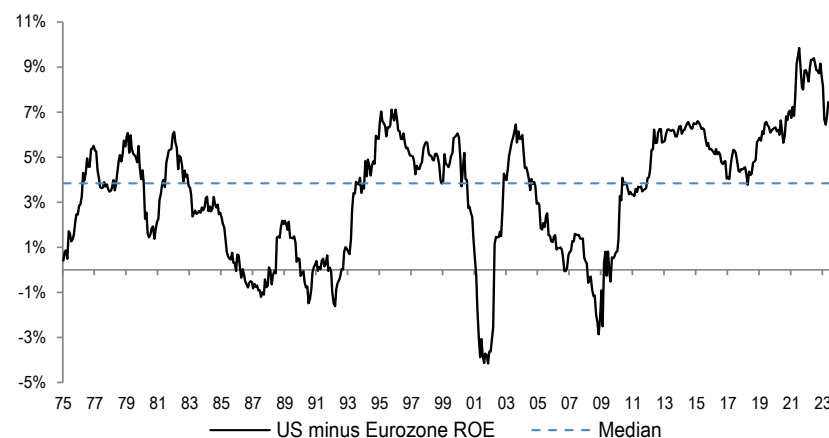


Source: IBES

## ...relative EPS outperformance is likely peaking...

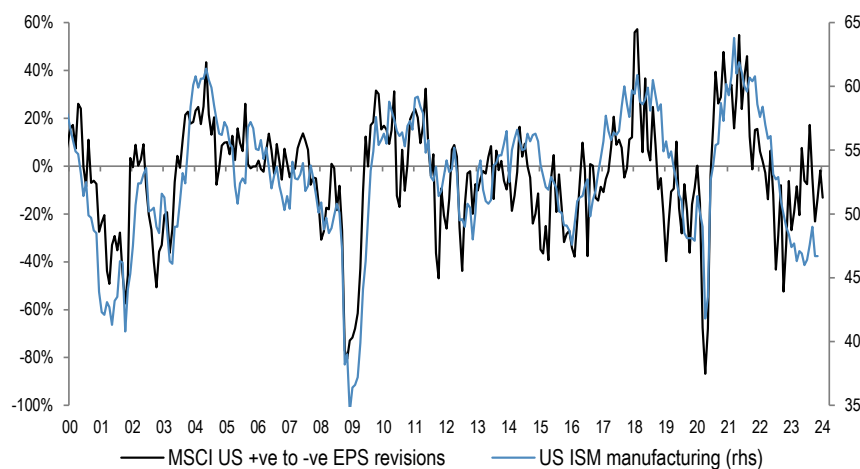
- US profitability vs the rest of the world might be peaking. The earnings base is very extended, too.
- US earnings revisions display a clear correlation to activity momentum, and are likely to keep falling as ISM stays weak.

US relative to Eurozone ROE



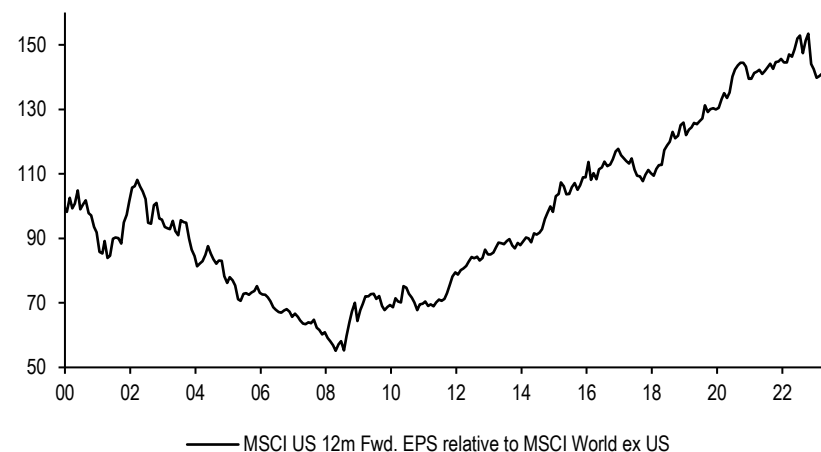
Source: Datastream

MSCI US EPS revisions and ISM



Source: IBES, S&P Global

MSCI US 12m Fwd. EPS relative



Source: IBES

## ...US equities exhibit a significant Growth tilt

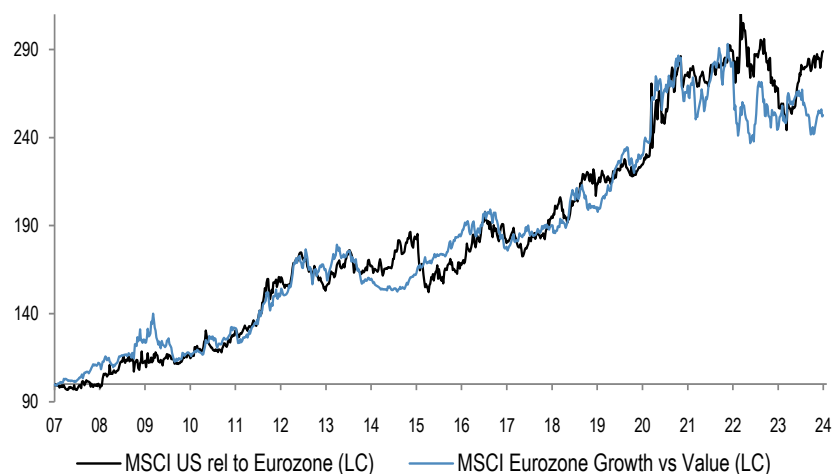
- We keep our preference for the US vs Eurozone, as the US is heavily tilted towards Growth/Quality style, which is likely to do better in a slowdown, but we are not comfortable that US will be a runaway outperformer in a global context, from the starting point such as current levels.

### US Value vs Growth



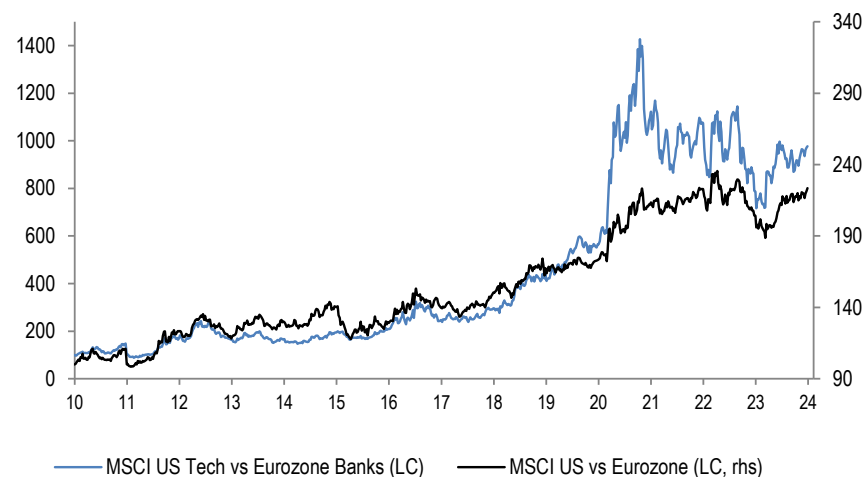
Source: J.P. Morgan

### Growth vs Value and US vs Eurozone



Source: Bloomberg Finance L.P.

### US vs Eurozone and Tech vs Banks



Source: Bloomberg Finance L.P.

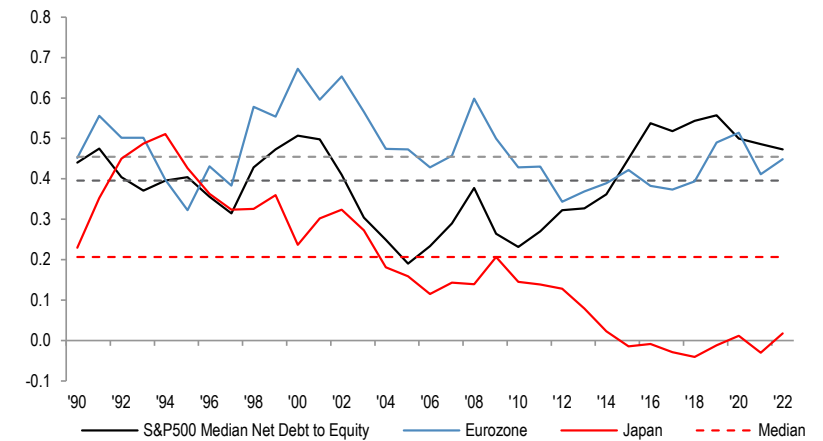
J.P.Morgan



# Government and corporate leverage is elevated

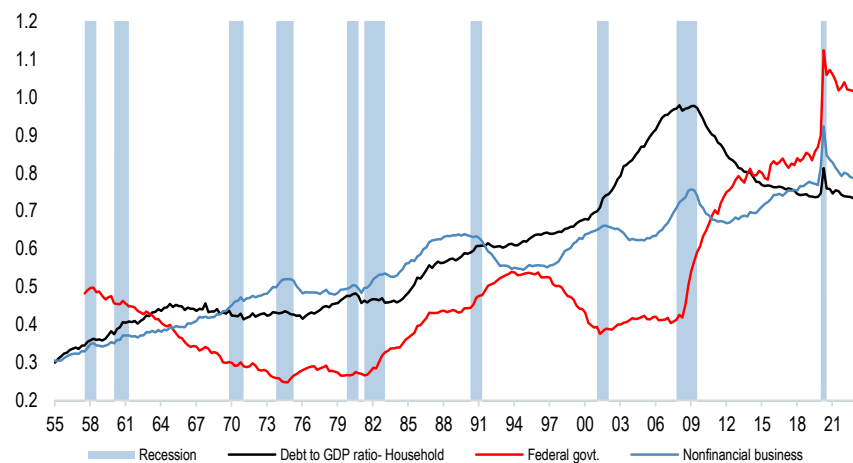
- US corporate and government leverage is elevated.

Median net debt to equity of US, Europe and Japan



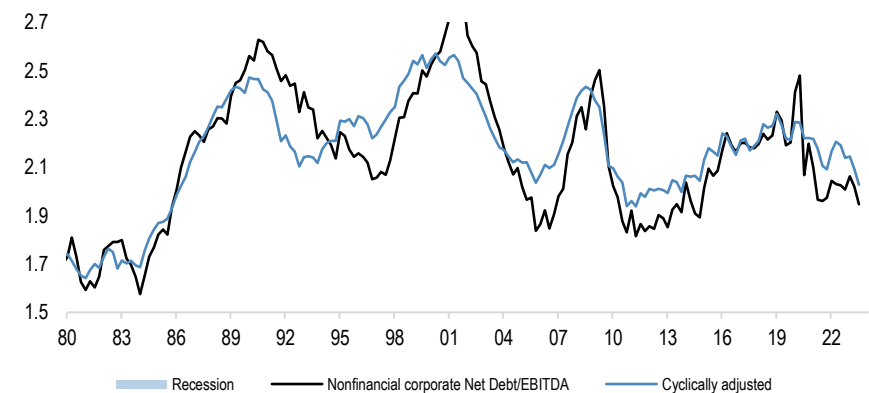
Source: Worldscope

US debt, share of GDP



Source: J.P. Morgan

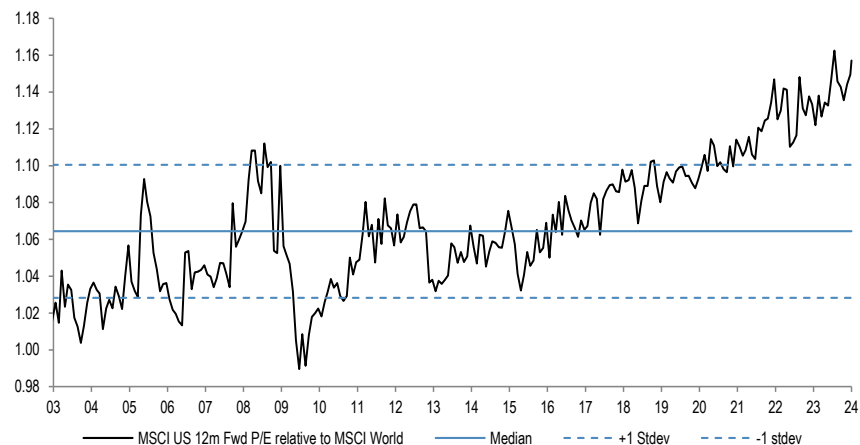
US nonfinancial corporate leverage



Source: J.P. Morgan

# US snapshot

MSCI US 12m Fwd PE relative to MSCI World



Source: IBES

MSCI US performance relative to MSCI World



Source: Datastream

## US Sector snapshot

|                   | Since Jan'23 Total   |              | Weight in Index |               | 12m Fwd P/E |                     | EPS growth, % |              |
|-------------------|----------------------|--------------|-----------------|---------------|-------------|---------------------|---------------|--------------|
|                   | Since Jan'23 Perf, % | Return, %    | US              | vs MSCI World | Current     | vs Median since '06 | 2023e         | 2024e        |
| US                | 25.0%                | 27.1%        | 100.0%          | 0.0%          | 20.1        | 27.5%               | 2.0%          | 10.8%        |
| Energy            | -4.8%                | -1.4%        | 3.9%            | -0.6%         | 10.9        | -14.6%              | -21.9%        | -2.7%        |
| Materials         | 10.4%                | 12.7%        | 2.4%            | -1.7%         | 19.0        | 23.5%               | -22.9%        | 3.5%         |
| Industrials       | 18.9%                | 21.0%        | 9.0%            | -2.1%         | 20.5        | 26.3%               | 16.4%         | 11.8%        |
| Discretionary     | 41.0%                | 42.3%        | 10.8%           | 0.0%          | 26.8        | 42.7%               | 45.0%         | 14.0%        |
| Staples           | -1.6%                | 1.4%         | 6.0%            | -0.8%         | 19.1        | 8.4%                | 2.2%          | 5.0%         |
| Healthcare        | 0.6%                 | 2.3%         | 12.4%           | 0.3%          | 18.1        | 13.3%               | -19.4%        | 17.2%        |
| Financials        | 12.2%                | 14.6%        | 12.8%           | -2.4%         | 14.6        | 15.9%               | 11.1%         | 7.3%         |
| IT                | 54.1%                | 55.5%        | 29.2%           | 6.2%          | 27.2        | 60.3%               | 3.3%          | 15.2%        |
| Telecoms          | 53.4%                | 54.8%        | 8.6%            | 1.4%          | 17.9        | 14.7%               | 24.9%         | 16.4%        |
| Utilities         | -9.9%                | -6.8%        | 2.3%            | -0.4%         | 15.8        | -1.3%               | 11.4%         | 7.6%         |
| Real Estate       | 6.9%                 | 11.2%        | 2.6%            | 0.1%          | 38.2        | -0.8%               | -12.9%        | -1.5%        |
| <b>Cyclicals</b>  | <b>42.4%</b>         | <b>43.9%</b> | <b>22.3%</b>    | <b>-3.8%</b>  | <b>24.9</b> | <b>46.0%</b>        | <b>9.7%</b>   | <b>13.2%</b> |
| <b>Defensives</b> | <b>10.9%</b>         | <b>12.9%</b> | <b>29.3%</b>    | <b>0.5%</b>   | <b>18.0</b> | <b>10.3%</b>        | <b>-2.7%</b>  | <b>13.9%</b> |

Source: IBES, Datastream

## 5) Neutral EM vs DM: EM has lagged last year and could see near-term respite but will keep struggling medium term if China growth remains challenged...

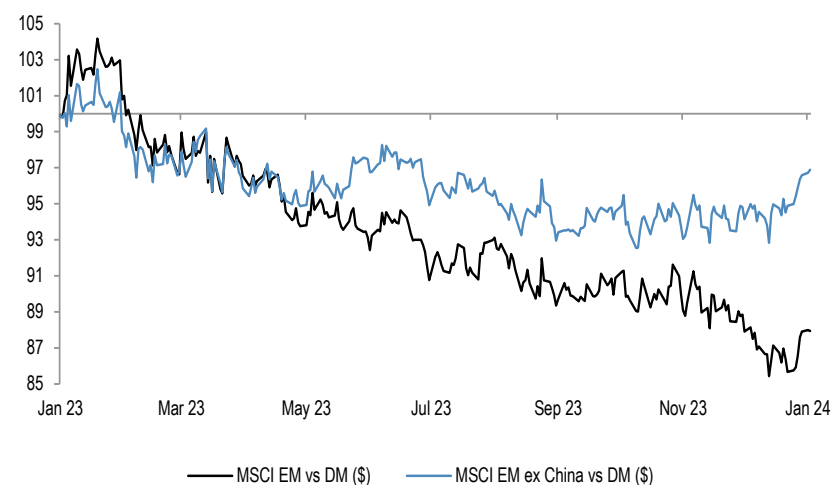
- EM equities have so far underperformed DM by over 10% last year. Even if one were to take China out of the equation, which is one of the worst EMs, EM has struggled to beat DM equities. A better entry point could be coming up for EM sometime in 2024.
- Historically, Chinese equities and EM shared a strong directional consistency vs DM, even as China was not a big share of the index until a few years ago. Returns delivered by China over DM and EM over DM have diverged only 25% of the time.
- Earnings revisions continue to be negative for EM relative to DM.

### EM ex China and China vs DM - historical performance

| Scenario  | % times | EM ex China vs DM, % average | China vs DM, % average |
|---|---------|------------------------------|------------------------|
| EM ex China and China outperform DM                   | 38%     | 3%                           | 5%                     |
| EM ex China and China underperform DM                 | 38%     | -3%                          | -5%                    |
| EM ex China outperforms DM and China underperform DM  | 12%     | 1%                           | -2%                    |
| EM ex China underperforms DM and China outperforms DM | 12%     | -1%                          | 3%                     |

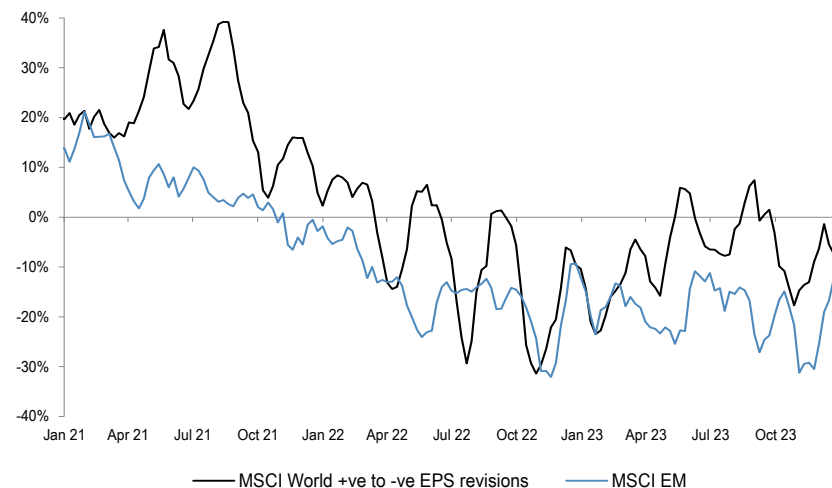
Source: Datastream

### EM vs DM and EM ex China vs DM



Source: Datastream

### EM vs DM EPS revisions

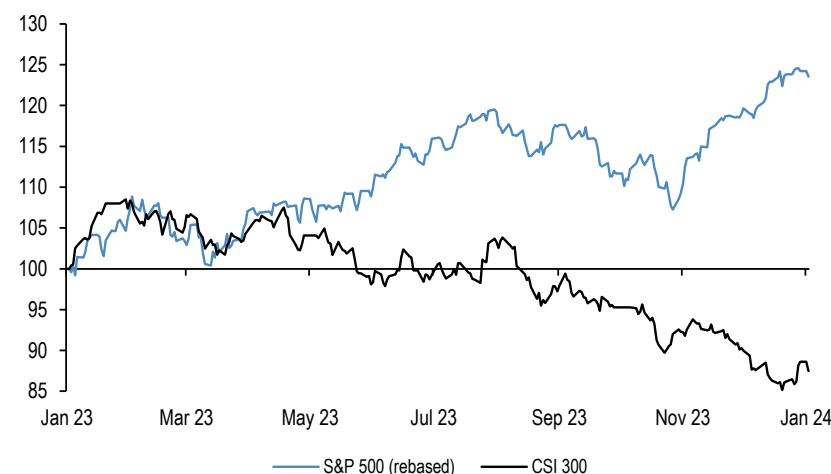


Source: IBES

...we believe China could trade better in the short term, it is cheaper, but structural concerns weigh on the longevity of the China trade...

- Tactically, we think China could trade better in the near term given the strong underperformance. The region has underperformed meaningfully, positioning is light, and a number of policy measures have started to come through.
- Chinese equities are looking attractive, and could trade better in the short term.
- Longer term, a number of structural overhangs could remain significant for the region.

SPX vs CSI



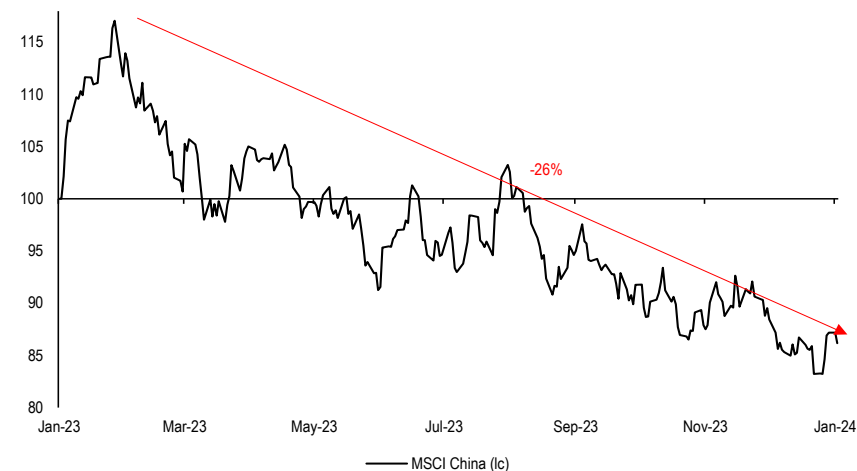
Source: Datastream

MSCI China 12m Fwd PE relative



Source: IBES

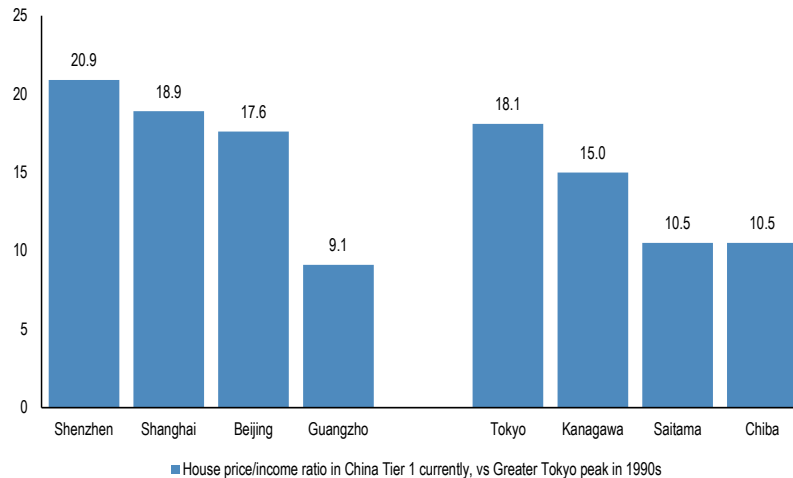
MSCI China



Source: Bloomberg Finance L.P.

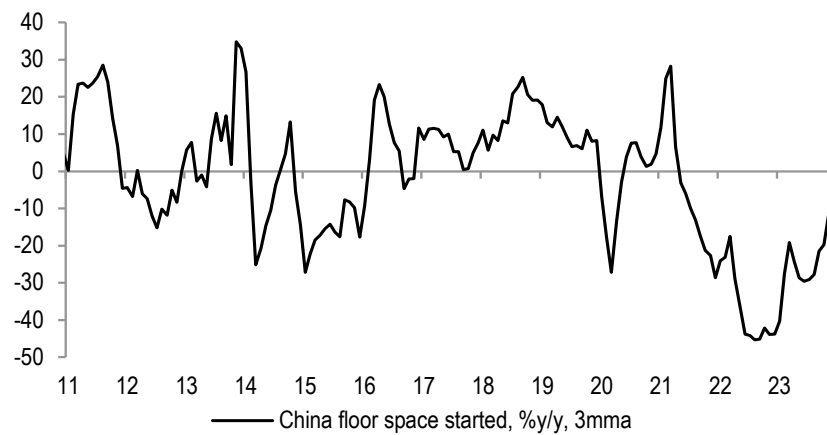
## ...housing is remaining the key concern

House price to income ratio in China Tier 1 cities, vs Japan in 1990s



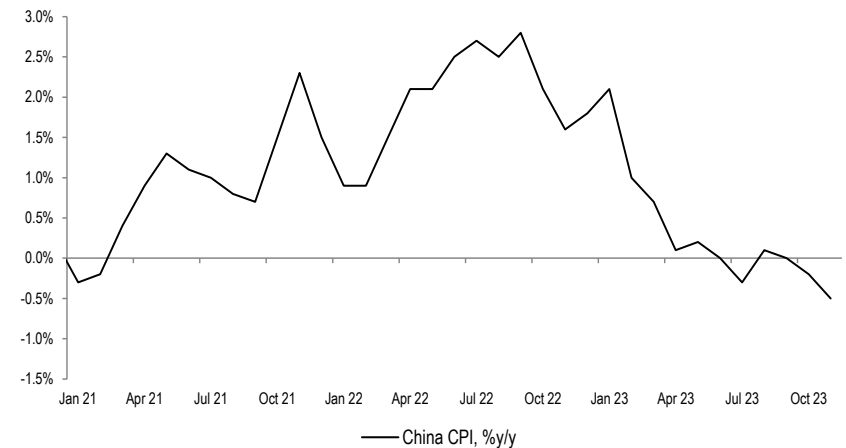
Source: J.P. Morgan China Strategy

China floor space started



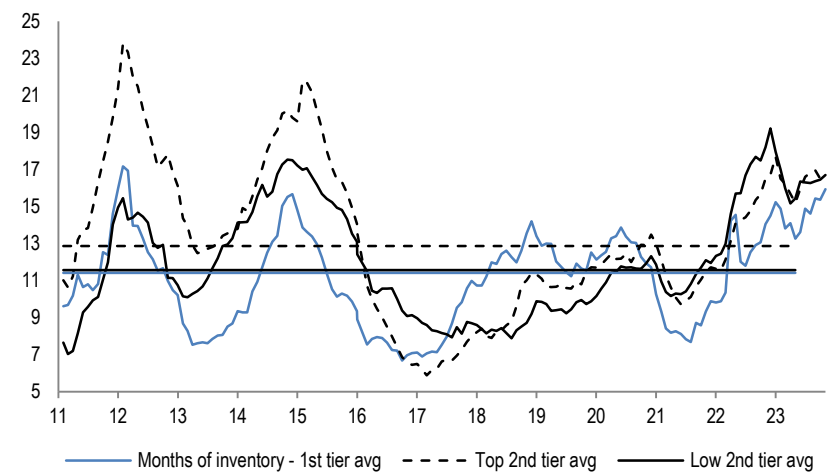
Source: JPM China Economics Research

China CPI



Source: Bloomberg Finance L.P.

China property inventory



Source: Soufun, CREIS

## China heat map

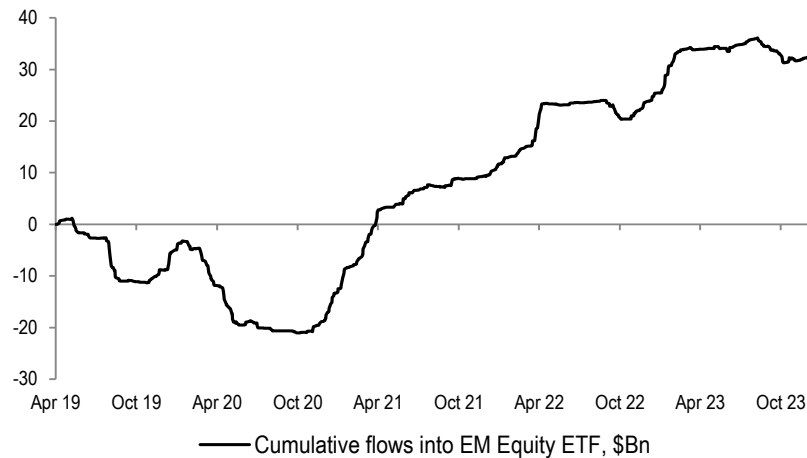
| Chinese data watch                         |        |        |        |        |        |        |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|  | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 |
| <b>Manufacturing PMI</b>                   |        |        |        |        |        |        |        |        |        |        |        |        |
| Caixan                                     | 49.2   | 51.6   | 50.0   | 49.5   | 50.9   | 50.5   | 49.2   | 51.0   | 50.6   | 49.5   | 50.7   | 50.8   |
| NBS  | 50.1   | 52.6   | 51.9   | 49.2   | 48.8   | 49.0   | 49.3   | 49.7   | 50.2   | 49.5   | 49.4   | 49.0   |
| <b>Services PMI</b>                        |        |        |        |        |        |        |        |        |        |        |        |        |
| Caixan                                     | 52.9   | 55.0   | 57.8   | 56.4   | 57.1   | 53.9   | 54.1   | 51.8   | 50.2   | 50.4   | 51.5   |        |
| NBS  | 54.4   | 56.3   | 58.2   | 56.4   | 54.5   | 53.2   | 51.5   | 51.0   | 51.7   | 50.6   | 50.2   | 50.4   |
| <b>Composite PMI - Caixan</b>              | 51.1   | 54.2   | 54.5   | 53.6   | 55.6   | 52.5   | 51.9   | 51.7   | 50.9   | 50.0   | 51.6   |        |
| <b>Industry</b>                            |        |        |        |        |        |        |        |        |        |        |        |        |
| Electricity Production, %oya               | -      | -      | 5.1%   | 6.1%   | 5.6%   | 2.8%   | 3.6%   | 1.1%   | 7.7%   | 5.2%   | 8.4%   |        |
| IP, %oya                                   | -      | -      | 3.9%   | 5.6%   | 3.5%   | 4.4%   | 3.7%   | 4.5%   | 4.5%   | 4.6%   | 6.6%   |        |
| FAI, %oya                                  | -      | 5.5%   | 5.1%   | 4.7%   | 4.0%   | 3.8%   | 3.4%   | 3.2%   | 3.1%   | 2.9%   | 2.9%   |        |
| <b>Consumer Activity</b>                   |        |        |        |        |        |        |        |        |        |        |        |        |
| Retail Sales, %oya                         | -      | -      | 10.6%  | 18.4%  | 12.7%  | 3.1%   | 2.5%   | 4.6%   | 5.5%   | 7.6%   | 10.1%  |        |
| Passenger Car Sales, %yoy                  | -32.8% | 11.1%  | 8.2%   | 87.7%  | 26.4%  | 2.1%   | -3.4%  | 6.9%   | 6.7%   | 11.5%  | 25.5%  |        |
| 70-city house price index, %oya            | -2.3%  | -1.9%  | -1.4%  | -0.7%  | -0.5%  | -0.4%  | 0.6%   | -0.6%  | -0.6%  | -0.6%  | -0.7%  |        |
| <b>Liquidity &amp; Monetary Conditions</b> |        |        |        |        |        |        |        |        |        |        |        |        |
| M2, %oya                                   | 12.6%  | 12.9%  | 12.7%  | 12.4%  | 11.6%  | 11.3%  | 10.7%  | 10.6%  | 10.3%  | 10.3%  | 10.0%  |        |
| FX Reserves (bln yuan)                     | 3184   | 3133   | 3184   | 3205   | 3177   | 3193   | 3204   | 3160   | 3115   | 3101   | 3172   |        |
| New Loan Creation (bln yuan)               | 4900   | 1812   | 3890   | 719    | 1360   | 3050   | 346    | 1358   | 2312   | 738    | 1089   |        |

Source: J.P. Morgan, Bloomberg Finance L.P., S&P Global, NBS

## EM valuations look on the cheap side of fair value

- We note MSCI EM is trading on the cheap side of fair value, relative to DM.
- There has been a steady increase in fund flows into EM over the last three years.

Flows into EM equity ETFs



Source: J.P. Morgan

MSCI EM vs DM Price to Book

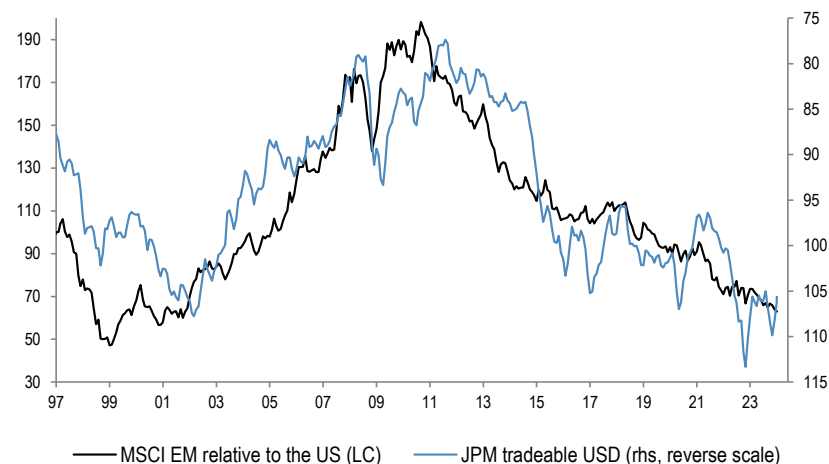


Source: IBES

# The one key driver of EM remains the USD... we worry the period of weakening USD is behind us

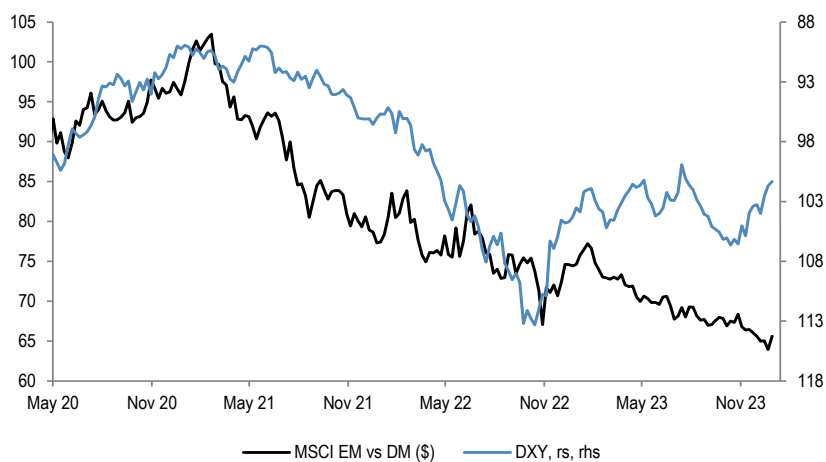
- FX is an important consideration for EM equity performance. One needs USD to fall in order for EM to perform better. Some of these conditions could be coming through this year, particularly when the Fed starts cutting rates.

## EM relative performance and USD in the long term



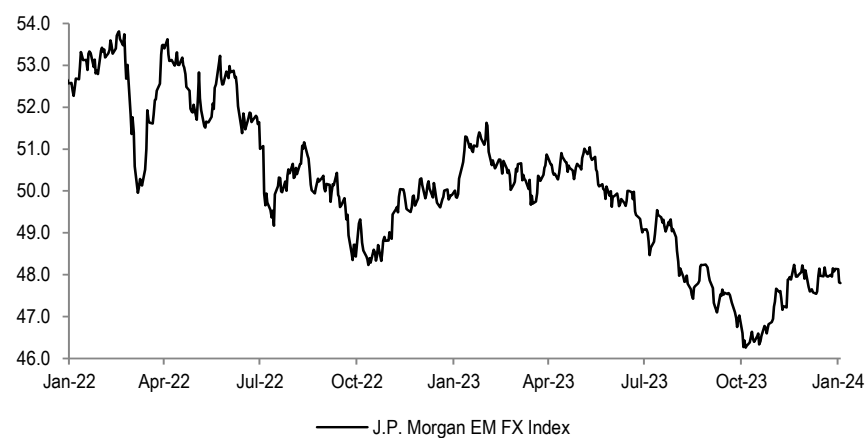
Source: Datastream

## MSCI EM vs DM and DXY



Source: Datastream, J.P. Morgan

## J.P. Morgan EM FX Index



Source: Bloomberg Finance L.P.



## Within EM, our EM strategists are constructive on Brazil, China, India, Saudi, Indonesia, Thailand, and Mexico

- Brazil – Attractive valuations and lower rates forecasted to drive re-rating; Growth should improve post rate-cuts with higher revenue for companies; Rise in commodity prices.
- China – Positioning for tactical rally on policy stimulus, low investor positioning, attractive valuations and likely better US-China relations; Medium term structural concerns linger.
- India – Potential inflows from bond index inclusion; Attractive risk-adjusted returns to DM; Positive historical seasonality to elections; Constructive structural trends.
- Saudi Arabia – USD-pegged currency offering shelter; Significant under-positioning of GEM funds in MENA; Positive earnings revisions from higher oil.
- Indonesia – Structural tailwinds from reform agendas in green energy transition and EV ecosystem; Resilient domestic consumption and strong FDI flows.
- Thailand – Resumption in tourism driven by China to boost economy; Local fiscal stimulus to boost the economy; Positive optionality from 4Q seasonality effects.
- Mexico – Attractive valuations despite strong EPS compounding from stronger US and near-shoring trends; Attractive carry on USD-MXN; Positive optionality on 2024 general election.

### EM Countries' Rating and Performance Snapshot

|                | Weight in MSCI EM | JPM Rating | Since Jan'23 Performance |            |
|----------------|-------------------|------------|--------------------------|------------|
|                |                   |            | L.C                      | US\$       |
| CHINA          | 27%               | OW         | 14%                      | 15%        |
| INDIA          | 17%               | OW         | 24%                      | 14%        |
| TAIWAN (CHINA) | 16%               | N          | -19%                     | 18%        |
| KOREA          | 13%               | N          | -34%                     | 68%        |
| BRAZIL         | 6%                | OW         | -25%                     | 9%         |
| SAUDI ARABIA   | 4%                | OW         | -15%                     | 17%        |
| SOUTH AFRICA   | 3%                | UW         | 4%                       | 8%         |
| MEXICO         | 3%                | OW         | 10%                      | 4%         |
| INDONESIA      | 2%                | OW         | 36%                      | 8%         |
| THAILAND       | 2%                | OW         | -21%                     | 16%        |
| MALAYSIA       | 1%                | UW         | 8%                       | 9%         |
| POLAND         | 1%                | N          | 7%                       | -12%       |
| TURKEY         | 1%                | N          | 15%                      | 19%        |
| PHILIPPINES    | 1%                | UW         | 26%                      | 9%         |
| CHILE          | 1%                | N          | -50%                     | 17%        |
| <b>MSCI EM</b> |                   |            | <b>-4%</b>               | <b>18%</b> |

Source: Datastream, J.P. Morgan

### '23e, '24e EPS growth for key EM countries

|                | EPS growth |            |
|----------------|------------|------------|
|                | 23e        | 24e        |
| CHINA          | 14%        | 15%        |
| INDIA          | 23%        | 14%        |
| TAIWAN (CHINA) | -19%       | 18%        |
| KOREA          | -34%       | 68%        |
| BRAZIL         | -26%       | 8%         |
| SAUDI ARABIA   | -15%       | 18%        |
| SOUTH AFRICA   | 3%         | 10%        |
| MEXICO         | 12%        | 4%         |
| INDONESIA      | 36%        | 8%         |
| THAILAND       | -16%       | 16%        |
| MALAYSIA       | 8%         | 9%         |
| POLAND         | 1%         | -6%        |
| TURKEY         | 13%        | 18%        |
| PHILIPPINES    | 24%        | 9%         |
| CHILE          | -24%       | -2%        |
| <b>MSCI EM</b> | <b>-4%</b> | <b>18%</b> |

Source: IBES

# EM snapshot

## MSCI EM countries valuations and performance

|                | Weight in<br>MSCI EM | Since Jan'23<br>Performance |      | 12m Fwd P/E |            |          | P/Book  |            |          | EPS growth |      |
|----------------|----------------------|-----------------------------|------|-------------|------------|----------|---------|------------|----------|------------|------|
|                |                      | L.C                         | US\$ | Current     | 10Y median | relative | Current | 10Y median | relative | 23e        | 24e  |
| CHINA          | 27%                  | -13%                        | -13% | 8.9         | 11.2       | -20%     | 1.2     | 1.6        | -25%     | 14%        | 15%  |
| INDIA          | 17%                  | 20%                         | 20%  | 21.6        | 18.1       | 19%      | 3.9     | 3.2        | 23%      | 24%        | 14%  |
| TAIWAN (CHINA) | 16%                  | 27%                         | 27%  | 15.6        | 13.8       | 13%      | 2.4     | 1.9        | 24%      | -19%       | 18%  |
| KOREA          | 13%                  | 24%                         | 22%  | 11.0        | 10.0       | 9%       | 1.1     | 1.0        | 6%       | -34%       | 68%  |
| BRAZIL         | 6%                   | 14%                         | 23%  | 8.0         | 10.9       | -26%     | 1.6     | 1.6        | 0%       | -25%       | 9%   |
| SAUDI ARABIA   | 4%                   | 8%                          | 8%   | 17.0        | 16.7       | 2%       | 2.4     | 2.0        | 21%      | -15%       | 17%  |
| SOUTH AFRICA   | 3%                   | 6%                          | -2%  | 9.6         | 13.5       | -29%     | 1.6     | 2.2        | -26%     | 4%         | 8%   |
| MEXICO         | 3%                   | 18%                         | 36%  | 12.9        | 14.9       | -14%     | 2.2     | 2.2        | 0%       | 10%        | 4%   |
| INDONESIA      | 2%                   | 2%                          | 3%   | 13.7        | 14.7       | -7%      | 2.3     | 2.7        | -15%     | 36%        | 8%   |
| THAILAND       | 2%                   | -14%                        | -13% | 16.0        | 15.0       | 7%       | 1.7     | 2.0        | -16%     | -21%       | 16%  |
| MALAYSIA       | 1%                   | -3%                         | -7%  | 13.5        | 15.4       | -13%     | 1.4     | 1.7        | -18%     | 8%         | 9%   |
| POLAND         | 1%                   | 30%                         | 45%  | 9.4         | 11.7       | -20%     | 1.2     | 1.3        | -4%      | 7%         | -12% |
| PHILIPPINES    | 1%                   | 1%                          | 2%   | 12.2        | 17.0       | -29%     | 1.7     | 2.2        | -21%     | 26%        | 9%   |
| TURKEY         | 1%                   | 44%                         | -9%  | 4.5         | 6.5        | -30%     | 1.8     | 1.3        | 41%      | 15%        | 19%  |
| CHILE          | 1%                   | 1%                          | -1%  | 7.9         | 14.7       | -46%     | 1.3     | 1.6        | -22%     | -50%       | 17%  |

Source: IBES, Datastream

## EM Sector snapshot

|                   | Since Jan'23 Perf, Since Jan'23 Total |             | Weight in Index |               | 12m Fwd P/E |                     | EPS growth, % |            |
|-------------------|---------------------------------------|-------------|-----------------|---------------|-------------|---------------------|---------------|------------|
|                   | %                                     | return, %   | EM              | vs MSCI World | Current     | vs Median since '03 | 2023e         | 2024e      |
| EM                | 3.0%                                  | 5.8%        | 100%            | 0%            | 11.7        | 4%                  | -4%           | 18%        |
| Energy            | 13.7%                                 | 21.6%       | 5%              | 0%            | 7.7         | -1%                 | -22%          | -3%        |
| Materials         | -6.4%                                 | -3.9%       | 8%              | 4%            | 11.9        | 14%                 | -34%          | 22%        |
| Industrials       | -3.5%                                 | -0.5%       | 6%              | -4%           | 11.3        | -7%                 | -15%          | 17%        |
| Discretionary     | -5.1%                                 | -4.3%       | 14%             | 3%            | 12.9        | 4%                  | 56%           | 18%        |
| Staples           | -0.5%                                 | 1.4%        | 6%              | -1%           | 20.6        | 3%                  | 7%            | 16%        |
| Healthcare        | -2.3%                                 | -1.3%       | 4%              | -9%           | 28.4        | 41%                 | 36%           | 26%        |
| Financials        | 2.3%                                  | 6.4%        | 22%             | 8%            | 7.5         | -17%                | 14%           | 8%         |
| IT                | 20.6%                                 | 23.4%       | 21%             | -2%           | 17.0        | 29%                 | -45%          | 60%        |
| Telecoms          | 1.6%                                  | 3.1%        | 9%              | 2%            | 16.3        | 18%                 | 31%           | 16%        |
| Utilities         | -9.0%                                 | -5.6%       | 3%              | 0%            | 10.6        | -5%                 | 213%          | 34%        |
| Real Estate       | -11.9%                                | -8.8%       | 2%              | -1%           | 9.6         | 33%                 | -16%          | 34%        |
| <b>Cyclicals</b>  | <b>4.9%</b>                           | <b>7.1%</b> | <b>48%</b>      | <b>1%</b>     | <b>13.7</b> | <b>13%</b>          | <b>-21%</b>   | <b>37%</b> |
| <b>Defensives</b> | <b>-1.0%</b>                          | <b>0.7%</b> | <b>22%</b>      | <b>-8%</b>    | <b>17.4</b> | <b>13%</b>          | <b>38%</b>    | <b>18%</b> |

Source: IBES, Datastream

# Regional and Asset Allocation, with Index targets

| Global All country Regional Allocation |             |            |           |                |
|--|-------------|------------|-----------|----------------|
|  | MSCI Weight | Allocation | Deviation | Recommendation |
| EM                                     | 10.6%       | 10.0%      | -0.6%     | Neutral        |
| DM                                     | 89.4%       | 90.0%      | 0.6%      | Neutral        |
|  | 100.0%      | 100.0%     | 0.0%      | Balanced       |

| Global Developed Regional Allocation |             |            |           |                |
|--------------------------------------|-------------|------------|-----------|----------------|
|                                      | MSCI Weight | Allocation | Deviation | Recommendation |
| US                                   | 70.1%       | 68.0%      | -2.1%     | Neutral        |
| Japan                                | 6.1%        | 8.0%       | 1.9%      | Overweight     |
| Eurozone                             | 8.9%        | 6.0%       | -2.9%     | Underweight    |
| UK                                   | 4.0%        | 6.0%       | 2.0%      | Overweight     |
| Others*                              | 10.9%       | 12.0%      | 1.1%      | Overweight     |
|                                      | 100.0%      | 100.0%     | 0.0%      | Balanced       |

| European Regional Allocation |             |            |           |                |
|------------------------------|-------------|------------|-----------|----------------|
|                              | MSCI Weight | Allocation | Deviation | Recommendation |
| Eurozone                     | 51.1%       | 47.0%      | -4.1%     | Underweight    |
| United Kingdom               | 22.8%       | 26.0%      | 3.2%      | Overweight     |
| Others**                     | 26.2%       | 27.0%      | 0.8%      | Overweight     |
|                              | 100.0%      | 100.0%     |           | Balanced       |

| Asset Allocation |                     |            |           |                |
|------------------|---------------------|------------|-----------|----------------|
|                  | Benchmark weighting | Allocation | Deviation | Recommendation |
| Equities         | 60%                 | 55%        | -5%       | Underweight    |
| Bonds            | 30%                 | 35%        | 5%        | Overweight     |
| Cash             | 10%                 | 10%        | 0%        | Neutral        |
|                  | 100%                | 100%       | 0%        | Balanced       |

Source: MSCI, J.P. Morgan, Datastream. All regional recommendations are currency hedged.

\*\*Others include Denmark, Norway, Sweden and Switzerland

\*Others include Australia, Canada, Singapore, Hong Kong SAR, Denmark, Norway, Sweden and Switzerland

Note: Our Overweight/Underweight recommendations reflect our belief that the relevant region will out- / underperform the index over the next 6 to 12 months.

\*\*\*Targets and growth estimates from our regional strategists

| Year end Index Targets |                |           |
|------------------------|----------------|-----------|
|                        | Dec '24 Target | % upside* |
| MSCI Eurozone          | 256            | -5%       |
| FTSE 100               | 7700           | 0%        |

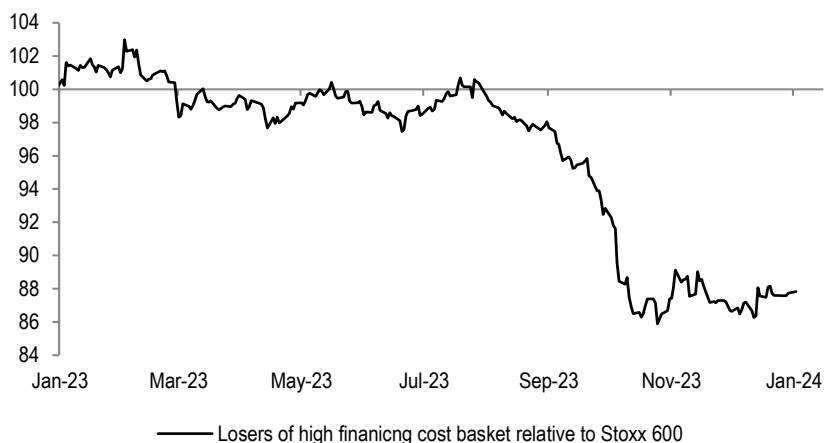
Source: J.P. Morgan, Datastream. \*As of COB 04<sup>th</sup> Jan 2024

| Key Global Sector Calls  |                    |
|--------------------------|--------------------|
| Sector                   | JPM Recommendation |
| Utilities                | Overweight         |
| Healthcare               | Overweight         |
| Telecoms                 | Overweight         |
| Energy                   | Overweight         |
| Real Estate              | Overweight         |
| Food, Beverage & Tobacco | Overweight         |
| Technology               | Neutral            |
| Discretionary            | Neutral            |
| Mining                   | Neutral            |
| Transportation           | Neutral            |
| Capital Goods ex A&D     | Underweight        |
| Food& Drug Retail        | Underweight        |
| Autos                    | Underweight        |
| Banks                    | Underweight        |
| Semis                    | Underweight        |

## Themes and Baskets: 1) Losers of Higher financing costs

- Our basket of European companies sensitive to increasing financing costs is set to stay under pressure as higher interest rates bite. These stocks have a larger than typical share of revenue growth tied to the availability of cheap financing and have elevated leverage ratios.

JPM European losers of high financing costs basket relative



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

JPM European losers of higher financing costs - JPDEHFCL

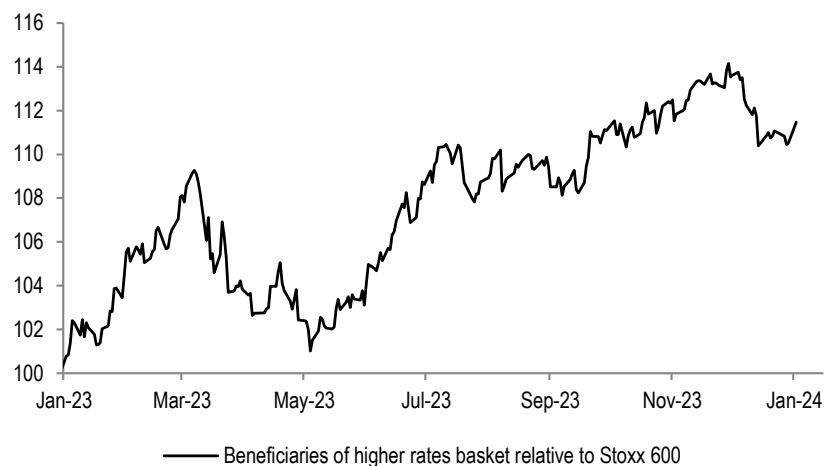
| Name                           | Ticker   | Sector        | ND/EBITD<br>A 2024e |
|--------------------------------|----------|---------------|---------------------|
| Ocado Group PLC                | OCDO LN  | Staples       | 9.5                 |
| United Utilities Group PLC     | UU/ LN   | Utilities     | 8.8                 |
| Severn Trent PLC               | SVT LN   | Utilities     | 7.4                 |
| National Grid PLC              | NG/ LN   | Utilities     | 6.5                 |
| Cellnex Telecom SA             | CLNX SM  | Comm. Svcs    | 6.2                 |
| Snam SpA                       | SRG IM   | Utilities     | 6.1                 |
| Enagas SA                      | ENG SM   | Utilities     | 5.1                 |
| Infrastrutture Wireless Italia | INW IM   | Comm. Svcs    | 4.6                 |
| Grifols SA                     | GRF SM   | Health care   | 4.1                 |
| Redeia Corp SA                 | RED SM   | Utilities     | 4.0                 |
| Fresenius SE & Co KGaA         | FRE GR   | Health care   | 3.6                 |
| LANXESS AG                     | LXS GR   | Materials     | 3.3                 |
| Wizz Air Holdings Plc          | WIZZ LN  | Industrials   | 3.0                 |
| Fresenius Medical Care AG & Co | FME GR   | Health care   | 2.9                 |
| Bayer AG                       | BAYN GR  | Health care   | 2.8                 |
| Fluidra SA                     | FDR SM   | Industrials   | 2.8                 |
| Nexi SpA                       | NEXI IM  | Financials    | 2.8                 |
| Diageo PLC                     | DGE LN   | Staples       | 2.7                 |
| Pernod Ricard SA               | RI FP    | Staples       | 2.7                 |
| Anheuser-Busch InBev SA/NV     | ABI BB   | Staples       | 2.7                 |
| Coca-Cola HBC AG               | CCH LN   | Staples       | 2.7                 |
| Akzo Nobel NV                  | AKZA NA  | Materials     | 2.5                 |
| ams-OSRAM AG                   | AMS SW   | IT            | 2.5                 |
| Givaudan SA                    | GIVN SW  | Materials     | 2.5                 |
| British American Tobacco       | BATS LN  | Staples       | 2.4                 |
| Electrolux AB                  | ELUXB SS | Discretionary | 2.4                 |
| Alstom SA                      | ALO FP   | Industrials   | 2.3                 |
| Ashtead Group PLC              | AHT LN   | Industrials   | 2.2                 |
| BASF SE                        | BAS GR   | Materials     | 2.2                 |
| Koninklijke Philips NV         | PHIA NA  | Health care   | 2.0                 |
| Eurofins Scientific SE         | ERF FP   | Health care   | 2.0                 |
| Symrise AG                     | SY1 GR   | Materials     | 1.7                 |
| RELX PLC                       | REL LN   | Industrials   | 1.6                 |
| DSV A/S                        | DSV DC   | Industrials   | 1.4                 |
| Valeo SE                       | FR FP    | Discretionary | 1.2                 |

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

## 2) Winners of higher rates

- Stocks in our winners of higher rates basket tend to be cash rich, and earn more interest than they pay as interest expense, thereby benefitting in an environment of higher yields.

**JPM European beneficiaries of higher rates basket relative**



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

**JPM European net beneficiaries of higher rates- JPDEHFCW**

| Name                           | Ticker   | Sector        |
|--------------------------------|----------|---------------|
| Publicis Groupe SA             | PUB FP   | Comm. Svcs    |
| Renault SA                     | RNO FP   | Discretionary |
| Mercedes-Benz Group AG         | MBG GR   | Discretionary |
| Stellantis NV                  | STLAM IM | Discretionary |
| Industria de Diseno Textil SA  | ITX SM   | Discretionary |
| Whitbread PLC                  | WTB LN   | Discretionary |
| Volkswagen AG                  | VOW GR   | Discretionary |
| Beiersdorf AG                  | BEI GR   | Staples       |
| KONE AG                        | KNEBV FH | Financials    |
| Banco BPM SpA                  | BAMI IM  | Financials    |
| Banco Bilbao Vizcaya Argentari | BBVA SM  | Financials    |
| Bank of Ireland Group PLC      | BIRG ID  | Financials    |
| Bankinter SA                   | BKT SM   | Financials    |
| CaixaBank SA                   | CABK SM  | Financials    |
| Intesa Sanpaolo SpA            | ISP IM   | Financials    |
| UniCredit SpA                  | UCG IM   | Financials    |
| AIB Group PLC                  | AIBG ID  | Financials    |
| Banco de Sabadell SA           | SAB SM   | Financials    |
| Schindler Holding AG           | SCHP SW  | Industrials   |
| Epiroc AB                      | EPIA SS  | Industrials   |
| Airbus SE                      | AIR FP   | Industrials   |
| Dassault Aviation SA           | AM FP    | Industrials   |
| Ryanair Holdings PLC           | RYA ID   | Industrials   |
| Spectris PLC                   | SXS LN   | IT            |
| Dassault Systemes SE           | DSY FP   | IT            |
| SAP SE                         | SAP GR   | IT            |
| Centrica PLC                   | CNA LN   | Utilities     |

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

### 3) Companies sensitive to low-end consumer

- The low-end consumer has been disproportionately hurt by the cost-of-living crisis. Our basket comprises of stocks with meaningful exposure to the low-end consumer, and at risk of underperforming as the consumer comes under further pressure.

JPM European consumer weakness basket relative



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

JPM European consumer weakness basket - JPDEEUCW

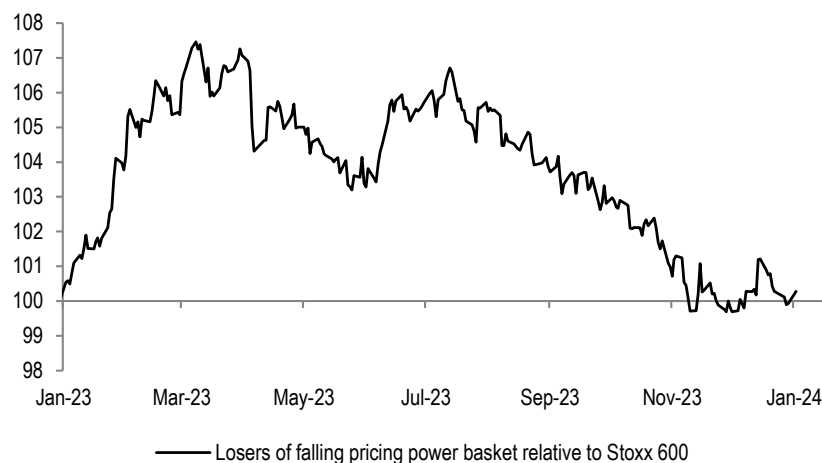
| Name                          | Ticker    | Sector        |
|-------------------------------|-----------|---------------|
| Publicis Groupe SA            | PUB FP    | Comm. Svcs    |
| WPP PLC                       | WPP LN    | Comm. Svcs    |
| Ubisoft Entertainment SA      | UBI FP    | Comm. Svcs    |
| ITV PLC                       | ITV LN    | Comm. Svcs    |
| Electrolux AB                 | ELUXB SS  | Discretionary |
| Amadeus IT Group SA           | AMS SM    | Discretionary |
| Renault SA                    | RNO FP    | Discretionary |
| Stellantis NV                 | STLAM IM  | Discretionary |
| H & M Hennes & Mauritz AB     | HMB SS    | Discretionary |
| adidas AG                     | ADS GR    | Discretionary |
| JD Sports Fashion PLC         | JD/ LN    | Discretionary |
| Pandora A/S                   | PNDORA DC | Discretionary |
| Puma SE                       | PUM GR    | Discretionary |
| Accor SA                      | AC FP     | Discretionary |
| InterContinental Hotels Group | IHG LN    | Discretionary |
| Volkswagen AG                 | VOW GR    | Discretionary |
| Straumann Holding AG          | STMN SW   | Health care   |
| Koninklijke Philips NV        | PHIA NA   | Health care   |
| EssilorLuxottica SA           | EL FP     | Health care   |
| easyJet PLC                   | EZJ LN    | Industrials   |
| HelloFresh SE                 | HFG GR    | Staples       |
| Associated British Foods PLC  | ABF LN    | Staples       |
| Unilever PLC                  | ULVR LN   | Staples       |
| Coca-Cola HBC AG              | CCH LN    | Staples       |
| Anheuser-Busch InBev SA/NV    | ABI BB    | Staples       |
| Remy Cointreau SA             | RCO FP    | Staples       |

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

## 4) Companies with margins at risk of contracting as pricing deteriorates

- The basket comprises of stocks that have seen significant margin expansion since 2019, on the back of stronger pricing power. Margins for these companies now appear too stretched, and are at risk of contracting as pricing deteriorates.

JPM European losers of falling pricing power basket relative



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

JPM European losers of falling pricing power- JPDEEUPP

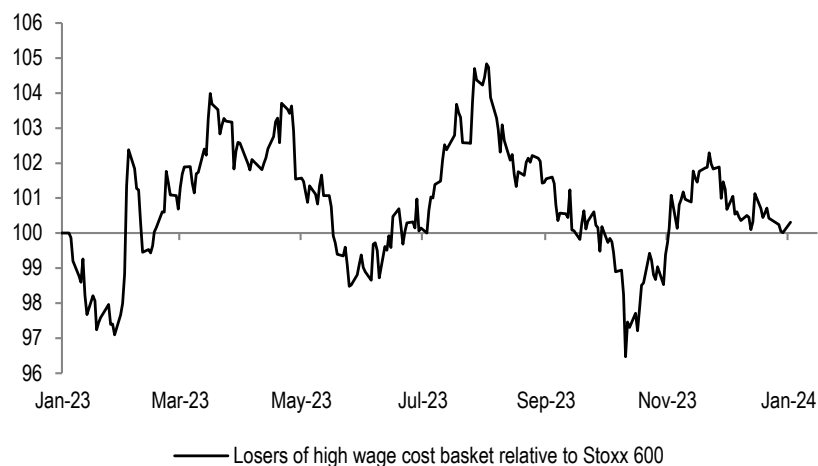
| Name                           | Ticker   | Sector        |
|--------------------------------|----------|---------------|
| WPP PLC                        | WPP LN   | Comm. Svcs    |
| Publicis Groupe SA             | PUB FP   | Comm. Svcs    |
| Cie Generale des Etablissement | ML FP    | Discretionary |
| Swatch Group AG/The            | UHR SW   | Discretionary |
| Mercedes-Benz Group AG         | MBG GR   | Discretionary |
| Ferrari NV                     | RACE IM  | Discretionary |
| Bayerische Motoren Werke AG    | BMW GR   | Discretionary |
| Cie Financiere Richemont SA    | CFR SW   | Discretionary |
| LVMH Moet Hennessy Louis Vuitt | MC FP    | Discretionary |
| Hermes International SCA       | RMS FP   | Discretionary |
| Burberry Group PLC             | BRBY LN  | Discretionary |
| Kering SA                      | KER FP   | Discretionary |
| Moncler SpA                    | MONC IM  | Discretionary |
| Whitbread PLC                  | WTB LN   | Discretionary |
| BP PLC                         | BP/ LN   | Energy        |
| Shell PLC                      | SHEL LN  | Energy        |
| TotalEnergies SE               | TTE FP   | Energy        |
| Eni SpA                        | ENI IM   | Energy        |
| Mediobanca Banca di Credito Fi | MB IM    | Financials    |
| Rheinmetall AG                 | RHM GR   | Industrials   |
| DSV A/S                        | DSV DC   | Industrials   |
| VAT Group AG                   | VACN SW  | Industrials   |
| Daimler Truck Holding AG       | DTG GR   | Industrials   |
| Volvo AB                       | VOLVB SS | Industrials   |
| STMicroelectronics NV          | STMPA FP | IT            |
| Infineon Technologies AG       | IFX GR   | IT            |
| ArcelorMittal SA               | MT NA    | Materials     |
| Svenska Cellulosa AB SCA       | SCAB SS  | Materials     |
| British American Tobacco PLC   | BATS LN  | Staples       |
| Coca-Cola HBC AG               | CCH LN   | Staples       |
| Beiersdorf AG                  | BEI GR   | Staples       |
| Imperial Brands PLC            | IMB LN   | Staples       |
| SSE PLC                        | SSE LN   | Utilities     |

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

## 5) High wage costs losers

- The basket comprises of stocks that have an elevated proportion of wage costs, that can't be passed on to their customers, and can see a margin impact going forward.

JPM European high wage costs losers basket relative



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

JPM European losers of high wage costs -JPDEHWCL

| Name                           | Ticker   | Sector        |
|--------------------------------|----------|---------------|
| Publicis Groupe SA             | PUB FP   | Comm. Svcs    |
| WPP PLC                        | WPP LN   | Comm. Svcs    |
| Ubisoft Entertainment SA       | UBI FP   | Comm. Svcs    |
| Stellantis NV                  | STLAM IM | Discretionary |
| Fresenius Medical Care AG & Co | FME GR   | Health care   |
| EssilorLuxottica SA            | EL FP    | Health care   |
| Indra Sistemas SA              | IDR SM   | IT            |
| Capgemini SE                   | CAP FP   | IT            |
| Chr Hansen Holding A/S         | CHR DC   | Materials     |
| Givaudan SA                    | GIVN SW  | Materials     |
| Associated British Foods PLC   | ABF LN   | Staples       |
| Remy Cointreau SA              | RCO FP   | Staples       |

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



## 6) Winners and losers from AI theme

- Our basket of winners from AI theme includes companies that are set to gain from Artificial Intelligence to improve products or gain a strategic edge over their competitors.
- Our basket of losers from AI theme includes companies that are set to lose from Artificial Intelligence and cannot adapt to disruptive innovations.

### JPM European Winners of AI theme - JPDEEAIW

| Name                  | Ticker  | Sector      |
|-----------------------|---------|-------------|
| Schneider Electric SE | SU FP   | Industrials |
| Legrand SA            | LR FP   | Industrials |
| ABB Ltd               | ABBN SW | Industrials |
| Siemens AG            | SIE GR  | Industrials |
| RELX PLC              | REL LN  | Industrials |
| Sage Group PLC/The    | SGE LN  | IT          |
| Capgemini SE          | CAP FP  | IT          |
| SAP SE                | SAP GR  | IT          |

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

### JPM European Losers of AI theme - JPDEEAIL

| Name               | Ticker | Sector      |
|--------------------|--------|-------------|
| Publicis Groupe SA | PUB FP | Comm. Svcs  |
| WPP PLC            | WPP LN | Comm. Svcs  |
| Wolters Kluwer NV  | WKL NA | Industrials |

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

## 7) Defense champions basket

- The basket comprises of stocks exposed to the European Defense space, which are likely to be long-term winners as countries reverse decades of under-investment in Defense. In addition, these stocks are a hedge against geopolitical risk.

### JPM European defense champions

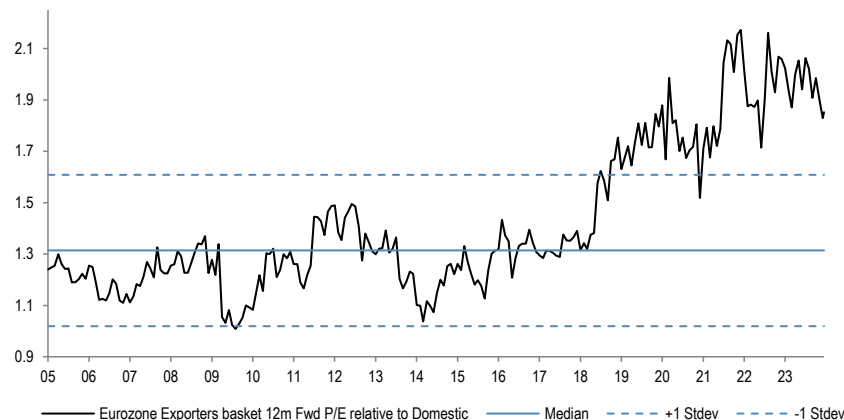
| Name                           | Ticker   | Sector      |
|--------------------------------|----------|-------------|
| BAE Systems PLC                | BA/ LN   | Industrials |
| Dassault Aviation SA           | AM FP    | Industrials |
| Saab Automobile AB             | SAABA SS | Industrials |
| Thales SA                      | HO FP    | Industrials |
| Rheinmetall AG                 | RHM GY   | Industrials |
| QinetiQ Group PLC              | QQ/ LN   | Industrials |
| Hensoldt AG                    | HAG GY   | Industrials |
| Babcock International Group PL | BAB LN   | Industrials |

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

## 8) FX exposure: a) for Eurozone... valuations of the Exporters appear increasingly stretched

- Exporters continue to screen expensive on most valuation measures when compared to our Eurozone domestic basket.
- Our basket of Eurozone Exporters comprises of stocks with the highest international revenue exposure and could be hurt if Euro strengthens from here.

Eurozone Exporters 12m fwd. P/E relative to Domestic



Source: IBES, J.P.Morgan

### JPM Eurozone Exporters - JPDEEZEX

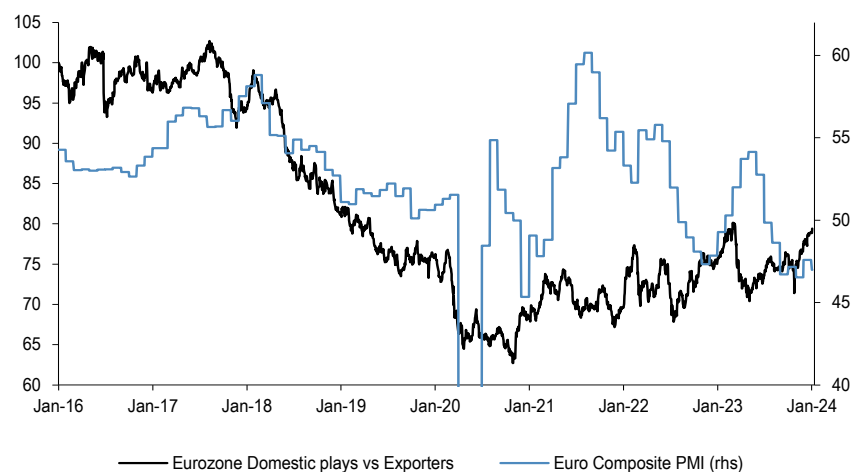
| Name                           | Ticker   | Sector        | Ex-W.E. exposure |
|--------------------------------|----------|---------------|------------------|
| Hannover Rueck SE              | HNR1 GR  | Financials    | 88%              |
| Sampo Oyj                      | SAMPO FH | Financials    | 85%              |
| Fresenius Medical Care AG & Co | FME GR   | Health care   | 85%              |
| SCOR SE                        | SCR FP   | Financials    | 80%              |
| Pernod Ricard SA               | RI FP    | Staples       | 80%              |
| L'Oreal SA                     | OR FP    | Staples       | 79%              |
| LVMH Moet Hennessy Louis Vuit  | MC FP    | Discretionary | 77%              |
| Wolters Kluwer NV              | WKL NA   | Industrials   | 77%              |
| Hermes International SCA       | RMS FP   | Discretionary | 77%              |
| Publicis Groupe SA             | PUB FP   | Comm. Svcs    | 76%              |
| Sanofi SA                      | SAN FP   | Health care   | 76%              |
| HelloFresh SE                  | HFG GR   | Staples       | 75%              |
| Remy Cointreau SA              | RCO FP   | Staples       | 75%              |
| Kering SA                      | KER FP   | Discretionary | 73%              |
| UCB SA                         | UCB BB   | Health care   | 72%              |
| Merck KGaA                     | MRK GR   | Health care   | 71%              |
| MTU Aero Engines AG            | MTX GR   | Industrials   | 70%              |
| Bayer AG                       | BAYN GR  | Health care   | 70%              |
| Airbus SE                      | AIR FP   | Industrials   | 68%              |
| Moncler SpA                    | MONC IM  | Discretionary | 65%              |
| Puma SE                        | PUM GR   | Discretionary | 65%              |
| Dassault Systemes SE           | DSY FP   | IT            | 65%              |
| Ubisoft Entertainment SA       | UBI FP   | Comm. Svcs    | 64%              |
| EssilorLuxottica SA            | EL FP    | Health care   | 64%              |
| Koninklijke Ahold Delhaize NV  | AD NA    | Staples       | 64%              |
| adidas AG                      | ADS GR   | Discretionary | 63%              |
| Acerinox SA                    | ACX SM   | Materials     | 62%              |
| Heidelberg Materials AG        | HEI GR   | Materials     | 61%              |
| Accor SA                       | AC FP    | Discretionary | 61%              |
| Volkswagen AG                  | VOW GR   | Discretionary | 60%              |
| Sodexo SA                      | SW FP    | Discretionary | 60%              |
| SAP SE                         | SAP GR   | IT            | 60%              |
| Davide Campari-Milano NV       | CPR IM   | Staples       | 60%              |
| Iberdrola SA                   | IBE SM   | Utilities     | 60%              |
| Safran SA                      | SAF FP   | Industrials   | 59%              |
| Bayerische Motoren Werke AG    | BMW GR   | Discretionary | 59%              |
| GEA Group AG                   | G1A GR   | Industrials   | 55%              |
| Muenchener Rueckversicherungs- | MUV2 GR  | Financials    | 43%              |
| Edenred SE                     | EDEN FP  | Financials    | 40%              |

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

## b) Eurozone domestic exposure

- Domestic plays are likely to come under renewed pressure as Eurozone composite PMI rolls over.

Eurozone Domestic vs Exporters vs Euro Composite PMI



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

### JPM Eurozone Domestic - JPDEEZDR

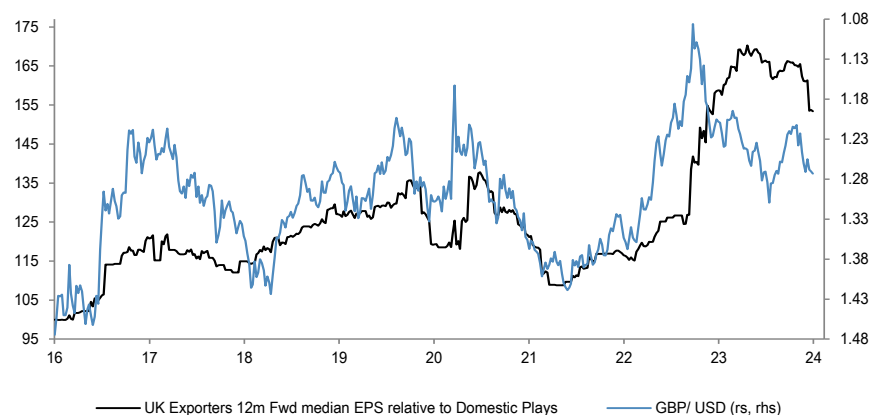
| Name                          | Ticker   | Sector        | W.E. exposure |
|-------------------------------|----------|---------------|---------------|
| CaixaBank SA                  | CABK SM  | Financials    | 100%          |
| Zalando SE                    | ZAL GR   | Discretionary | 100%          |
| Poste Italiane SpA            | PST IM   | Financials    | 100%          |
| Gecina SA                     | GFC FP   | Real Estate   | 100%          |
| Koninklijke KPN NV            | KPN NA   | Comm. Svcs    | 100%          |
| Intesa Sanpaolo SpA           | ISP IM   | Financials    | 95%           |
| Eiffage SA                    | FGR FP   | Industrials   | 95%           |
| AIB Group PLC                 | AIBG ID  | Financials    | 90%           |
| Worldline SA/France           | WLN FP   | Financials    | 88%           |
| NN Group NV                   | NN NA    | Financials    | 86%           |
| Banco de Sabadell SA          | SAB SM   | Financials    | 85%           |
| UniCredit SpA                 | UCG IM   | Financials    | 85%           |
| Vinci SA                      | DG FP    | Industrials   | 82%           |
| Assicurazioni Generali SpA    | G IM     | Financials    | 79%           |
| Allianz SE                    | ALV GR   | Financials    | 76%           |
| Commerzbank AG                | CBK GR   | Financials    | 75%           |
| Carrefour SA                  | CA FP    | Staples       | 74%           |
| AXA SA                        | CS FP    | Financials    | 73%           |
| Indra Sistemas SA             | IDR SM   | IT            | 70%           |
| Renault SA                    | RNO FP   | Discretionary | 69%           |
| Cie de Saint-Gobain SA        | SGO FP   | Industrials   | 66%           |
| Industria de Diseno Textil SA | ITX SM   | Discretionary | 63%           |
| Alstom SA                     | ALO FP   | Industrials   | 60%           |
| Capgemini SE                  | CAP FP   | IT            | 60%           |
| ArcelorMittal SA              | MT NA    | Materials     | 57%           |
| Ipsen SA                      | IPN FP   | Health care   | 52%           |
| Deutsche Bank AG              | DBK GR   | Financials    | 50%           |
| Prysmian SpA                  | PRY IM   | Industrials   | 50%           |
| Rexel SA                      | RXL FP   | Industrials   | 50%           |
| Siemens AG                    | SIE GR   | Industrials   | 50%           |
| K+S AG                        | SDF GY   | Materials     | 49%           |
| Evonik Industries AG          | EVK GR   | Materials     | 48%           |
| Banco Santander SA            | SAN SM   | Financials    | 35%           |
| Legrand SA                    | LR FP    | Industrials   | 30%           |
| Signify NV                    | LIGHT NA | Industrials   | 30%           |
| Nordea Bank Abp               | NDA SS   | Financials    | 20%           |

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

## c) UK Exporters

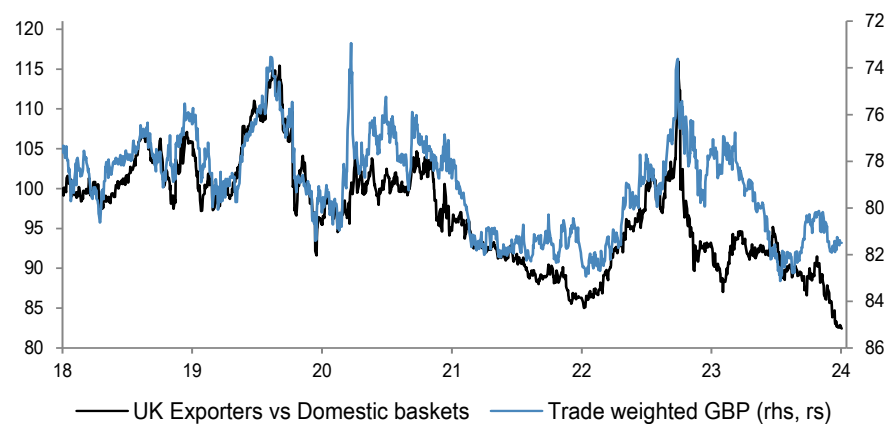
- UK exporters display a clear negative correlation with FX and should be helped by a weaker GBP.

### UK Exporters vs Domestic earnings and GBP



Source: Datastream, J.P. Morgan

### UK Exporters vs Domestic baskets vs trade-weighted GBP



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

### JPM UK Exporters - JPDEUKEX

| Name                         | Ticker    | Sector        | ex-UK exposure |
|------------------------------|-----------|---------------|----------------|
| Prudential PLC               | PRU LN    | Financials    | 100%           |
| British American Tobacco PLC | BATS LN   | Staples       | 99%            |
| Spirax-Sarco Engineering PLC | SPX LN    | Industrials   | 95%            |
| Beazley PLC                  | BEZ LN    | Financials    | 95%            |
| GSK PLC                      | GSK LN    | Health care   | 95%            |
| Diageo PLC                   | DGE LN    | Staples       | 95%            |
| Unilever PLC                 | ULVR LN   | Staples       | 95%            |
| Reckitt Benckiser Group PLC  | RKT LN    | Staples       | 95%            |
| AstraZeneca PLC              | AZN LN    | Health care   | 95%            |
| Standard Chartered PLC       | STAN LN   | Financials    | 94%            |
| RELX PLC                     | REL LN    | Industrials   | 94%            |
| ConvaTec Group PLC           | CTEC LN   | Health care   | 93%            |
| Smith & Nephew PLC           | SN/ LN    | Health care   | 92%            |
| Informa PLC                  | INF LN    | Comm. Svcs    | 92%            |
| Imperial Brands PLC          | IMB LN    | Staples       | 92%            |
| Rolls-Royce Holdings PLC     | RR/ LN    | Industrials   | 90%            |
| Burberry Group PLC           | BRBY LN   | Discretionary | 90%            |
| Pearson PLC                  | PERSON LN | Discretionary | 89%            |
| WPP PLC                      | WPP LN    | Comm. Svcs    | 87%            |
| Halma PLC                    | HLMA LN   | IT            | 84%            |
| Hiscox Ltd                   | HSX LN    | Financials    | 80%            |
| Sage Group PLC/The           | SGE LN    | IT            | 80%            |
| HSBC Holdings PLC            | HSBA LN   | Financials    | 67%            |
| JD Sports Fashion PLC        | JD/ LN    | Discretionary | 60%            |

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

## d) UK domestic plays

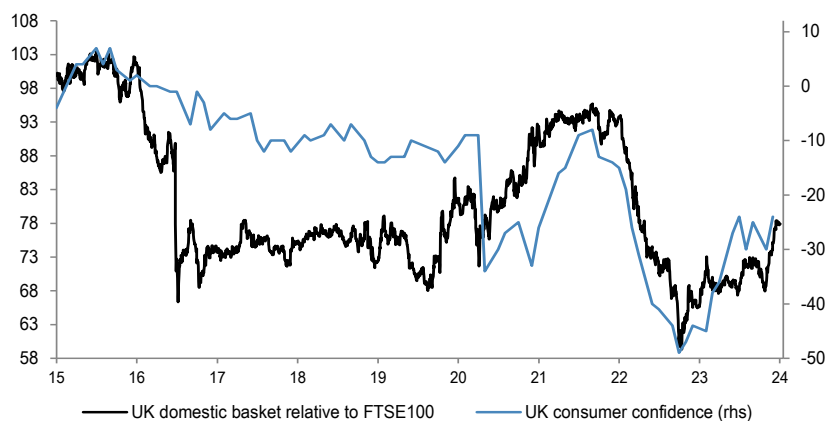
- Domestic stocks benefitted from the domestic reopening. However, we didn't like them last year, and they should stay under pressure.

### UK Domestic basket relative to Exporters



Source: Datastream

### UK Domestic basket relative and confidence



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

### JPM UK Domestic - JPDEUKDM

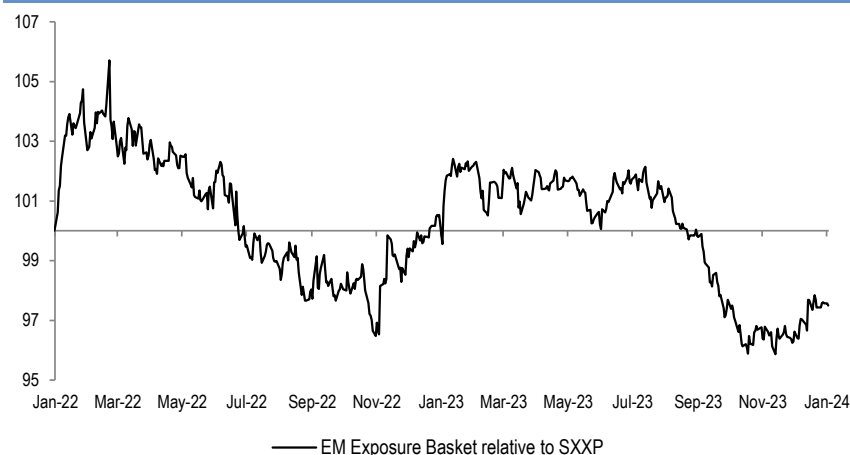
| Name                         | Ticker  | GICS Sector   | UK exposure |
|------------------------------|---------|---------------|-------------|
| Barratt Developments PLC     | BDEV LN | Discretionary | 100%        |
| Berkeley Group Holdings PLC  | BKG LN  | Discretionary | 100%        |
| Persimmon PLC                | PSN LN  | Discretionary | 100%        |
| J Sainsbury PLC              | SBRY LN | Staples       | 100%        |
| Rightmove PLC                | RMV LN  | Comm. Svcs    | 100%        |
| British Land Co PLC/The      | BLND LN | Real Estate   | 100%        |
| Land Securities Group PLC    | LAND LN | Real Estate   | 100%        |
| Auto Trader Group PLC        | AUTO LN | Comm. Svcs    | 100%        |
| M&G PLC                      | MNG LN  | Financials    | 99%         |
| Taylor Wimpey PLC            | TW/ LN  | Discretionary | 97%         |
| Whitbread PLC                | WTB LN  | Discretionary | 96%         |
| Lloyds Banking Group PLC     | LLOY LN | Financials    | 95%         |
| NatWest Group PLC            | NWG LN  | Financials    | 95%         |
| Phoenix Group Holdings PLC   | PHNX LN | Financials    | 95%         |
| BT Group PLC                 | BT/A LN | Comm. Svcs    | 95%         |
| Tesco PLC                    | TSCO LN | Staples       | 92%         |
| B&M European Value Retail SA | BME LN  | Discretionary | 91%         |
| Marks & Spencer Group PLC    | MKS LN  | Staples       | 91%         |
| Legal & General Group PLC    | LGEN LN | Financials    | 90%         |
| Centrica PLC                 | CNA LN  | Utilities     | 90%         |
| Next PLC                     | NXT LN  | Discretionary | 84%         |
| Ocado Group PLC              | OCDO LN | Staples       | 80%         |
| Admiral Group PLC            | ADM LN  | Financials    | 76%         |
| Aviva PLC                    | AV/ LN  | Financials    | 70%         |
| ITV PLC                      | ITV LN  | Comm. Svcs    | 64%         |
| Barclays PLC                 | BARC LN | Financials    | 51%         |
| Entain PLC                   | ENT LN  | Discretionary | 45%         |
| easyJet PLC                  | EZJ LN  | Industrials   | 44%         |

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

## 9) EM exposure

- Our EM exposure basket comprises of stocks with the highest exposure to the region, and most geared to EM growth.

EM exposure basket price relative



Source: Bloomberg Finance L.P.

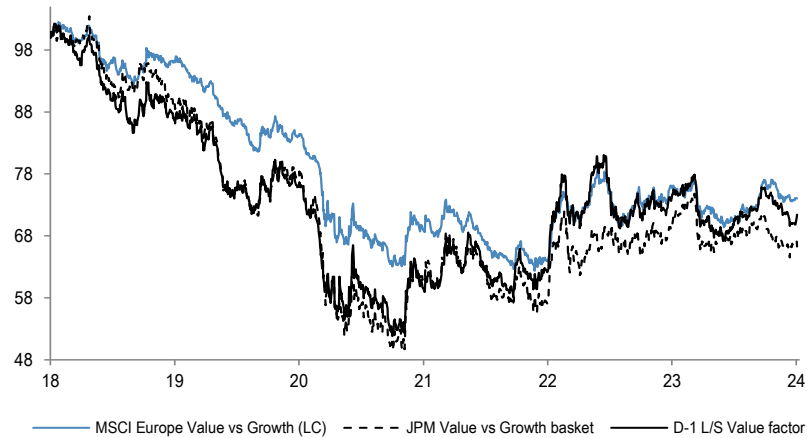
### JPM EM exposure - JPDEEMEX

| Name                            | Ticker   | Sector        | EM exposure |
|---------------------------------|----------|---------------|-------------|
| Prudential PLC                  | PRU LN   | Financials    | 100%        |
| OPAP SA                         | OPAP GA  | Discretionary | 100%        |
| Anglo American PLC              | AAL LN   | Materials     | 70%         |
| Coca-Cola HBC AG                | CCH LN   | Staples       | 65%         |
| Anheuser-Busch InBev SA/NV      | ABI BB   | Staples       | 62%         |
| Pernod Ricard SA                | RI FP    | Staples       | 60%         |
| Rio Tinto PLC                   | RIO LN   | Materials     | 60%         |
| Unilever PLC                    | ULVR LN  | Staples       | 58%         |
| Swatch Group AG/The             | UHR SW   | Discretionary | 58%         |
| Wartsila OYJ Abp                | WRT1V FH | Industrials   | 56%         |
| MTU Aero Engines AG             | MTX GR   | Industrials   | 55%         |
| Cie Financiere Richemont SA     | CFR SW   | Discretionary | 50%         |
| Carlsberg AS                    | CARLB DC | Staples       | 50%         |
| Heineken NV                     | HEIA NA  | Staples       | 50%         |
| Antofagasta PLC                 | ANTO LN  | Materials     | 50%         |
| Agas SA/NV                      | AGS BB   | Financials    | 50%         |
| Hermes International SCA        | RMS FP   | Discretionary | 49%         |
| Epiroc AB                       | EPIA SS  | Industrials   | 46%         |
| LVMH Moet Hennessy Louis Vuitt  | MC FP    | Discretionary | 46%         |
| Airbus SE                       | AIR FP   | Industrials   | 45%         |
| Accor SA                        | AC FP    | Discretionary | 45%         |
| Kering SA                       | KER FP   | Discretionary | 44%         |
| DSM-Firmenich AG                | DSFIR NA | Materials     | 44%         |
| Akzo Nobel NV                   | AKZA NA  | Materials     | 43%         |
| Umicore SA                      | UMI BB   | Materials     | 43%         |
| Engie SA                        | ENGI FP  | Utilities     | 43%         |
| Burberry Group PLC              | BRBY LN  | Discretionary | 42%         |
| Nokia Oyj                       | NOKIA FH | IT            | 42%         |
| Givaudan SA                     | GIVN SW  | Materials     | 42%         |
| Banco Santander SA              | SAN SM   | Financials    | 40%         |
| ABB Ltd                         | ABBN SW  | Industrials   | 40%         |
| Spirax-Sarco Engineering PLC    | SPX LN   | Industrials   | 40%         |
| Remy Cointreau SA               | RCO FP   | Staples       | 40%         |
| Atlas Copco AB                  | ATCOA SS | Industrials   | 39%         |
| Covestro AG                     | 1COV GR  | Materials     | 38%         |
| adidas AG                       | ADS GR   | Discretionary | 36%         |
| KBC Group NV                    | KBC BB   | Financials    | 36%         |
| Telefonaktiebolaget LM Ericsson | ERICB SS | IT            | 36%         |
| Heidelberg Materials AG         | HEI GR   | Materials     | 35%         |
| BASF SE                         | BAS GR   | Materials     | 33%         |
| Hikma Pharmaceuticals PLC       | HIK LN   | Health care   | 33%         |
| Signify NV                      | LIGHT NA | Industrials   | 31%         |
| Sanofi SA                       | SAN FP   | Health care   | 30%         |
| Siemens AG                      | SIE GR   | Industrials   | 28%         |
| Edenred SE                      | EDEN FP  | Financials    | 28%         |
| AstraZeneca PLC                 | AZN LN   | Health care   | 27%         |
| Carrefour SA                    | CA FP    | Staples       | 26%         |
| Moncler SpA                     | MONC IM  | Discretionary | 25%         |
| Legrand SA                      | LR FP    | Industrials   | 25%         |
| InterContinental Hotels Group   | IHG LN   | Discretionary | 25%         |
| Sodexo SA                       | SW FP    | Discretionary | 25%         |
| Puma SE                         | PUM GR   | Discretionary | 25%         |
| Halma PLC                       | HLMA LN  | IT            | 24%         |
| Allianz SE                      | ALV GR   | Financials    | 24%         |
| Sika AG                         | SIKA SW  | Materials     | 22%         |
| Vodafone Group PLC              | VOD LN   | Comm. Svcs    | 20%         |
| Zurich Insurance Group AG       | ZURN SW  | Financials    | 12%         |

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

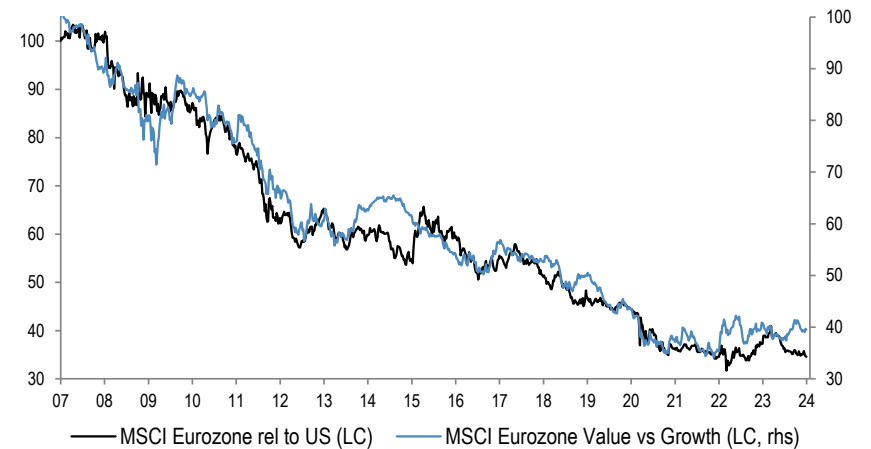
# 10) Value vs Growth: Style leadership is closely linked to the direction of bond yields...

Value style performance vs Growth



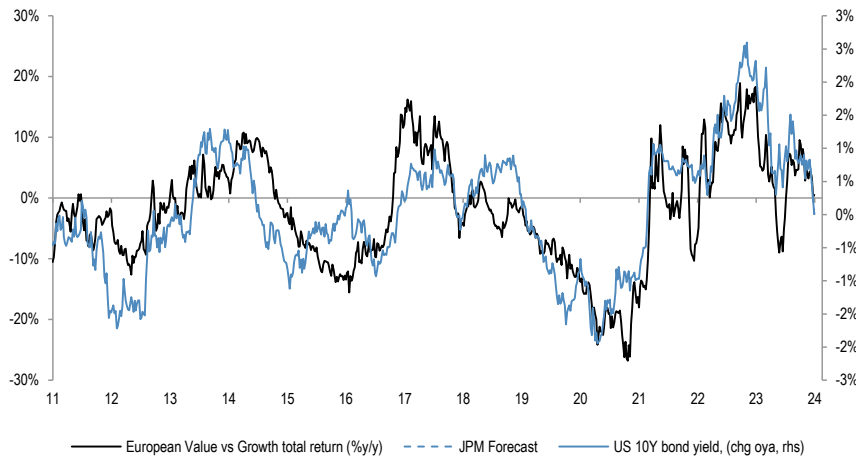
Source: Bloomberg Finance L.P., J.P. Morgan

Eurozone vs US and Value vs Growth



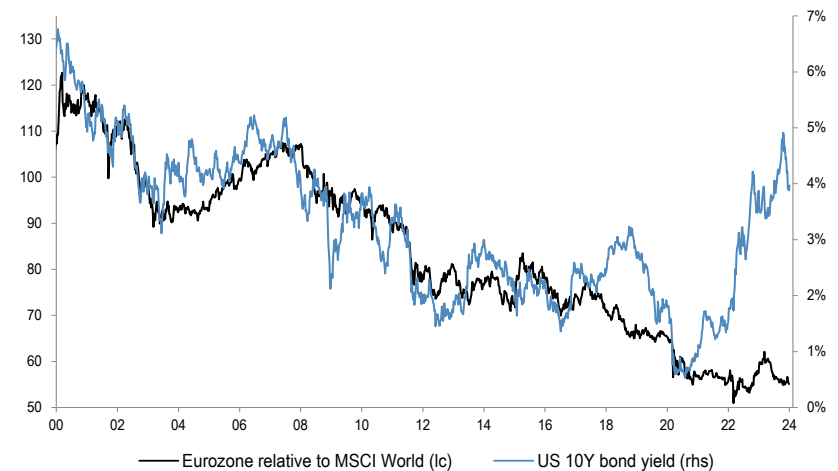
Source: Datastream

MSCI Europe Value vs Growth and US bond yields



Source: Datastream

Eurozone relative to World and US 10Y bond yield



Source: Datastream



## ...Value valuations remain attractive

### European Value vs Growth trailing P/E



Source: Datastream

### MSCI Europe - Value and Growth sectoral composition

|               | Sector Weights |       |        |                 |
|---------------|----------------|-------|--------|-----------------|
|               | MSCI Europe    | Value | Growth | Value vs Growth |
| Financials    | 17.7%          | 28.9% | 6.3%   | 22.6%           |
| Energy        | 6.5%           | 12.5% | 0.5%   | 12.0%           |
| Utilities     | 4.3%           | 7.7%  | 0.9%   | 6.9%            |
| Real Estate   | 7.1%           | 9.2%  | 4.9%   | 4.4%            |
| Com. Services | 3.2%           | 4.8%  | 1.6%   | 3.2%            |
| Materials     | 0.8%           | 1.4%  | 0.1%   | 1.3%            |
| Industrials   | 16.0%          | 12.0% | 20.0%  | -8.1%           |
| Staples       | 12.4%          | 8.0%  | 16.8%  | -8.8%           |
| Discretionary | 10.5%          | 5.4%  | 15.7%  | -10.2%          |
| IT            | 14.8%          | 9.2%  | 20.5%  | -11.2%          |
| Healthcare    | 6.7%           | 0.8%  | 12.8%  | -12.0%          |

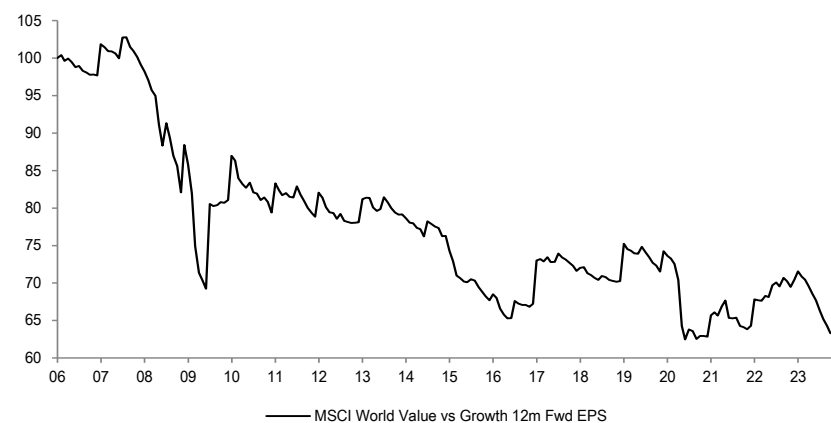
Source: Datastream

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



Source: Datastream

### MSCI World Value vs Growth EPS momentum



Source: Datastream

## a) European Value and Growth baskets

### JPM European Value - JPDEVALU

| Name                          | Ticker   | Sector        | Price/ Book |
|-------------------------------|----------|---------------|-------------|
| VODAFONE GROUP                | VOD LN   | Comm. Svcs    | 0.3         |
| PORSCHE AML.HLDG. (XET) PREF. | PAH3 GR  | Discretionary | 0.3         |
| SOCIETE GENERALE              | GLE FP   | Financials    | 0.3         |
| STANDARD CHARTERED            | STAN LN  | Financials    | 0.3         |
| RENAULT                       | RNO FP   | Discretionary | 0.3         |
| DEUTSCHE BANK (XET)           | DBK GR   | Financials    | 0.4         |
| WORLDLINE                     | WLN FP   | Financials    | 0.4         |
| BARCLAYS                      | BARC LN  | Financials    | 0.4         |
| SIEMENS ENERGY N (XET)        | ENR GR   | Industrials   | 0.4         |
| SMITH & NEPHEW                | SN/ LN   | Health care   | 0.4         |
| NATWEST GROUP                 | NWG LN   | Financials    | 0.5         |
| COMMERZBANK (XET)             | CBK GR   | Financials    | 0.5         |
| LEG IMMOBILIEN (XET)          | LEG GR   | Real Estate   | 0.5         |
| ALSTOM                        | ALO FP   | Industrials   | 0.6         |
| BMW PREF. (XET)               | BMW GR   | Discretionary | 0.6         |
| KINGFISHER                    | KGF LN   | Discretionary | 0.7         |
| FRESENIUS MED.CARE (XET)      | FME GR   | Health care   | 0.7         |
| FRESENIUS (XET)               | FRE GR   | Health care   | 0.7         |
| REPSOL YPF                    | REP SM   | Energy        | 0.7         |
| STORA ENSO R                  | STERV FH | Materials     | 0.7         |
| BRITISH AMERICAN TOBACCO      | BATS LN  | Staples       | 0.8         |
| EVONIK INDUSTRIES (XET)       | EVK GR   | Materials     | 0.8         |
| ANGLO AMERICAN                | AAL LN   | Materials     | 0.8         |
| OMV                           | OMV AV   | Energy        | 0.8         |
| SAINSBURY J                   | SBRY LN  | Staples       | 0.9         |
| RWE (XET)                     | RWE GR   | Utilities     | 0.9         |
| BAYER (XET)                   | BAYN GR  | Health care   | 1.0         |
| DEUTSCHE LUFTHANSA (XET)      | LHA GR   | Industrials   | 1.1         |
| NATIONAL GRID                 | NG/ LN   | Utilities     | 1.1         |
| CARREFOUR                     | CA FP    | Staples       | 1.1         |
| SKANSKA B                     | SKAB SS  | Industrials   | 1.2         |
| DAIMLER TRUCK (XET) HOLDING E | DTG GR   | Industrials   | 1.2         |
| SAINT GOBAIN                  | SGO FP   | Industrials   | 1.2         |
| ERICSSON B                    | ERICB SS | IT            | 1.2         |
| GRIFOLS ORD CL A              | GRF SM   | Health care   | 1.3         |
| PHILIPS ELTN.KONINKLIJKE      | PHIA NA  | Health care   | 1.3         |
| HENKEL (XET)                  | HEN3 GR  | Staples       | 1.3         |
| TESCO                         | TSCO LN  | Staples       | 1.3         |
| HEXAGON B                     | HEXAB SS | IT            | 2.3         |
| STMICROELECTRONICS            | STMPA FP | IT            | 2.8         |

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

### JPM European Growth - JPDEGROW

| Name                        | Ticker    | Sector        | Price/ Book |
|-----------------------------|-----------|---------------|-------------|
| NOVO NORDISK 'B'            | NOVOB DC  | Health care   | 37.4        |
| FERRARI (MIL)               | RACE IM   | Discretionary | 30.4        |
| UNILEVER (UK)               | ULVR LN   | Staples       | 27.6        |
| ASML HOLDING                | ASML NA   | IT            | 21.4        |
| JD SPORTS FASHION           | JD/ LN    | Discretionary | 16.4        |
| HERMES INTL.                | RMS FP    | Discretionary | 15.8        |
| RELX                        | REL LN    | Industrials   | 15.0        |
| BE SEMICONDUCTOR INDUSTRIES | BESI NA   | IT            | 14.3        |
| VAT GROUP                   | VACN SW   | Industrials   | 13.8        |
| WOLTERS KLUWER              | WKL NA    | Industrials   | 13.2        |
| ADYEN                       | ADYEN NA  | Financials    | 12.7        |
| PARTNERS GROUP HOLDING      | PGHN SW   | Financials    | 11.3        |
| PANDORA                     | PNDORA DC | Discretionary | 11.0        |
| GEBERIT 'R'                 | GBN SW    | Industrials   | 10.3        |
| TEMENOS N                   | TEMN SW   | IT            | 9.4         |
| ATLAS COPCO A               | ATCOA SS  | Industrials   | 9.3         |
| COLOPLAST B                 | COLOB DC  | Health care   | 9.2         |
| CENTRICA                    | CNA LN    | Utilities     | 8.8         |
| DIAGEO                      | DGE LN    | Staples       | 8.3         |
| L'OREAL                     | OR FP     | Staples       | 8.2         |
| AIRBUS                      | AIR FP    | Industrials   | 7.9         |
| ROCHE HOLDINGS 'B'          | ROG SW    | Health care   | 7.2         |
| SIKA                        | SIKA SW   | Materials     | 7.0         |
| NOVOZYMES B                 | NZYMB DC  | Materials     | 7.0         |
| GIVAUDAN 'N'                | GIVN SW   | Materials     | 6.9         |
| DEMANT                      | DEMANT DC | Health care   | 6.9         |
| SEVERN TRENT                | SVT LN    | Utilities     | 6.8         |
| DAVIDE CAMPARI MILANO       | CPR IM    | Staples       | 6.7         |
| ADMIRAL GROUP               | ADM LN    | Financials    | 6.7         |
| RECORDATI INDUA.CHIMICA     | REC IM    | Health care   | 6.7         |
| NESTLE 'N'                  | NESN SW   | Staples       | 6.3         |
| SONOVA N                    | SOON SW   | Health care   | 6.1         |
| KPN KON                     | KPN NA    | Comm. Svcs    | 4.9         |
| HARGREAVES LANSDOWN         | HL/ LN    | Financials    | 4.8         |
| FINECOBANK SPA              | FBK IM    | Financials    | 3.8         |
| DEUTSCHE BOERSE (XET)       | DB1 GR    | Financials    | 3.6         |
| NESTE                       | NESTE FH  | Energy        | 3.1         |
| ST.JAMES'S PLACE ORD        | STJ LN    | Financials    | 2.8         |
| EQUINOR                     | EQNR NO   | Energy        | 2.2         |
| SWISS PRIME SITE            | SPSN SW   | Real Estate   | 1.0         |

## b) Beneficiaries vs Losers of rising bond yields

### JPM Rising bond yield beneficiaries - JPDERBYB

| Name                          | Ticker   | Sector        | 10Y Correlation to BY |
|-------------------------------|----------|---------------|-----------------------|
| BNP PARIBAS                   | BNP FP   | Financials    | 32%                   |
| SOCIETE GENERALE              | GLE FP   | Financials    | 32%                   |
| ABN AMRO BANK                 | ABN NA   | Financials    | 31%                   |
| COMMERZBANK (XET)             | CBK GR   | Financials    | 29%                   |
| CREDIT AGRICOLE               | ACA FP   | Financials    | 29%                   |
| UNICREDIT                     | UCG IM   | Financials    | 28%                   |
| BANCO SANTANDER               | SAN SM   | Financials    | 27%                   |
| ING GROEP                     | INGA NA  | Financials    | 26%                   |
| ARCELORMITTAL                 | MT NA    | Materials     | 25%                   |
| AXA                           | CS FP    | Financials    | 25%                   |
| RENAULT                       | RNO FP   | Discretionary | 25%                   |
| ERSTE GROUP BANK              | EBS AV   | Financials    | 24%                   |
| KBC GROUP                     | KBC BB   | Financials    | 24%                   |
| BBV.ARGENTARIA                | BBVA SM  | Financials    | 23%                   |
| NN GROUP                      | NN NA    | Financials    | 23%                   |
| UBS GROUP                     | UBSG SW  | Financials    | 22%                   |
| HSBC HOLDINGS                 | HSBA LN  | Financials    | 22%                   |
| CNH INDUSTRIAL                | CNHI IM  | Industrials   | 22%                   |
| INTESA SANPAOLO               | ISP IM   | Financials    | 22%                   |
| PORSCHE AML.HLDG. (XET) PREF. | PAH3 GR  | Discretionary | 21%                   |
| STANDARD CHARTERED            | STAN LN  | Financials    | 20%                   |
| TENARIS                       | TEN IM   | Energy        | 20%                   |
| JULIUS BAER GRUPPE            | BAER SW  | Financials    | 20%                   |
| METSO CORPORATION             | METSO FH | Industrials   | 20%                   |
| DNB BANK                      | DNB NO   | Financials    | 19%                   |
| BARCLAYS                      | BARC LN  | Financials    | 19%                   |
| AVIVA                         | AVI LN   | Financials    | 19%                   |
| CAIXABANK                     | CABK SM  | Financials    | 19%                   |
| MERCEDES-BENZ GROUP(XET) N    | MBG GR   | Discretionary | 19%                   |
| BANK OF IRELAND GROUP         | BIRG ID  | Financials    | 18%                   |
| BASF (XET)                    | BAS GR   | Materials     | 17%                   |
| ARKEMA                        | AKE FP   | Materials     | 17%                   |
| NATWEST GROUP                 | NWG LN   | Financials    | 17%                   |
| AIB GROUP                     | AIBG ID  | Financials    | 17%                   |
| REPSOL YPF                    | REP SM   | Energy        | 17%                   |
| VOLVO A                       | VOLVB SS | Industrials   | 17%                   |
| BMW PREF. (XET)               | BMW GR   | Discretionary | 16%                   |
| HEIDELBERG (XET) MATERIALS    | HEI GR   | Materials     | 16%                   |
| ABB LTD N                     | ABBN SW  | Industrials   | 16%                   |
| MEDIOBANCA BC.FIN             | MB IM    | Financials    | 16%                   |

### JPM Rising bond yield losers - JPDERBYL

| Name                     | Ticker     | Sector        | 10Y Correlation to BY |
|--------------------------|------------|---------------|-----------------------|
| VONOVIA (XET)            | VNA GR     | Real Estate   | -34%                  |
| NATIONAL GRID            | NGI LN     | Utilities     | -34%                  |
| LEG IMMOBILIE (XET)      | LEG GR     | Real Estate   | -34%                  |
| CELLNEX TELECOM          | CLNX SM    | Comm. Svcs    | -32%                  |
| NESTLE 'N'               | NESN SW    | Staples       | -31%                  |
| SWISS PRIME SITE         | SPSN SW    | Real Estate   | -30%                  |
| UNITED UTILITIES GROUP   | UU/ LN     | Utilities     | -30%                  |
| INFRASTRUTTURE WIRELESS  | INW IM     | Comm. Svcs    | -29%                  |
| UNILEVER (UK)            | ULVR LN    | Staples       | -28%                  |
| SEVERN TRENT             | SVT LN     | Utilities     | -27%                  |
| TERNA RETE ELETTRICA NAZ | TRN IM     | Utilities     | -27%                  |
| SNAM                     | SRG IM     | Utilities     | -26%                  |
| GIVAUDAN 'N'             | GIVN SW    | Materials     | -26%                  |
| SSE                      | SSE LN     | Utilities     | -25%                  |
| RECKITT BENCKISER GROUP  | RKT LN     | Staples       | -25%                  |
| BARRY CALLEBAUT          | BARN SW    | Staples       | -24%                  |
| FASTIGHETS BALDER B      | BALDB SS   | Real Estate   | -24%                  |
| L'OREAL                  | OR FP      | Staples       | -24%                  |
| ESSITY B                 | ESSITYB SS | Staples       | -23%                  |
| RELX                     | REL LN     | Industrials   | -23%                  |
| DIAGEO                   | DGE LN     | Staples       | -22%                  |
| ASTRAZENECA              | AZN LN     | Health care   | -22%                  |
| RECORDATI INDUA.CHIMICA  | REC IM     | Health care   | -22%                  |
| BEIERSDORF (XET)         | BEI GR     | Staples       | -22%                  |
| GLAXOSMITHKLINE          | GSK LN     | Health care   | -22%                  |
| CHRISTIAN HANSEN HOLDING | CHR DC     | Materials     | -22%                  |
| SWISSCOM 'R'             | SCMN SW    | Comm. Svcs    | -22%                  |
| ROCHE HOLDINGS 'B'       | ROG SW     | Health care   | -22%                  |
| CARL ZEISS MEDITEC (XET) | AFX GR     | Health care   | -21%                  |
| SYMRISE (XET)            | SY1 GR     | Materials     | -21%                  |
| COLOPLAST B              | COLOB DC   | Health care   | -20%                  |
| NOVO NORDISK 'B'         | NOVOB DC   | Health care   | -20%                  |
| TELENOR                  | TEL NO     | Comm. Svcs    | -20%                  |
| ORSTED                   | ORSTED DC  | Utilities     | -19%                  |
| HERMES INTL.             | RMS FP     | Discretionary | -19%                  |
| ESSILORLUXOTTICA         | EL FP      | Health care   | -19%                  |
| ENDESA                   | ELE SM     | Utilities     | -19%                  |
| DAVIDE CAMPARI MILANO    | CPR IM     | Staples       | -18%                  |
| ENAGAS                   | ENG SM     | Utilities     | -18%                  |
| IMPERIAL BRANDS          | IMB LN     | Staples       | -18%                  |

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

## c) Beneficiaries vs Losers of rising oil prices

### JPM Rising oil prices beneficiaries - JPDEOILW

| Name                          | Ticker     | Sector        | Correlation to Oil |
|-------------------------------|------------|---------------|--------------------|
| ARCELORMITTAL                 | MT NA      | Materials     | 63%                |
| TENARIS                       | TEN IM     | Energy        | 60%                |
| REPSOL YPF                    | REP SM     | Energy        | 57%                |
| CNH INDUSTRIAL                | CNHI IM    | Industrials   | 55%                |
| ANGLO AMERICAN                | AAL LN     | Materials     | 52%                |
| PORSCHE AML.HLDG. (XET) PREF. | PAH3 GR    | Discretionary | 49%                |
| EQUINOR                       | EQNR NO    | Energy        | 48%                |
| ENI                           | ENI IM     | Energy        | 48%                |
| STANDARD CHARTERED            | STAN LN    | Financials    | 47%                |
| SHELL (LON)                   | SHEL LN    | Energy        | 47%                |
| OCI                           | OCI NA     | Materials     | 45%                |
| OMV                           | OMV AV     | Energy        | 44%                |
| METSO CORPORATION             | METSO FH   | Industrials   | 44%                |
| A P MOLLER MAERSK A           | MAERSKB DC | Industrials   | 42%                |
| AVIVA                         | AV/ LN     | Financials    | 40%                |
| SAINT GOBAIN                  | SGO FP     | Industrials   | 40%                |
| BANCO SANTANDER               | SAN SM     | Financials    | 37%                |
| RIO TINTO                     | RIO LN     | Materials     | 37%                |
| NORSK HYDRO                   | NHY NO     | Materials     | 36%                |
| TOTALENERGIES                 | TTE FP     | Energy        | 35%                |
| COVESTRO (XET)                | 1COV GR    | Materials     | 35%                |
| RICHEMONT N                   | CFR SW     | Discretionary | 35%                |
| NATWEST GROUP                 | NWG LN     | Financials    | 34%                |
| DASSAULT AVIATION             | AM FP      | Industrials   | 34%                |
| BP                            | BP/ LN     | Energy        | 33%                |
| MERCEDES-BENZ GROUP(XET) N    | MBG GR     | Discretionary | 33%                |
| AIRBUS                        | AIR FP     | Industrials   | 33%                |
| BBV.ARGENTARIA                | BBVA SM    | Financials    | 32%                |
| ANTOFAGASTA                   | ANTO LN    | Materials     | 32%                |
| AIB GROUP                     | AIBG ID    | Financials    | 32%                |
| BNP PARIBAS                   | BNP FP     | Financials    | 32%                |
| BASF (XET)                    | BAS GR     | Materials     | 31%                |
| BANK OF IRELAND GROUP         | BIRG ID    | Financials    | 31%                |
| DNB BANK                      | DNB NO     | Financials    | 30%                |
| THE SWATCH GROUP              | UHR SW     | Discretionary | 30%                |
| BARCLAYS                      | BARC LN    | Financials    | 30%                |
| CAIXABANK                     | CABK SM    | Financials    | 30%                |
| ING GROEP                     | INGA NA    | Financials    | 29%                |
| SOLVAY                        | SOLB BB    | Materials     | 29%                |
| ARKEMA                        | AKE FP     | Materials     | 28%                |

### JPM Rising oil prices losers - JPDEOILL

| Name                        | Ticker     | Sector        | Correlation to Oil |
|-----------------------------|------------|---------------|--------------------|
| ESSITY B                    | ESSITYB SS | Staples       | -69%               |
| HANNOVER RUECK (XET)        | HNR1 GR    | Financials    | -50%               |
| COLOPLAST B                 | COLOB DC   | Health care   | -49%               |
| KONE B                      | KNEBV FH   | Industrials   | -48%               |
| INFRASTRUTTURE WIRELESS     | INW IM     | Comm. Svcs    | -47%               |
| BIOMERIEUX                  | BIM FP     | Health care   | -44%               |
| SYMRISE (XET)               | SY1 GR     | Materials     | -44%               |
| KONINKLIJKE AHOLD DELHAIZE  | AD NA      | Staples       | -43%               |
| RECKITT BENCKISER GROUP     | RKT LN     | Staples       | -43%               |
| GENMAB                      | GMAB DC    | Health care   | -43%               |
| CELLNEX TELECOM             | CLNX SM    | Comm. Svcs    | -42%               |
| EURONEXT                    | ENX FP     | Financials    | -41%               |
| DELIVERY HERO (XET)         | DHER GR    | Discretionary | -40%               |
| CHRISTIAN HANSEN HOLDING    | CHR DC     | Materials     | -40%               |
| GIVAUDAN 'N'                | GIVN SW    | Materials     | -39%               |
| FERROVIAL                   | FER SM     | Industrials   | -39%               |
| SAGE GROUP                  | SGE LN     | IT            | -39%               |
| CHOC.LINDT &SPRUENGLI PAR   | LISN SW    | Staples       | -39%               |
| UNITED UTILITIES GROUP      | UU/ LN     | Utilities     | -39%               |
| ROCHE HOLDING               | ROG SW     | Health care   | -38%               |
| MUENCHENER RUCK. (XET)      | MUV2 GR    | Financials    | -38%               |
| UCB                         | UCB BB     | Health care   | -37%               |
| RECORDATI INDUA.CHIMICA     | REC IM     | Health care   | -37%               |
| RELX                        | REL LN     | Industrials   | -37%               |
| SWISSCOM 'R'                | SCMN SW    | Comm. Svcs    | -37%               |
| SMITH & NEPHEW              | SN/ LN     | Health care   | -37%               |
| LONDON STOCK EXCHANGE GROUP | LSEG LN    | Financials    | -36%               |
| AUTO TRADER GROUP           | AUTO LN    | Comm. Svcs    | -36%               |
| NESTLE 'N'                  | NESN SW    | Staples       | -36%               |
| L'OREAL                     | OR FP      | Staples       | -35%               |
| SAP (XET)                   | SAP GR     | IT            | -35%               |
| SEVERN TRENT                | SVT LN     | Utilities     | -35%               |
| HEINEKEN HOLDING            | HEIO NA    | Staples       | -35%               |
| HENKEL PREF. (XET)          | HEN3 GR    | Staples       | -35%               |
| HALMA                       | HLMA LN    | IT            | -34%               |
| UNILEVER (UK)               | ULVR LN    | Staples       | -34%               |
| BEIERSDORF (XET)            | BEI GR     | Staples       | -34%               |
| DIASORIN                    | DIA IM     | Health care   | -34%               |
| LEG IMMOBILIEN (XET)        | LEG GR     | Real Estate   | -34%               |
| WOLTERS KLUWER              | WKL NA     | Industrials   | -33%               |

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

## d) Beneficiaries vs Losers of rising inflation

### JPM Rising inflation beneficiaries - JPDEINFW

| Name                       | Ticker    | Sector      | Correlation to |                       |                        |          | Average correlation |
|----------------------------|-----------|-------------|----------------|-----------------------|------------------------|----------|---------------------|
|                            |           |             | Yield Curve    | US Inflation forwards | EUR Inflation Forwards | S&P GSCI |                     |
| ARCELOMITTAL               | MT NA     | Materials   | 17%            | 18%                   | 21%                    | 38%      | 23%                 |
| TENARIS                    | TEN IM    | Energy      | 11%            | 16%                   | 21%                    | 42%      | 22%                 |
| ING GROEP                  | INGA NA   | Financials  | 15%            | 21%                   | 22%                    | 18%      | 19%                 |
| SOCIETE GENERALE           | GLE FP    | Financials  | 20%            | 21%                   | 24%                    | 11%      | 19%                 |
| BNP PARIBAS                | BNP FP    | Financials  | 21%            | 24%                   | 20%                    | 11%      | 19%                 |
| KBC GROUP                  | KBC BB    | Financials  | 16%            | 27%                   | 14%                    | 16%      | 18%                 |
| ABN AMRO BANK              | ABN NA    | Financials  | 18%            | 22%                   | 21%                    | 11%      | 18%                 |
| ANGLO AMERICAN             | AAL LN    | Materials   | 11%            | 12%                   | 11%                    | 38%      | 18%                 |
| ENI                        | ENI IM    | Energy      | 13%            | 7%                    | 12%                    | 38%      | 17%                 |
| METSO CORPORATION          | METSO FH  | Industrials | 11%            | 19%                   | 17%                    | 20%      | 17%                 |
| CREDIT AGRICOLE            | ACA FP    | Financials  | 20%            | 22%                   | 17%                    | 8%       | 17%                 |
| REPSOL YPF                 | REP SM    | Energy      | 11%            | 3%                    | 16%                    | 36%      | 16%                 |
| DEUTSCHE BANK (XET)        | DBK GR    | Financials  | 14%            | 22%                   | 15%                    | 14%      | 16%                 |
| AXA                        | CS FP     | Financials  | 13%            | 18%                   | 18%                    | 17%      | 16%                 |
| NORSK HYDRO                | NHY NO    | Materials   | 8%             | 10%                   | 15%                    | 32%      | 16%                 |
| BANCO SANTANDER            | SAN SM    | Financials  | 15%            | 20%                   | 15%                    | 14%      | 16%                 |
| ANTOFAGASTA                | ANTO LN   | Materials   | 14%            | 8%                    | 9%                     | 32%      | 16%                 |
| TOTALENERGIES              | TTE FP    | Energy      | 6%             | 9%                    | 12%                    | 35%      | 15%                 |
| DNB BANK                   | DNB NO    | Financials  | 11%            | 19%                   | 9%                     | 22%      | 15%                 |
| NATWEST GROUP              | NWG LN    | Financials  | 10%            | 26%                   | 16%                    | 8%       | 15%                 |
| LEGAL & GENERAL            | LGEN LN   | Financials  | 9%             | 22%                   | 16%                    | 12%      | 15%                 |
| AVIVA                      | AV/ LN    | Financials  | 13%            | 21%                   | 8%                     | 17%      | 15%                 |
| BARCLAYS                   | BARC LN   | Financials  | 12%            | 23%                   | 14%                    | 8%       | 14%                 |
| SAINT GOBAIN               | SGO FP    | Industrials | 10%            | 12%                   | 18%                    | 17%      | 14%                 |
| JULIUS BAER GRUPPE         | BAER SW   | Financials  | 12%            | 17%                   | 17%                    | 10%      | 14%                 |
| ALLIANZ (XET)              | ALV GR    | Financials  | 3%             | 21%                   | 19%                    | 13%      | 14%                 |
| ERSTE GROUP BANK           | EBS AV    | Financials  | 9%             | 18%                   | 11%                    | 16%      | 14%                 |
| BBV.ARGENTARIA             | BBVA SM   | Financials  | 13%            | 16%                   | 16%                    | 10%      | 14%                 |
| SANDVIK                    | SAND SS   | Industrials | 14%            | 14%                   | 9%                     | 17%      | 14%                 |
| OMV                        | OMV AV    | Energy      | 7%             | 10%                   | 6%                     | 30%      | 13%                 |
| ARKEMA                     | AKE FP    | Materials   | 12%            | 12%                   | 14%                    | 15%      | 13%                 |
| BASF (XET)                 | BAS GR    | Materials   | 16%            | 10%                   | 8%                     | 20%      | 13%                 |
| UNICREDIT                  | UCG IM    | Financials  | 15%            | 15%                   | 13%                    | 9%       | 13%                 |
| AERCAP HOLDINGS N V        | AER US    | Industrials | 7%             | 10%                   | 14%                    | 21%      | 13%                 |
| RIO TINTO                  | RIO LN    | Materials   | 17%            | -6%                   | 7%                     | 33%      | 13%                 |
| OCI                        | OCI NA    | Materials   | 2%             | 14%                   | 10%                    | 24%      | 13%                 |
| COMMERZBANK (XET)          | CBK GR    | Financials  | 11%            | 15%                   | 18%                    | 7%       | 12%                 |
| HEIDELBERG (XET) MATERIALS | HEI GR    | Materials   | 16%            | 7%                    | 11%                    | 14%      | 12%                 |
| DANSKE BANK                | DANSKE DC | Financials  | 4%             | 18%                   | 19%                    | 7%       | 12%                 |
| INTESA SANPAOLO            | ISP IM    | Financials  | 15%            | 13%                   | 13%                    | 6%       | 12%                 |

### JPM Rising inflation losers - JPDEINFL

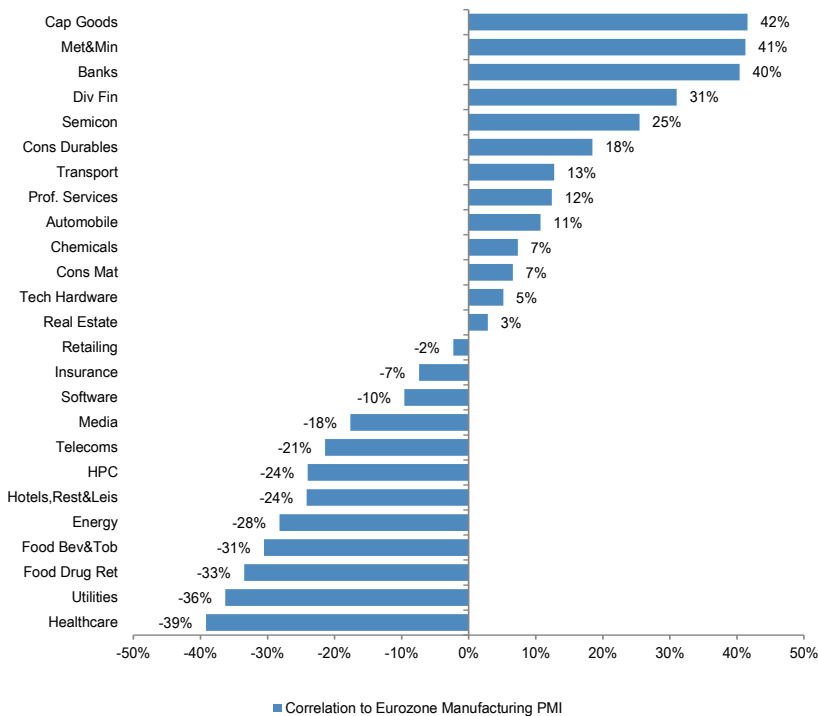
| Name                     | Ticker     | Sector      | Correlation to |                       |                        |          | Average correlation |
|--------------------------|------------|-------------|----------------|-----------------------|------------------------|----------|---------------------|
|                          |            |             | Yield Curve    | US Inflation forwards | EUR Inflation Forwards | S&P GSCI |                     |
| NESTLE 'N'               | NESN SW    | Staples     | -16%           | -20%                  | -20%                   | -30%     | -22%                |
| UNILEVER (UK)            | ULVR LN    | Staples     | -18%           | -21%                  | -18%                   | -28%     | -21%                |
| RECKITT BENCKISER GROUP  | RKT LN     | Staples     | -16%           | -15%                  | -18%                   | -36%     | -21%                |
| NATIONAL GRID            | NG/ LN     | Utilities   | -21%           | -15%                  | -21%                   | -27%     | -21%                |
| SWISSCOM 'R'             | SCMN SW    | Comm. Svcs  | -15%           | -19%                  | -14%                   | -34%     | -21%                |
| ESSITY B                 | ESSITYB SS | Staples     | -8%            | -17%                  | -26%                   | -29%     | -20%                |
| GLAXOSMITHKLINE          | GSK LN     | Health care | -17%           | -14%                  | -15%                   | -32%     | -19%                |
| NOVARTIS 'R'             | NOVN SW    | Health care | -12%           | -16%                  | -20%                   | -25%     | -18%                |
| DANONE                   | BN FP      | Staples     | -11%           | -20%                  | -16%                   | -26%     | -18%                |
| RECORDATI INDUA.CHIMICA  | REC IM     | Health care | -10%           | -22%                  | -11%                   | -25%     | -17%                |
| TERNA RETE ELETTRICA NAZ | TRN IM     | Utilities   | -12%           | -21%                  | -14%                   | -21%     | -17%                |
| DIAGEO                   | DGE LN     | Staples     | -12%           | -16%                  | -16%                   | -24%     | -17%                |
| SWISS PRIME SITE         | SPSN SW    | Real Estate | -13%           | -15%                  | -17%                   | -23%     | -17%                |
| ROCHE HOLDINGS 'B'       | ROG SW     | Health care | -13%           | -15%                  | -12%                   | -27%     | -17%                |
| UNITED UTILITIES GROUP   | UU/ LN     | Utilities   | -19%           | -12%                  | -14%                   | -22%     | -17%                |
| SEVERN TRENT             | SVT LN     | Utilities   | -14%           | -15%                  | -20%                   | -18%     | -16%                |
| ASTRAZENECA              | AZN LN     | Health care | -18%           | -9%                   | -15%                   | -24%     | -16%                |
| BEIERSDORF (XET)         | BEI GR     | Staples     | -12%           | -15%                  | -14%                   | -23%     | -16%                |
| BARRY CALLEBAUT          | BARN SW    | Staples     | -15%           | -15%                  | -17%                   | -18%     | -16%                |
| SNAM                     | SRG IM     | Utilities   | -12%           | -17%                  | -10%                   | -23%     | -16%                |
| INFRASTRUTTURA WIRELESS  | INW IM     | Comm. Svcs  | -15%           | -18%                  | -13%                   | -15%     | -15%                |
| COLOPLAST B              | COLOB DC   | Health care | -10%           | -11%                  | -17%                   | -21%     | -15%                |
| L'OREAL                  | OR FP      | Staples     | -10%           | -17%                  | -8%                    | -24%     | -15%                |
| IMPERIAL BRANDS          | IMB LN     | Staples     | -15%           | -10%                  | -16%                   | -17%     | -14%                |
| DIASORIN                 | DIA IM     | Health care | -4%            | -18%                  | -15%                   | -20%     | -14%                |
| FRESENIUS MED.CARE (XET) | FME GR     | Health care | -7%            | -15%                  | -11%                   | -24%     | -14%                |
| BIOMERIEUX               | BIM FP     | Health care | -9%            | -9%                   | -15%                   | -22%     | -14%                |
| VONOVIA (XET)            | VNA GR     | Real Estate | -16%           | -16%                  | -13%                   | -9%      | -14%                |
| CHOCOLADEFABRIKEN LINDT  | LISN SW    | Staples     | -5%            | -18%                  | -13%                   | -17%     | -13%                |
| ESSILORLUXOTTICA         | EL FP      | Health care | -10%           | -13%                  | -10%                   | -20%     | -13%                |
| BRITISH AMERICAN TOBACCO | BATS LN    | Staples     | -13%           | -10%                  | -13%                   | -16%     | -13%                |
| KONINKLIJKE AHOLD        | AD NA      | Staples     | -10%           | -11%                  | -3%                    | -27%     | -13%                |
| TELENOR                  | TEL NO     | Comm. Svcs  | -13%           | -15%                  | -6%                    | -15%     | -12%                |
| SSE                      | SSE LN     | Utilities   | -15%           | -9%                   | -12%                   | -14%     | -12%                |
| HEINEKEN                 | HEIA NA    | Staples     | -6%            | -17%                  | -14%                   | -10%     | -12%                |
| DAVIDE CAMPARI MILANO    | CPR IM     | Staples     | -9%            | -10%                  | -14%                   | -14%     | -12%                |
| ASSOCIATED BRIT.FOODS    | ABF LN     | Staples     | -10%           | -10%                  | -10%                   | -17%     | -12%                |
| VODAFONE GROUP           | VOD LN     | Comm. Svcs  | -10%           | -9%                   | -15%                   | -12%     | -11%                |
| HIKMA PHARMACEUTICALS    | HIK LN     | Health care | -9%            | -11%                  | -9%                    | -17%     | -11%                |
| ORION B                  | ORNBV FH   | Health care | -6%            | -9%                   | -11%                   | -18%     | -11%                |

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

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

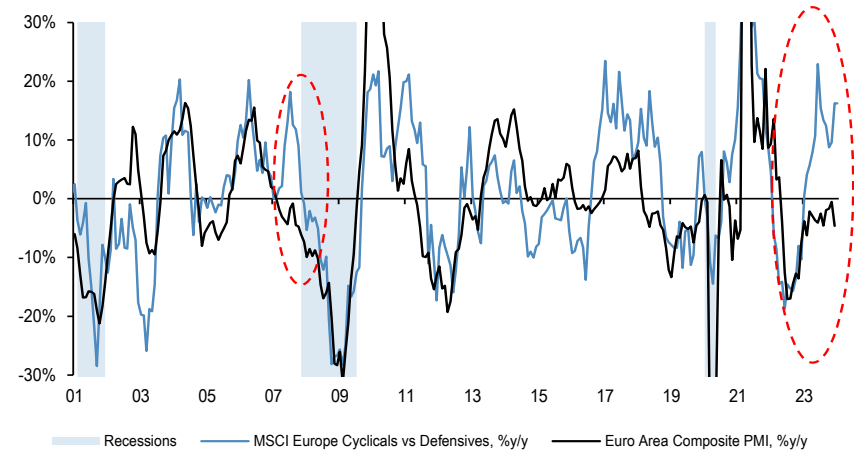
- Cyclical sectors are starting to unwind some of the rally that pushed them away from the PMIs, but the gaps are still significant. Given that, we think that the Defensive sectors look likely to catch a bid in 2024.
- At a sector level, Industrials & Financials display the highest positive correlation to PMIs.

European sectors correlation to Eurozone composite PMI



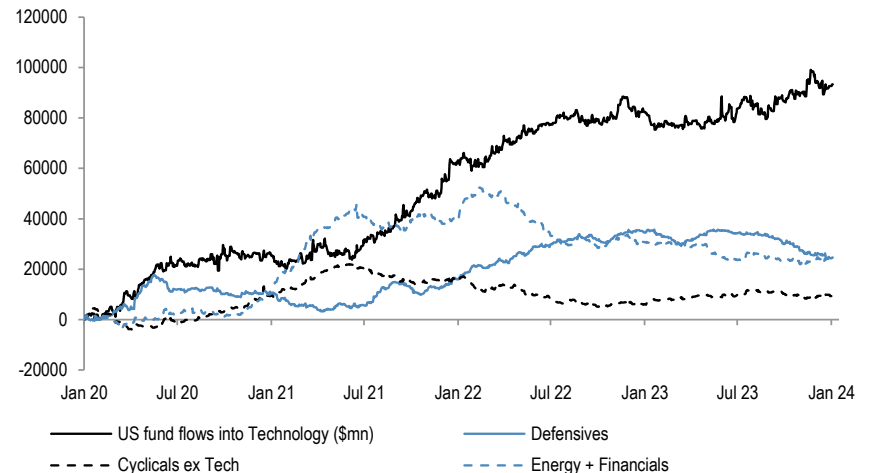
Source: S&P Global, Datastream

European Cyclical vs Defensives and PMI



Source: Datastream

Flows: US Cyclical vs Defensives



Source: Flows & Liquidity team, J.P. Morgan

# Baskets of European Cyclical and Defensive

## JPM European Cyclical - JPDEECYC

| Name                          | Ticker     | Sector        |
|-------------------------------|------------|---------------|
| RIO TINTO                     | RIO LN     | Materials     |
| BASF (XET)                    | BAS GR     | Materials     |
| CRH PLC                       | CRH LN     | Materials     |
| HOLCIM                        | HOLN SW    | Materials     |
| ANGLO AMERICAN                | AAL LN     | Materials     |
| GIVAUDAN 'N'                  | GIVN SW    | Materials     |
| EMS-CHEMIE 'N'                | EMSN SW    | Materials     |
| ANTOFAGASTA                   | ANTO LN    | Materials     |
| SIEMENS (XET)                 | SIE GR     | Industrials   |
| AIRBUS                        | AIR FP     | Industrials   |
| SAFRAN                        | SAF FP     | Industrials   |
| VINCI                         | DG FP      | Industrials   |
| ABB LTD N                     | ABBN SW    | Industrials   |
| DEUTSCHE POST (XET)           | DHL GR     | Industrials   |
| DSV                           | DSV DC     | Industrials   |
| VOLVO B                       | VOLVB SS   | Industrials   |
| SAINT GOBAIN                  | SGO FP     | Industrials   |
| ASSA ABLOY B                  | ASSAB SS   | Industrials   |
| SANDVIK                       | SAND SS    | Industrials   |
| KONE B                        | KNEBV FH   | Industrials   |
| AERCAP HOLDINGS N V           | AER US     | Industrials   |
| A P MOLLER MAERSK A           | MAERSKB DC | Industrials   |
| HERMES INTL.                  | RMS FP     | Discretionary |
| MERCEDES-BENZ GROUP(XET) N    | MBG GR     | Discretionary |
| STELLANTIS NV                 | STLAM IM   | Discretionary |
| RICHEMONT N                   | CFR SW     | Discretionary |
| BMW (XET)                     | BMW GR     | Discretionary |
| NEXT                          | NXT LN     | Discretionary |
| PANDORA                       | PNDORA DC  | Discretionary |
| RENAULT                       | RNO FP     | Discretionary |
| PUMA (XET)                    | PUM GR     | Discretionary |
| JD SPORTS FASHION             | JD/ LN     | Discretionary |
| DELIVERY HERO (XET)           | DHER GR    | Discretionary |
| BURBERRY GROUP                | BRBY LN    | Discretionary |
| PORSCHE AML.HLDG. (XET) PREF. | PAH3 GR    | Discretionary |
| ZALANDO (XET)                 | ZAL GR     | Discretionary |
| ASML HOLDING                  | ASML NA    | IT            |
| INFINEON TECHS. (XET)         | IFX GR     | IT            |
| CAPGEMINI                     | CAP FP     | IT            |
| ASM INTERNATIONAL             | ASM NA     | IT            |

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

## JPM European Defensive - JPDEEDEF

| Name                                | Ticker    | Sector      |
|-------------------------------------|-----------|-------------|
| L'OREAL                             | OR FP     | Staples     |
| UNILEVER (UK)                       | ULVR LN   | Staples     |
| ANHEUSER-BUSCH INBEV                | ABI BB    | Staples     |
| BRITISH AMERICAN TOBACCO            | BATS LN   | Staples     |
| PERNOD-RICARD                       | RI FP     | Staples     |
| BEIERSDORF (XET)                    | BEI GR    | Staples     |
| COCA COLA HBC                       | CCH LN    | Staples     |
| KONINKLIJKE AHOLD DELHAIZE          | AD NA     | Staples     |
| ASSOCIATED BRIT.FOODS               | ABF LN    | Staples     |
| IMPERIAL BRANDS                     | IMB LN    | Staples     |
| CHOCOLADEFABRIKEN LINDT & SPRUENGLI | LISN SW   | Staples     |
| HENKEL PREF. (XET)                  | HEN3 GR   | Staples     |
| NOVO NORDISK 'B'                    | NOVOB DC  | Health care |
| NOVARTIS 'R'                        | NOVN SW   | Health care |
| SANOFI                              | SAN FP    | Health care |
| GLAXOSMITHKLINE                     | GSK LN    | Health care |
| BAYER (XET)                         | BAYN GR   | Health care |
| ROCHE HOLDINGS 'B'                  | ROG SW    | Health care |
| SWISSCOM 'R'                        | SCMN SW   | Comm. Svcs  |
| CELLNEX TELECOM                     | CLNX SM   | Comm. Svcs  |
| PUBLICIS GROUPE                     | PUB FP    | Comm. Svcs  |
| BT GROUP                            | BT/A LN   | Comm. Svcs  |
| TELENOR                             | TEL NO    | Comm. Svcs  |
| KPN KON                             | KPN NA    | Comm. Svcs  |
| INFORMA                             | INF LN    | Comm. Svcs  |
| INFRASTRUTTURE WIRELESS             | INW IM    | Comm. Svcs  |
| VIVENDI                             | VIV FP    | Comm. Svcs  |
| TELIA COMPANY                       | TELIA SS  | Comm. Svcs  |
| TELE2 B                             | TEL2B SS  | Comm. Svcs  |
| IBERDROLA                           | IBE SM    | Utilities   |
| ENEL                                | ENEL IM   | Utilities   |
| NATIONAL GRID                       | NG/ LN    | Utilities   |
| SSE                                 | SSE LN    | Utilities   |
| ENDESA                              | ELE SM    | Utilities   |
| VEOLIA ENVIRON                      | VIE FP    | Utilities   |
| OERSTED                             | ORSTED DC | Utilities   |
| TERNA RETE ELETTRICA NAZ            | TRN IM    | Utilities   |
| SEVERN TRENT                        | SVT LN    | Utilities   |
| UNITED UTILITIES GROUP              | UU/ LN    | Utilities   |
| ACCIONA                             | ANA SM    | Utilities   |



## 11) Sustainable yield basket

- A sector neutral list of 40 high- and sustainable-yielding European stocks, with safe and higher than sector median dividends, FCF yield higher than sector median, FCF yield greater than dividend yield and dividend cover greater than 1 and strong balance sheets.

JPM Sustainable yield basket price relative



Source: Bloomberg Finance L.P.

JPM European Sustainable yield basket - JPDESDIV

| Name                            | Ticker    | Sector                 | DY    |
|---------------------------------|-----------|------------------------|-------|
| Intesa Sanpaolo SpA             | ISP IM    | Financials             | 11.7% |
| OMV AG                          | OMV AV    | Energy                 | 11.0% |
| HSBC Holdings PLC               | HSBA LN   | Financials             | 10.3% |
| NN Group NV                     | NN NA     | Financials             | 9.7%  |
| British American Tobacco PLC    | BATS LN   | Consumer Staples       | 9.7%  |
| Svenska Handelsbanken AB        | SHBA SS   | Financials             | 9.6%  |
| Swedbank AB                     | SWEDA SS  | Financials             | 9.5%  |
| Nordea Bank Abp                 | NDA SS    | Financials             | 9.3%  |
| Legal & General Group PLC       | LGEN LN   | Financials             | 9.2%  |
| Mercedes-Benz Group AG          | MBG GR    | Consumer Discretionary | 8.9%  |
| Imperial Brands PLC             | IMB LN    | Consumer Staples       | 8.6%  |
| Klepierre SA                    | LI FP     | Real Estate            | 8.1%  |
| ArcelorMittal SA                | MT NA     | Materials              | 8.0%  |
| Fortum Oyj                      | FORTUM FH | Utilities              | 7.4%  |
| BT Group PLC                    | BT/A LN   | Communication Services | 7.0%  |
| Evonik Industries AG            | EVK GR    | Materials              | 6.6%  |
| Daimler Truck Holding AG        | DTG GR    | Industrials            | 6.1%  |
| ACS Actividades de Construcción | ACS SM    | Industrials            | 6.0%  |
| WPP PLC                         | WPP LN    | Communication Services | 5.9%  |
| Bayer AG                        | BAYN GR   | Health Care            | 5.9%  |
| Bayerische Motoren Werke AG     | BMW GR    | Consumer Discretionary | 5.9%  |
| Renault SA                      | RNO FP    | Consumer Discretionary | 5.7%  |
| Valeo SE                        | FR FP     | Consumer Discretionary | 5.6%  |
| Johnson Matthey PLC             | JMAT LN   | Materials              | 5.5%  |
| Veolia Environnement SA         | VIE FP    | Utilities              | 5.5%  |
| Telefonaktiebolaget LM Ericsson | ERICB SS  | Information Technology | 5.5%  |
| Volvo AB                        | VOLVB SS  | Industrials            | 5.2%  |
| Kingfisher PLC                  | KGF LN    | Consumer Discretionary | 5.1%  |
| Infrastrutture Wireless Italia  | INW IM    | Communication Services | 5.0%  |
| Kone Oyj                        | KNEBV FH  | Industrials            | 4.9%  |
| Eiffage SA                      | FGR FP    | Industrials            | 4.8%  |
| Deutsche Post AG                | DHL GR    | Industrials            | 4.7%  |
| J Sainsbury PLC                 | SBRY LN   | Consumer Staples       | 4.7%  |
| Mowi ASA                        | MOWI NO   | Consumer Staples       | 4.5%  |
| Vinci SA                        | DG FP     | Industrials            | 4.5%  |
| Sanofi SA                       | SAN FP    | Health Care            | 4.4%  |
| Nokia Oyj                       | NOKIA FH  | Information Technology | 4.3%  |
| GSK PLC                         | GSK LN    | Health Care            | 4.3%  |
| Siemens AG                      | SIE GR    | Industrials            | 3.5%  |
| EssilorLuxottica SA             | EL FP     | Health Care            | 2.4%  |

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



## 12) European Buybacks basket

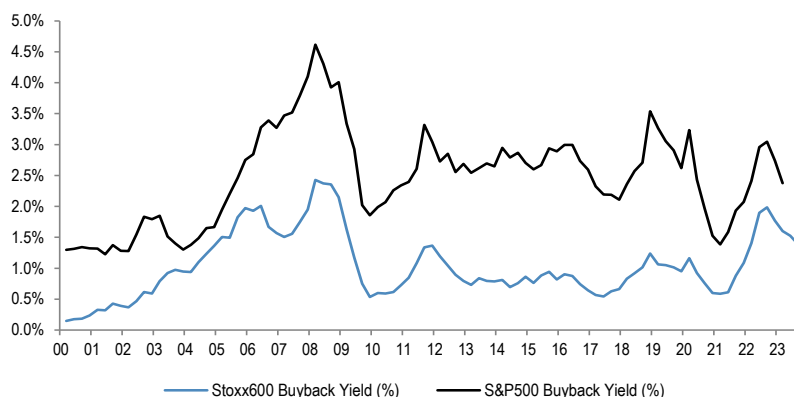
- We believe stocks engaging in buybacks will be rewarded by the market.
- We compile a list of stocks that are currently doing a buyback/are expected to do one in 2024-25.

### European buybacks price relative



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

### European and US buybacks yield



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

### JPM European Buybacks basket - JPDEEUBB

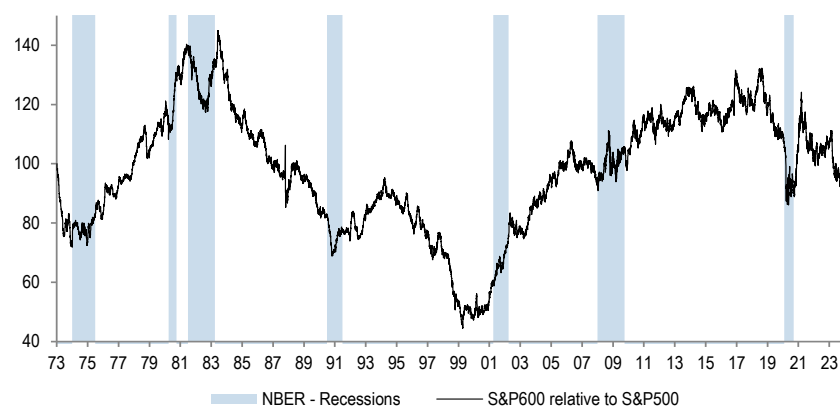
| Name                           | Ticker    | Sector        | Buyback yield |
|--------------------------------|-----------|---------------|---------------|
| UniCredit SpA                  | UCG IM    | Financials    | 9.6%          |
| ING Groep NV                   | INGA NA   | Financials    | 9.1%          |
| Rexel SA                       | RXL FP    | Industrials   | 9.0%          |
| Daimler Truck Holding AG       | DTG GR    | Industrials   | 8.3%          |
| Scout24 SE                     | G24 GR    | Comm. Svcs    | 8.0%          |
| DSV A/S                        | DSV DC    | Industrials   | 7.8%          |
| Commerzbank AG                 | CBK GR    | Financials    | 7.4%          |
| AIB Group PLC                  | AIBG ID   | Financials    | 7.3%          |
| Bank of Ireland Group PLC      | BIRG ID   | Financials    | 7.2%          |
| Burberry Group PLC             | BRBY LN   | Discretionary | 7.1%          |
| Kingfisher PLC                 | KGF LN    | Discretionary | 6.9%          |
| Cie de Saint-Gobain SA         | SGO FP    | Industrials   | 6.9%          |
| Imperial Brands PLC            | IMB LN    | Staples       | 6.8%          |
| Repsol SA                      | REP SM    | Energy        | 6.8%          |
| Standard Chartered PLC         | STAN LN   | Financials    | 6.8%          |
| Shell PLC                      | SHEL LN   | Energy        | 6.7%          |
| Mercedes-Benz Group AG         | MBG GR    | Discretionary | 6.6%          |
| HSBC Holdings PLC              | HSBA LN   | Financials    | 6.0%          |
| Barclays PLC                   | BARC LN   | Financials    | 5.8%          |
| BP PLC                         | BP/ LN    | Energy        | 5.6%          |
| Lloyds Banking Group PLC       | LLOY LN   | Financials    | 5.5%          |
| TotalEnergies SE               | TTE FP    | Energy        | 5.2%          |
| BAWAG Group AG                 | BG AV     | Financials    | 5.2%          |
| Pearson PLC                    | PSON LN   | Discretionary | 5.0%          |
| Centrica PLC                   | CNA LN    | Utilities     | 5.0%          |
| NatWest Group PLC              | NWGLN     | Financials    | 4.9%          |
| Banco Santander SA             | SAN SM    | Financials    | 4.5%          |
| Julius Baer Group Ltd          | BAER SW   | Financials    | 4.5%          |
| Carrefour SA                   | CA FP     | Staples       | 4.2%          |
| Tesco PLC                      | TSCO LN   | Staples       | 4.0%          |
| Societe Generale SA            | GLE FP    | Financials    | 3.9%          |
| Koninklijke Ahold Delhaize NV  | AD NA     | Staples       | 3.9%          |
| Banco BPM SpA                  | BAMI IM   | Financials    | 3.9%          |
| Pandora A/S                    | PNDORA DC | Discretionary | 3.7%          |
| Skandinaviska Enskilda Banken  | SEBA SS   | Financials    | 3.7%          |
| Bayerische Motoren Werke AG    | BMW GR    | Discretionary | 3.3%          |
| Stellantis NV                  | STLAM IM  | Discretionary | 3.3%          |
| Danske Bank A/S                | DANSKE DC | Financials    | 3.3%          |
| Intesa Sanpaolo SpA            | ISP IM    | Financials    | 3.2%          |
| Berkeley Group Holdings PLC    | BKG LN    | Discretionary | 3.1%          |
| Associated British Foods PLC   | ABF LN    | Staples       | 3.1%          |
| Muenchener Rueckversicherungs- | MUV2 GR   | Financials    | 3.1%          |
| Swiss Re AG                    | SREN SW   | Financials    | 3.1%          |
| Informa PLC                    | INF LN    | Comm. Svcs    | 3.0%          |
| Novo Nordisk A/S               | NOVOB DC  | Health care   | 3.0%          |
| Banco Bilbao Vizcaya Argentari | BBVA SM   | Financials    | 2.9%          |
| NN Group NV                    | NN NA     | Financials    | 2.9%          |
| Nordea Bank Abp                | NDA SS    | Financials    | 2.7%          |
| Banco de Sabadell SA           | SAB SM    | Financials    | 2.7%          |
| Aviva PLC                      | AV/ LN    | Financials    | 2.7%          |
| Novartis AG                    | NOVN SW   | Health care   | 2.7%          |
| Deutsche Bank AG               | DBK GR    | Financials    | 2.6%          |
| CaixaBank SA                   | CABK SM   | Financials    | 2.4%          |
| Heidelberg Materials AG        | HEI GR    | Materials     | 2.3%          |
| Carlsberg AS                   | CARLB DC  | Staples       | 2.3%          |
| Kerry Group PLC                | KYGA ID   | Staples       | 2.3%          |
| Brenntag SE                    | BNR GY    | Industrials   | 2.2%          |
| AXA SA                         | CS FP     | Financials    | 2.2%          |
| Coca-Cola HBC AG               | CCH LN    | Staples       | 2.1%          |
| OPAP SA                        | OPAP GA   | Discretionary | 2.0%          |

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

## 13) US small-cap valuations look cheap, but we continue to prefer large caps

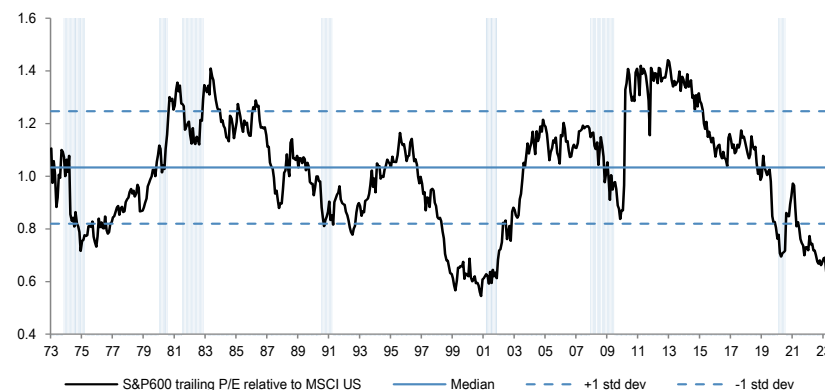
- US small-cap valuations are trading outright cheap relative to large caps.

S&P600 relative to S&P500



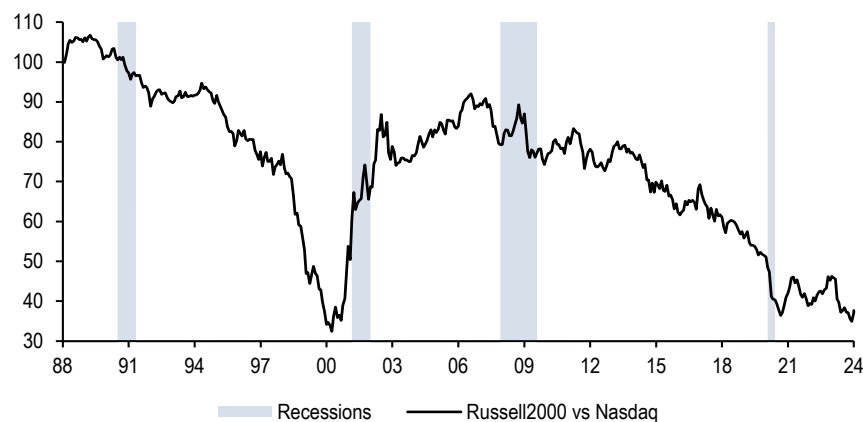
Source: Datastream

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



Source: Datastream, shaded bars denote recession

Russell2000 relative to Nasdaq



Source: Datastream

# European Sector Allocation

## European sector allocation

|                               |                                      | MSCI Europe Weights | Allocation | Deviation | Recommendation |
|-------------------------------|--------------------------------------|---------------------|------------|-----------|----------------|
| <b>Energy</b>                 |                                      | <b>6.1%</b>         | 8.0%       | 1.9%      | <b>OW</b>      |
| <b>Materials</b>              |                                      | <b>7.1%</b>         | 6.0%       | -1.1%     | <b>N</b>       |
|                               | Chemicals                            |                     |            |           | UW             |
|                               | Construction Materials               |                     |            |           | N              |
|                               | Metals & Mining                      |                     |            |           | N              |
| <b>Industrials</b>            |                                      | <b>15.3%</b>        | 14.0%      | -1.3%     | <b>N</b>       |
|                               | Capital Goods ex Aerospace & Defence |                     |            |           | UW             |
|                               | Aerospace & Defence                  |                     |            |           | OW             |
|                               | Transport                            |                     |            |           | N              |
|                               | Business Services                    |                     |            |           | N              |
| <b>Consumer Discretionary</b> |                                      | <b>9.4%</b>         | 7.0%       | -2.4%     | <b>UW</b>      |
|                               | Automobile                           |                     |            |           | UW             |
|                               | Consumer Durables                    |                     |            |           | N              |
|                               | Consumer Svcs                        |                     |            |           | UW             |
|                               | Speciality Retail                    |                     |            |           | UW             |
|                               | Internet Retail                      |                     |            |           | UW             |
| <b>Consumer Staples</b>       |                                      | <b>11.9%</b>        | 13.0%      | 1.1%      | <b>OW</b>      |
|                               | Food & Drug Retailing                |                     |            |           | UW             |
|                               | Beverages                            |                     |            |           | OW             |
|                               | Food & Tobacco                       |                     |            |           | OW             |
|                               | Household Products                   |                     |            |           | OW             |
| <b>Healthcare</b>             |                                      | <b>15.5%</b>        | 18.0%      | 2.5%      | <b>OW</b>      |
| <b>Financials</b>             |                                      | <b>17.9%</b>        | 14.0%      | -3.9%     | <b>UW</b>      |
|                               | Banks                                |                     |            |           | UW             |
|                               | Insurance                            |                     |            |           | N              |
| <b>Real Estate</b>            |                                      | <b>0.8%</b>         | 2.0%       | 1.2%      | <b>OW</b>      |
| <b>Information Technology</b> |                                      | <b>7.2%</b>         | 7.0%       | -0.2%     | <b>N</b>       |
|                               | Software and Services                |                     |            |           | N              |
|                               | Technology Hardware                  |                     |            |           | N              |
|                               | Semicon & Semicon Equip              |                     |            |           | UW             |
| <b>Communication Services</b> |                                      | <b>4.5%</b>         | 5.0%       | 0.5%      | <b>OW</b>      |
|                               | Telecommunication Services           |                     |            |           | OW             |
|                               | Media                                |                     |            |           | N              |
| <b>Utilities</b>              |                                      | <b>4.3%</b>         | 6.0%       | 1.7%      | <b>OW</b>      |

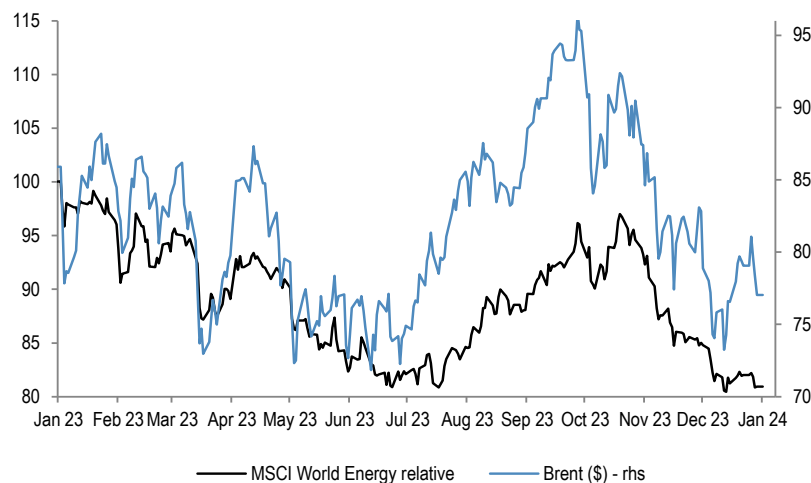
Source: MSCI, J.P. Morgan, Datastream

# ENERGY: OVERWEIGHT

Energy sector has lagged the move in oil prices and is a hedge on geopolitics...

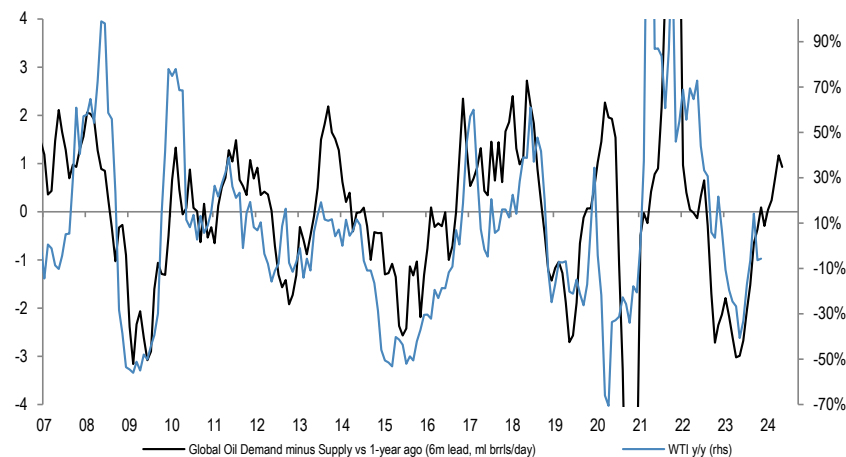
- We upgraded the Energy sector to OW in August 2021, and believe the sector still screens attractive, despite a strong run.
- Underlying oil prices remain well supported by current supply-demand dynamics that is aiding the sector. We believe the sector offers attractive risk-reward into 2024 and will continue to work.
- The sector has lagged the move in oil prices.
- European Energy tended to trade more as a Defensive during the phases of weak PMI prints, rather than as a Cyclical.

Energy sector relative performance vs oil price



Source: Datastream

Global oil demand less supply vs WTI



Source: Bloomberg Finance L.P.

Europe Energy relative performance around peak/trough in PMI

Energy relative performance around trough in PMI

| -6m | -3m | -1m | 1m  | 3m  | 6m   |
|-----|-----|-----|-----|-----|------|
| 5%  | 2%  | -1% | -5% | -8% | -12% |

Energy relative performance around peak in PMI

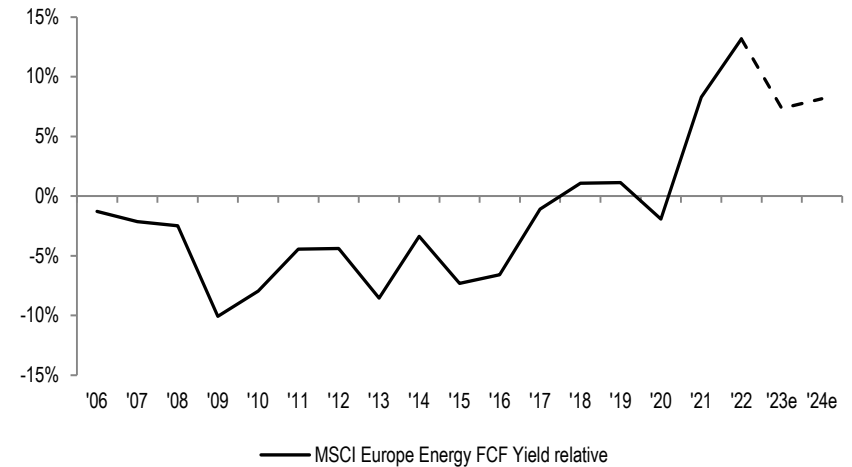
| -6m | -3m | -1m | 1m | 3m | 6m |
|-----|-----|-----|----|----|----|
| 0%  | 2%  | -1% | 2% | 3% | 7% |

Source: Datastream

## ....the sector still shows record cheap valuations and high FCF yield

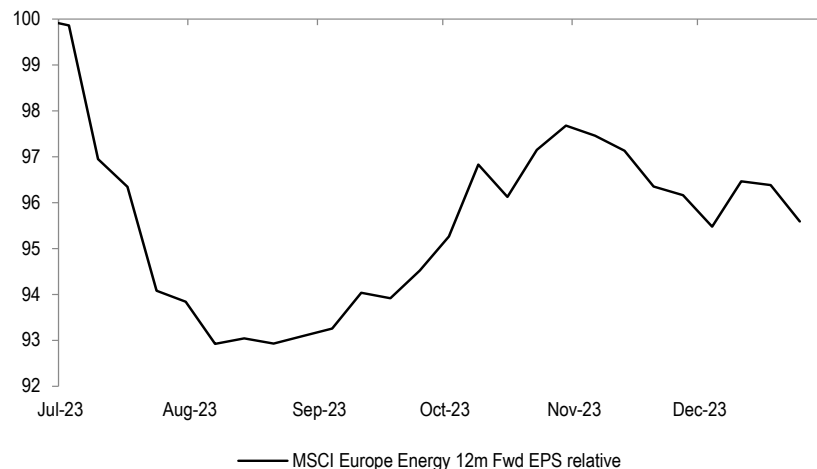
- The sector offers strong free cash flow generation and looks extremely cheap, in our view. The sector is currently trading close to 2 standard deviations below the historical P/E relative to the market.
- Earnings trends have stabilized and 12m Fwd. EPS is not falling anymore. It should stay that way, if oil prices hold around current levels.

European Energy FCF yield relative



Source: IBES

European Energy 12m Fwd. EPS relative



Source: IBES

European Energy 12m Fwd. P/E relative



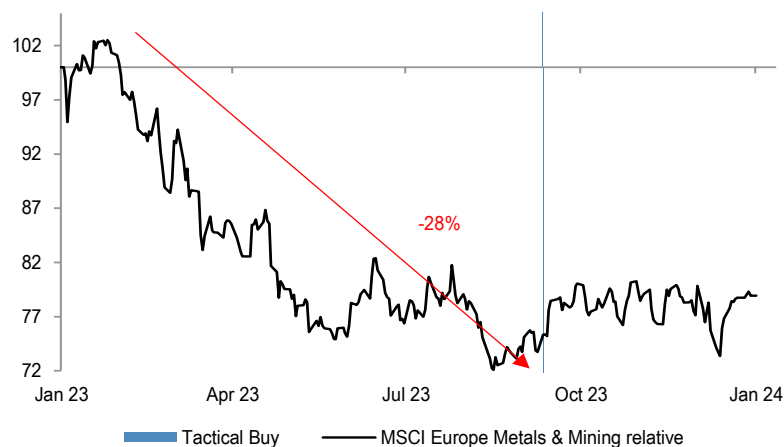
Source: IBES

## MATERIALS: NEUTRAL

N Mining – in September we advised to close the shorts, tactically, given the poor prior run...

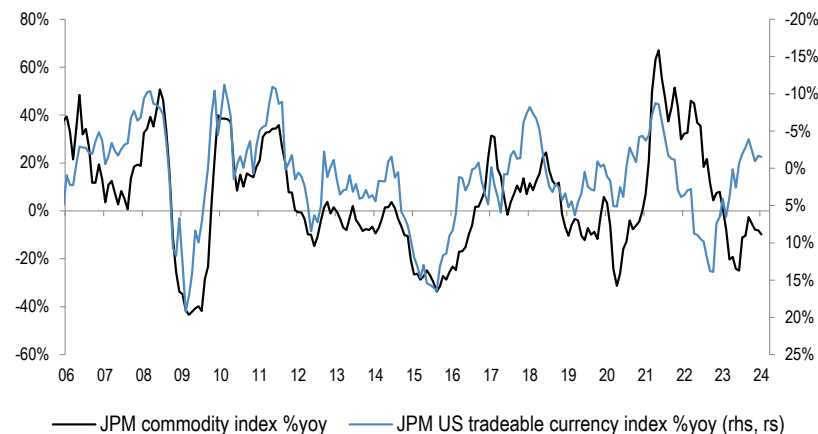
- We were cautious on Miners last year, which was derived from our bearish China view, but have argued in Sep' 23 that Miners could trade better tactically. They have done poorly since Jan' 23 highs, down almost 25%.
- At the same time, we fear that the structural issues in China are unlikely to be resolved in a hurry, and would therefore advise against staying in the sector beyond this quarter.
- Key drivers include divergence opening between the sector performance and underlying commodity prices, where iron ore at present is at the highest level in over a year.

### European Mining relative



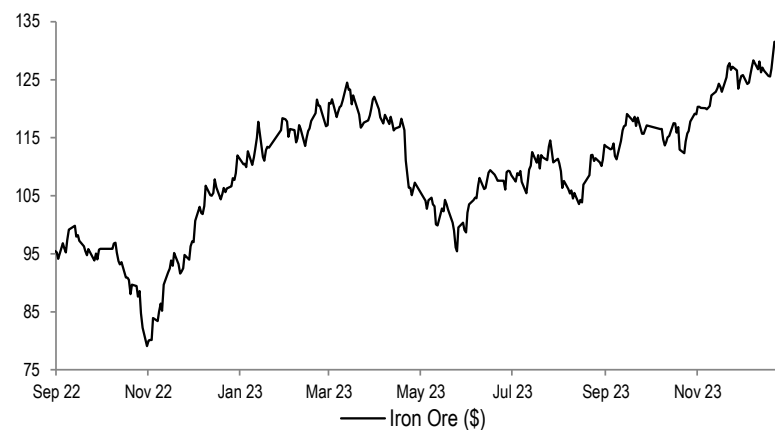
Source: JPM Metals&Mining Research

### JPM tradeable USD and Commodity prices



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

### Iron Ore



Source: J.P. Morgan

## ...the sector offers high levels of cash return and earnings could see upgrades

- A number of Miners offer attractive dividends and are also engaging in buybacks.
- We also believe that Mining is likely to see mark-to-market earnings upgrades if spot prices hold around current levels.
- Valuations look less supportive.

### 2023e and 2024e DY of key big miners

| Name                         | Ticker  | 23e DY | 24e DY |
|------------------------------|---------|--------|--------|
| NORSK HYDRO                  | NHY NO  | 4.5%   | 5.3%   |
| RIO TINTO                    | RIO LN  | 5.8%   | 6.1%   |
| GLENCORE                     | GLEN LN | 5.6%   | 3.6%   |
| ANGLO AMERICAN               | AAL LN  | 3.9%   | 3.9%   |
| VOESTALPINE                  | VOE AV  | -      | 3.6%   |
| ENDEAVOUR MINING (LON)       | EDV CN  | 3.6%   | 3.7%   |
| BOLIDEN ORD SHS              | BOL SS  | 2.4%   | 2.9%   |
| ARCELORMITTAL                | MT NA   | 1.7%   | 1.8%   |
| ANTOFAGASTA                  | ANTO LN | 1.8%   | 1.7%   |
| MSCI Europe Metal and Mining |         | 3.8%   | 3.5%   |
| MSCI Europe                  |         | 3.6%   | 3.8%   |

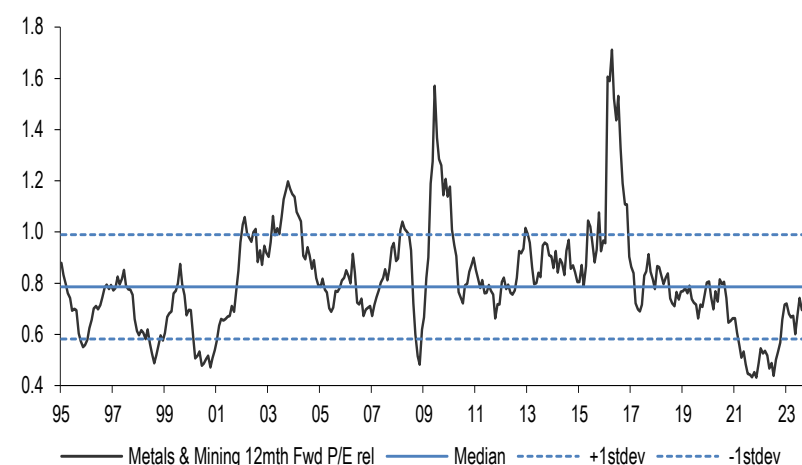
Source: Datastream

### Metal prices and Mining EPS



Source: Bloomberg Finance L.P., IBES

### European Mining 12m Fwd. P/E relative



Source: IBES

# Neutral Construction Materials – margins may be peaking, the sector faces disappointment from weaker construction activity and lower fiscal spending

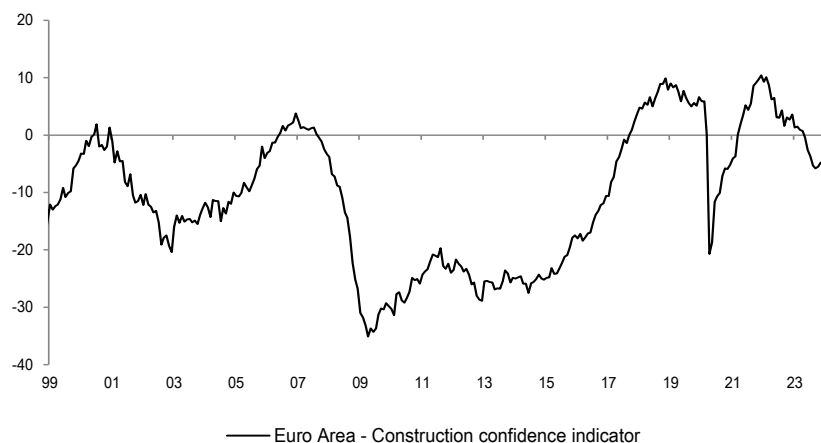
- Construction Materials sector had a very strong run since Jan' 23, up almost 40% relative to the market.
- Cement names have done well on the back of strong pricing. US fiscal spend has also aided sentiment on the sector.
- Base effects will likely become more challenging, especially as numerous countries start to exhibit more fiscal restraint.
- Construction activity has already been rolling over in Europe. Margins which are at record highs can deteriorate.

MSCI Europe Construction Materials 12m Fwd. EPS/Sales



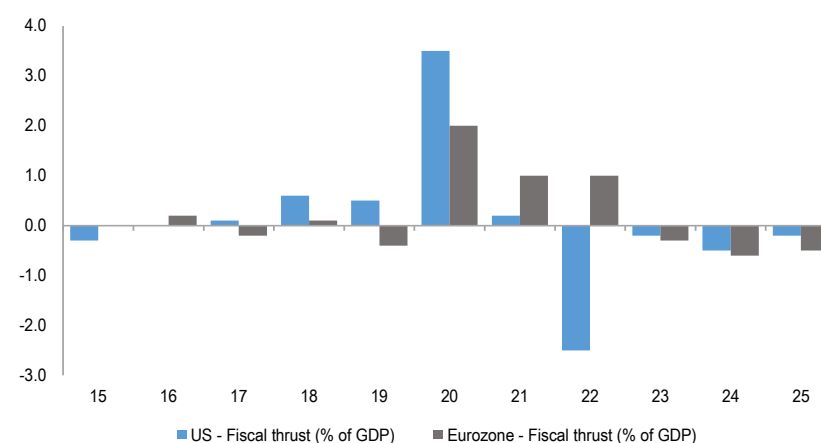
Source: Datastream

Euro area Construction confidence indicator



Source: J.P. Morgan

US and Eurozone Fiscal Thrust



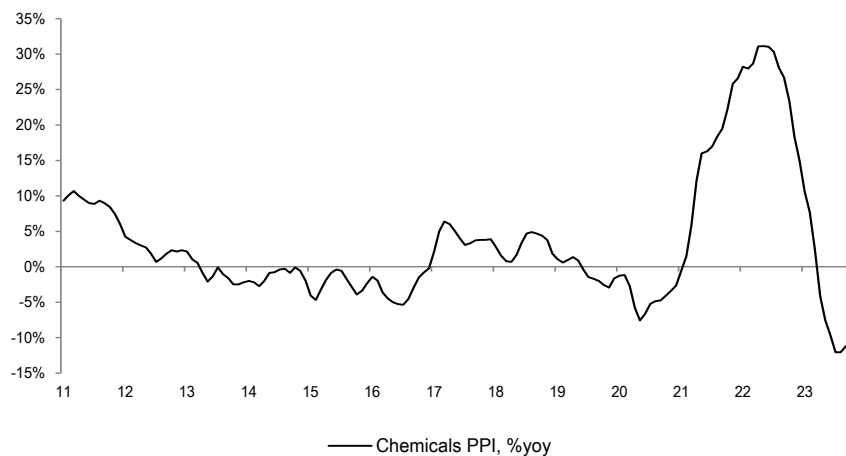
Source: Bloomberg Finance L.P.



## UW Chemicals – The sector is still trading expensive

- The sector is down roughly 20% since Jan' 22 relative to the market. While some more Cyclical parts of the sector appear cheap, overall Chemicals trade at a 70% premium to the broader market, well above the historical norm.
- Pricing continues to deteriorate.
- Our analysts project that sales growth for the sector will improve significantly. Topline growth improvement for the sector may not sustain, though. Any improvement is contingent on continued macro recovery, which we note is far from guaranteed. We see downside risks to current earnings and margin projections.

Chemicals PPI %yoy



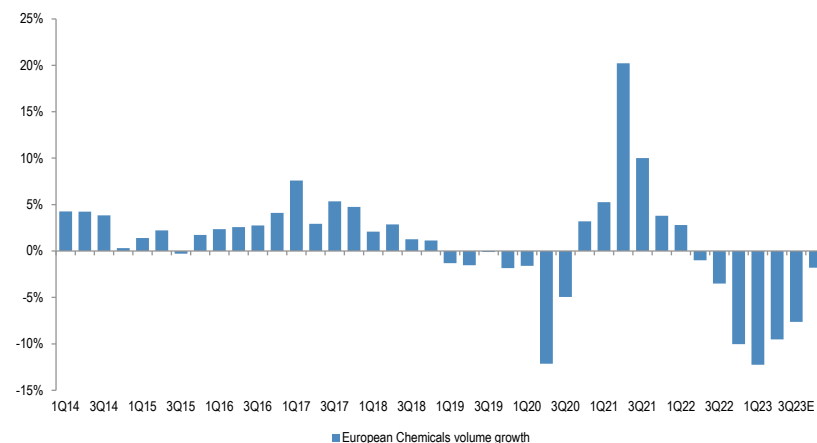
Source: Bloomberg Finance L.P.

European Chemicals 12m fwd P/E relative



Source: IBES

European Chemicals volume growth



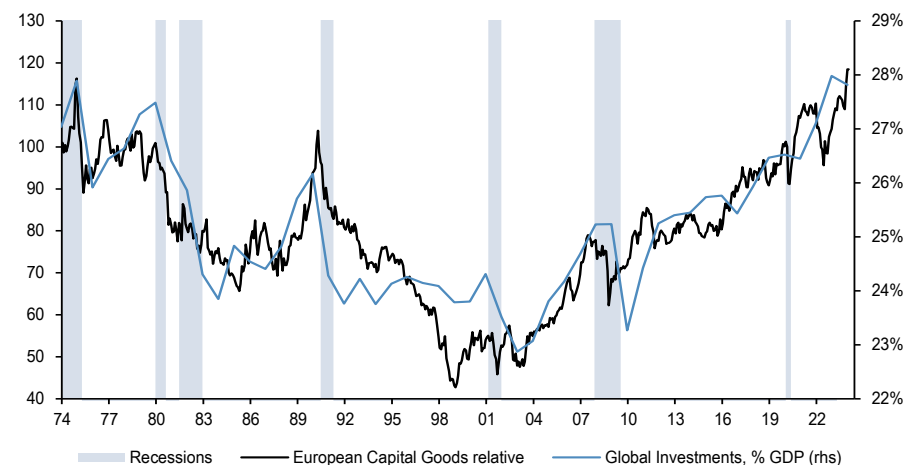
Source: J.P. Morgan Chemicals Research

# INDUSTRIALS: NEUTRAL

## UW Capital Goods ex A&D – trading at multi-year price relative highs and valuations look expensive...

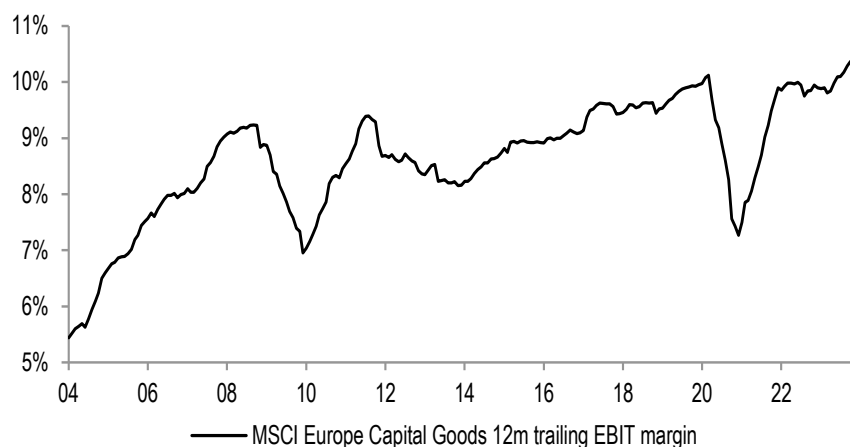
- The European Capital Goods sector has seen strong outperformance last year and is trading at multi-year price relative highs. This could start to reverse as we are already seeing signs of weakness in short-cycle demand.
- This has pushed the sector's relative valuations to record levels. Capital Goods are trading at a roughly 40% P/E premium to the market.
- Not only are the sector's valuations at peak levels, but margins also appear toppish.

European Capital Goods relative and global investments as a share of GDP



Source: Datastream

MSCI Europe Capital Goods 12m trailing EBIT margin



Source: IBES

European Capital Goods 12m forward P/E relative

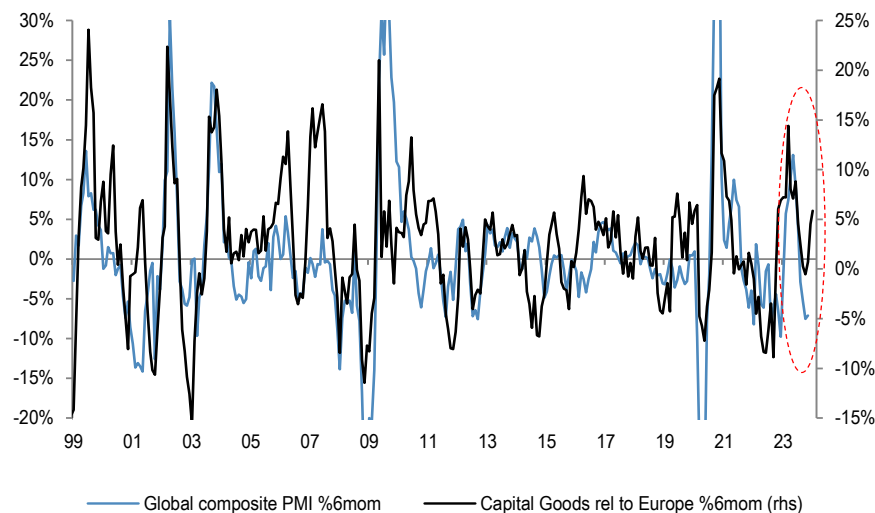


Source: IBES

## ...Cap Goods could come under pressure if activity momentum doesn't accelerate sustainably, Capex is at risk

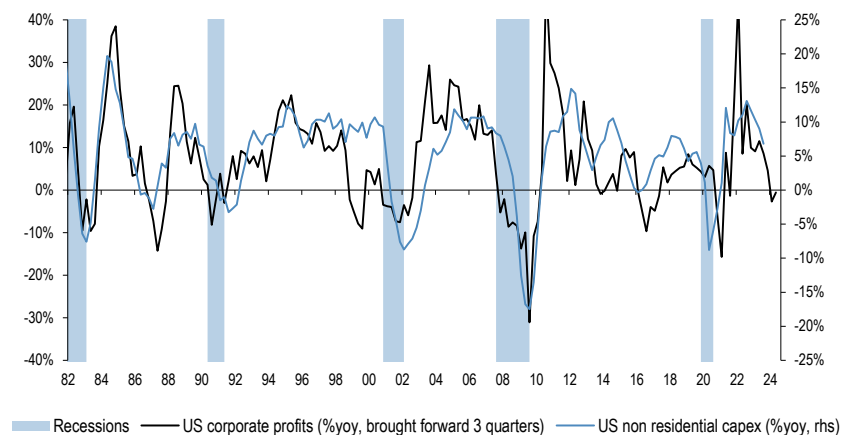
- The sector benefitted hugely from the significant upmove in global capex over the last couple of decades. Our sector analysts now see a more challenged capex outlook for this year.
- In the past, the sector's relative performance has been closely aligned to the trajectory of composite PMIs and to IP. The recent divergence is notable.
- We believe one should start to fade the recent bounce in the sector as earnings, margins and multiples could all come under pressure if activity momentum doesn't accelerate sustainably.

European Capital Goods rel and global composite PMI



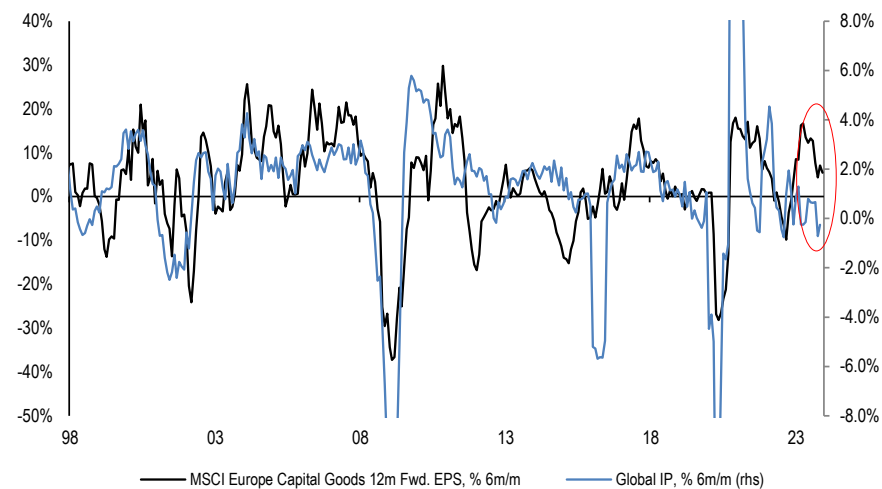
Source: IBES

US Non-residential capex and NIPA corporate profits



Source: J.P. Morgan, BEA

European Capital Goods and Global IP



Source: Datastream

## We stay OW Aerospace & Defense

- Aerospace & Defense has outperformed the market by more than 50% since Jan'22.
- Our sector analysts see continued support for orderbooks over the next few years as countries look to reverse decades of underspending on Defence.
- On the Civil Aviation side, IATA forecasts that 2023 global air traffic will reach 88% of 2019 levels, a 19% improvement versus 2022. The sector displays a strong order backlog, in addition to sticky pricing.

European Aerospace and Defensives relative



Source: Datastream

NATO - defence budgets by country

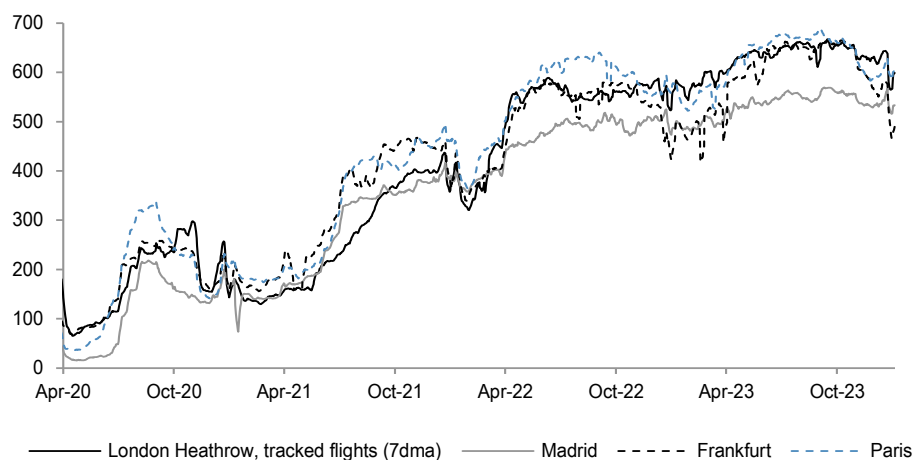
| Country                      | Defence Budget<br>(Govt defined)<br>% of GDP<br>2023E | Defence Budget<br>(NATO defined)<br>% of GDP<br>2023E | Defence spending<br>pledge since<br>Feb- 22 | Year when<br>spending<br>increase<br>begins | Year when<br>spending<br>target<br>achieved | Current status  |
|------------------------------|---|---|---|---|---|---|
| Germany                      | 1.6%  | 1.6%  | EUR 100bn extra spending                    | From 2023                                   | 72  | Feb 2022: €100bn special defence fund to be spent from 2023 to 2027 / 28        |
| France                       | 1.9%  | 1.9%  | 7% pa growth to 2030                        | From 2024                                   | Est. 2030                                   | Jul 2023: Govt approves defence spending growth of 7% pa from 2024 to 2030      |
| Italy                        |   | 1.5%  | 2.0% of GDP                                 |   | 2028  | Sep 2022: New govt confirmed support for 2% of GDP by 2028                      |
| Netherlands                  |   | 1.7%  | 2.0% of GDP                                 |   | 2024 / 25                                   | Jun 2022: Govt approved 2% of GDP in 2024 & 2025                                |
| Spain                        |   | 1.3%  | 2.0% of GDP                                 | From 2023                                   | 2029  | Nov 2022: Parliament approved significant increase in 2023 defence spending     |
| Poland                       |   | 3.9%  | 4.0% of GDP                                 | From 2023                                   | 2023  | Aug 2023: PM says defence spending will be over 4% of GDP in 2024               |
| Norway                       |   | 1.7%  | 2.0% of GDP                                 | From 2022                                   | 2026  | May 2023: PM announced intention of at least 2% of GDP by 2026                  |
| Czech Rep.                   |   | 1.5%  | 2.0% of GDP                                 |   | 2024  | Jun 2023: Govt approved law on defence spending of at least 2% of GDP from 2024 |
| Portugal                     |   | 1.5%  | 1.89% of GDP                                |   | 2024  | Commitment to reach 1.89% of GDP in 2024 if Portugal gets necessary EU funds    |
| Lithuania / Estonia / Latvia |   | 2.5%  | All 3 nations: 2.5% of GDP                  | From 2022                                   | 2025  | Estonia and Lithuania by 2022; Latvia by 2025                                   |
| Sweden                       | 1.3%  |   | 2.1% of GDP                                 |   | 2024  |   |
| Finland                      | 2.5%  |   | EUR 2bn extra spending                      |   | 2022- 26                                    |   |
| Austria                      | 0.8%  |   | 1.5% of GDP                                 |   | 2027  |   |

Source: JPM European Aerospace and Defense Research

## Neutral Transport

- A combination of higher oil prices and more downbeat demand expectations have weighed on the Airlines stocks. We believe these will continue to disappoint.
- The easy base effects for the sector are largely behind us.
- Passenger capacity has been ramping up and is expected to grow another 5-10% this year. Unless demand remains exceptionally strong, higher capacity will likely further cannibalize pricing.
- Container freights have also fully unwound the COVID era price rises.

### Flights tracked - Europe Airports



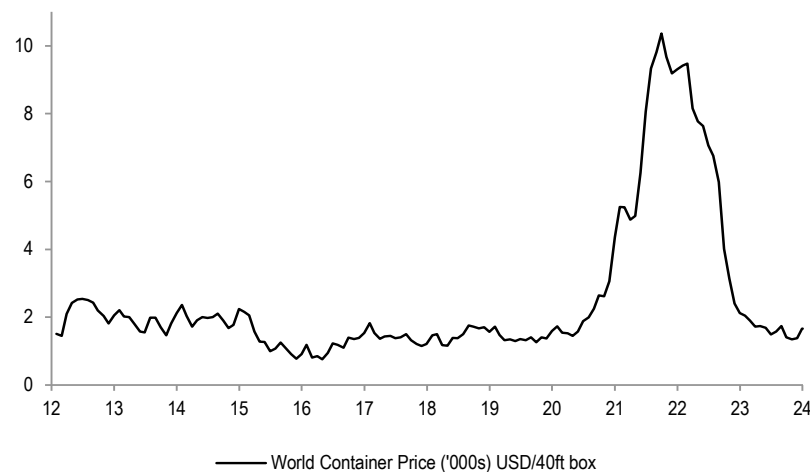
Source: FlightRadar24

### MSCI Europe Airlines relative



Source: Datastream

### World Container price



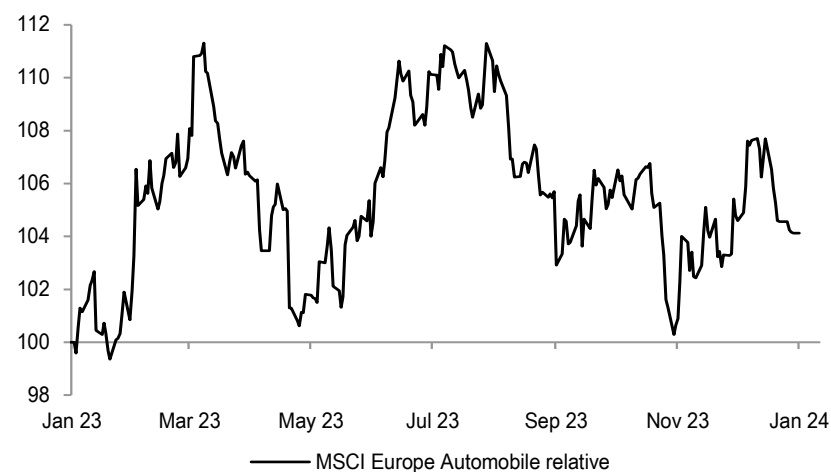
Source: Bloomberg Finance L.P.

# CONSUMER DISCRETIONARY: NEUTRAL

## UW Autos – still cheap, but vulnerable to potential slowing in consumer...

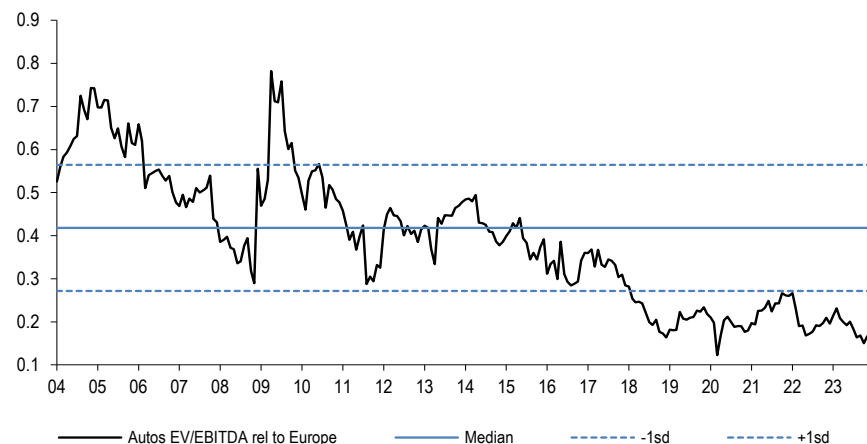
- The Autos sector had a very strong run in 1H'23, but since August the sector has given up most of its 2023 gains.
- Autos look cheap on a range of valuation measures, such as Price to Book, as well as on EV/EBITDA. However, the sector is strongly correlated to activity momentum, and could be hurt as PMIs stay subdued.
- We note the disconnect between the sector EPS and the weak macro and believe that the earnings trends will soften, to catch up with the weakness in PMIs.

European Autos relative



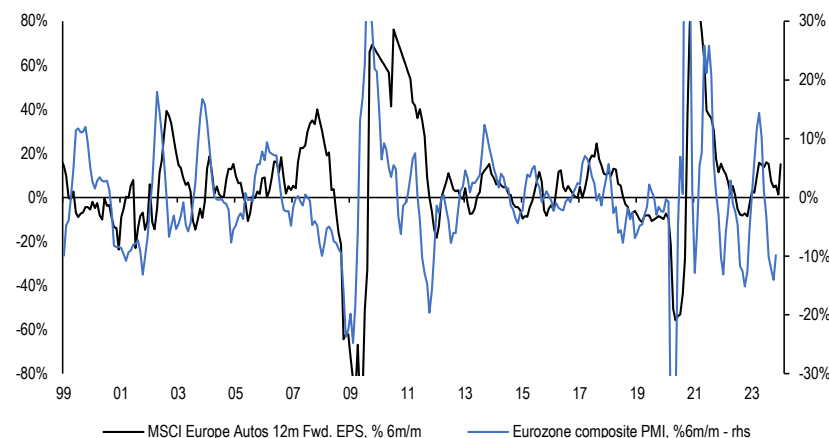
Source: Datastream

Autos EV/EBITDA relative



Source: Datastream

European Autos EPS and Euro composite PMI

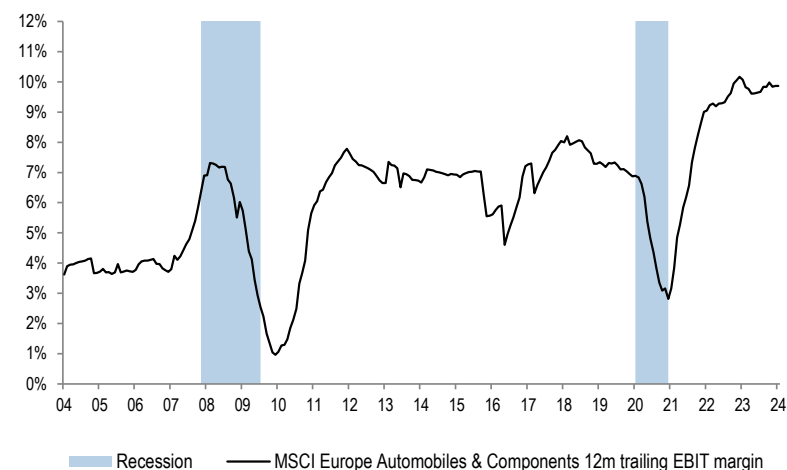


Source: Datastream

## ...softening demand could become a headwind, and pricing could come under pressure

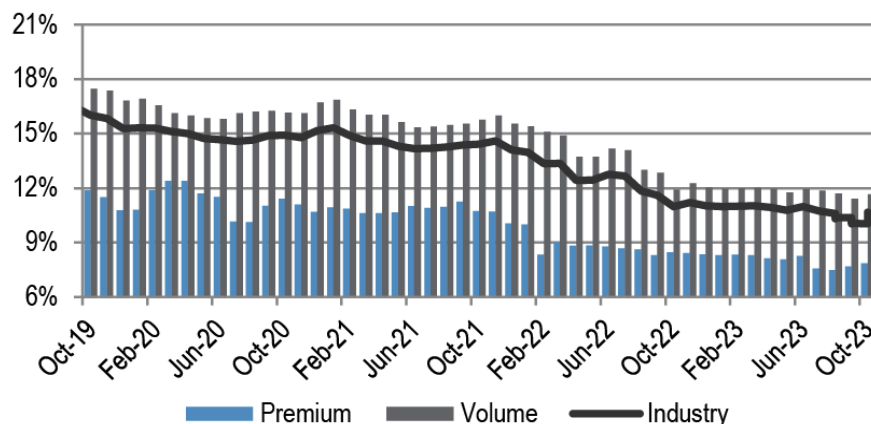
- Strong pricing and better mix drove the sector margins to record highs, but we think margins are peaking, as a combination of rising inventory and weaker demand could hurt pricing.
- We are already seeing higher discounts and incentives in the pivotal Chinese car market. We believe this could prove ominous for other regions, including Europe and the US. Our bottom-up analysts have a more benign outlook for the sector and believe pricing may hold up.

European Autos EBIT/Sales



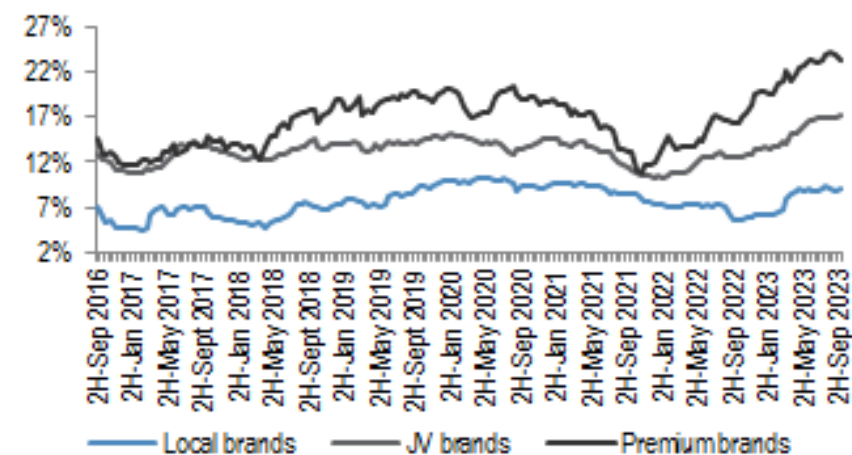
Source: IBES

Weighted average discounts across Europe



Source: JPM European Autos Research Team

Incentives levels in China (%)

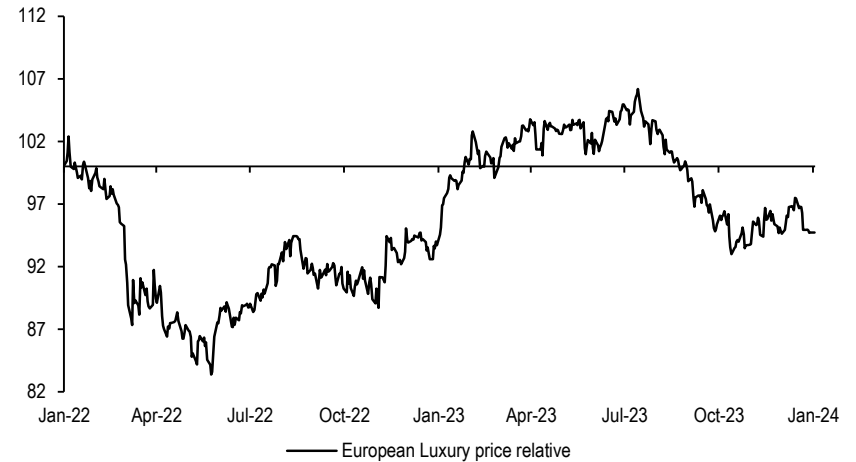


Source: JPM European Autos Research Team

# N Consumer Durables – China play, but still expensive despite recent underperformance

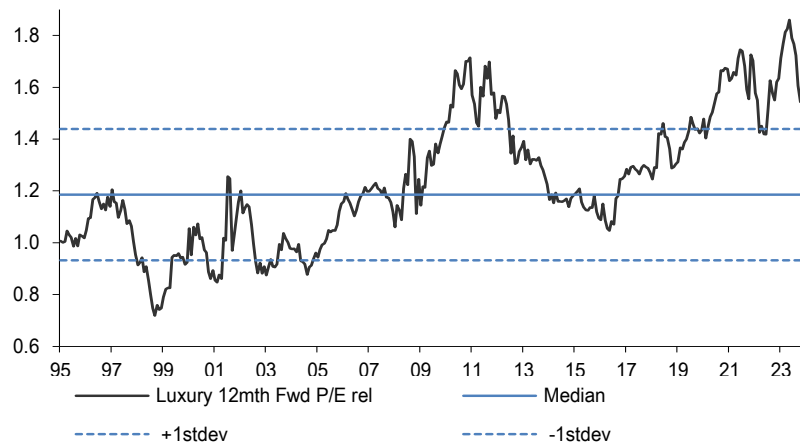
- The European Consumer Durables (Luxury) sector has underperformed the market by close to 10% since the highs seen in July last year.
- Even post this underperformance, the sector still looks expensive.
- The sector is heavily exposed to Chinese economy, where we have a structural negative view. We think the sector could tactically trade better post the period of underperformance, as stimulus measures start to come through, but we don't see a case for sustained outperformance of Luxury names.

European Luxury price relative



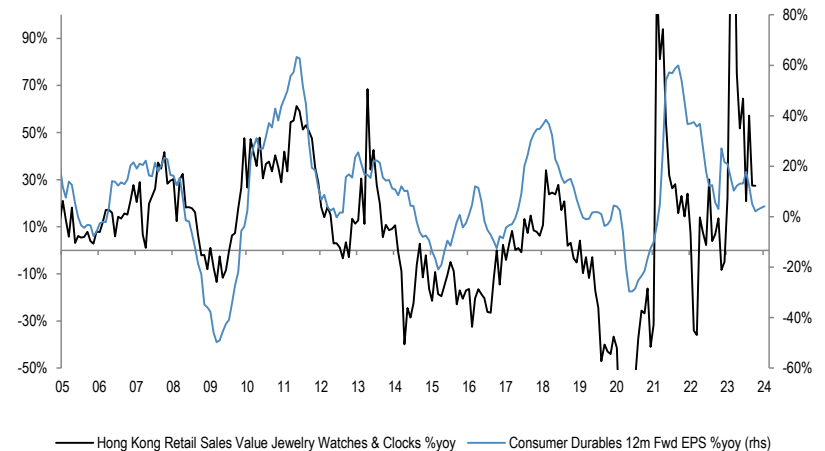
Source: Datastream

European Luxury 12m Fwd P/E relative



Source: IBES

HK SAR Jewelry watches sales vs Durables 12m Fwd EPS



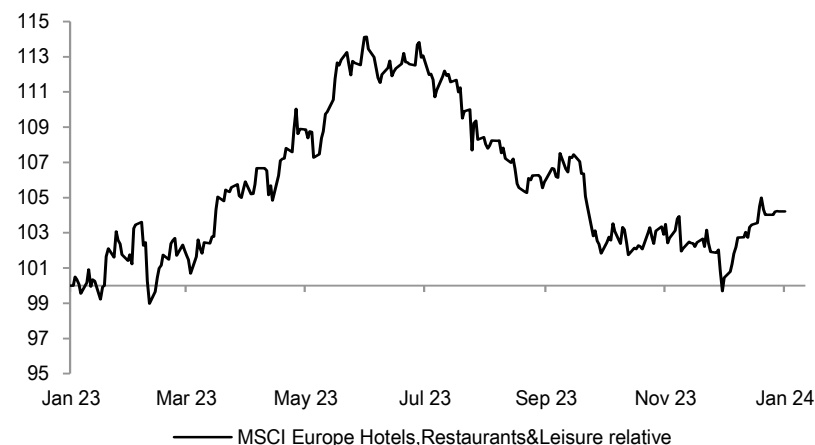
Source: IBES, Bloomberg Finance L.P.



## UW Consumer services – easy base effects are behind us

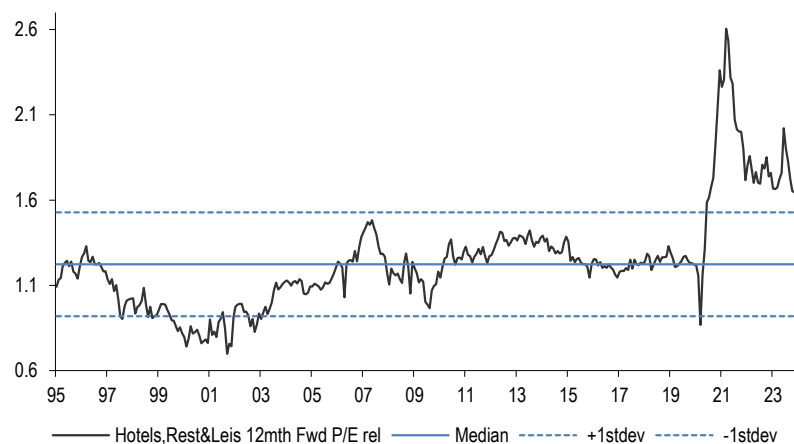
- The consumer services sector had a very strong run in the 1H of last year, but has rolled over since. We believe the headwinds will keep increasing. Earnings trends for the sector have also been relatively strong, driven by strong pricing and occupancy rates, and should see normalization soon.
- RevPAR trends are starting to roll over. We believe that the sector will likely struggle as the trend of “revenge travel” winds down.
- The sector does not have a clear valuation support, in our view.

European Hotels, Restaurants & Leisure price relative



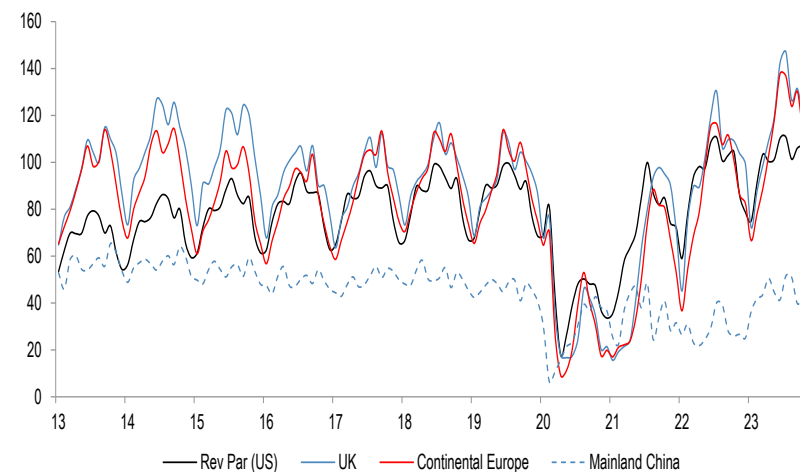
Source: Datastream

European Hotels, Rest & Leisure 12m Fwd P/E relative



Source: IBES

Absolute RevPar for key regions

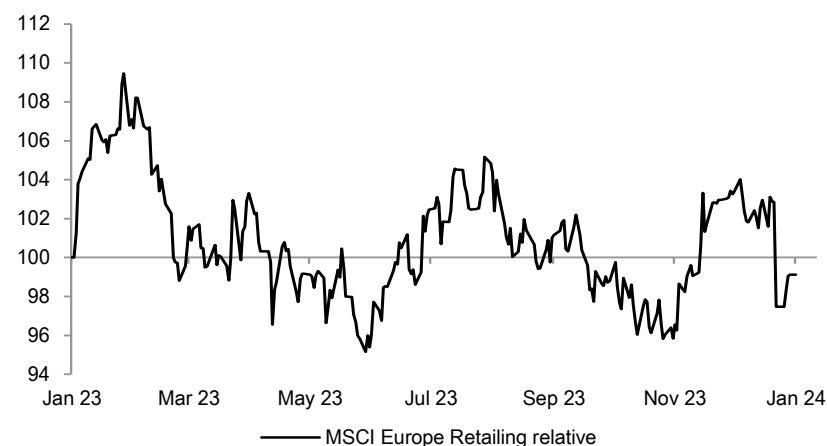


Source: J.P. Morgan European Leisure, Hotels and Gaming research

# UW Retail – consumer outlook still remains challenged

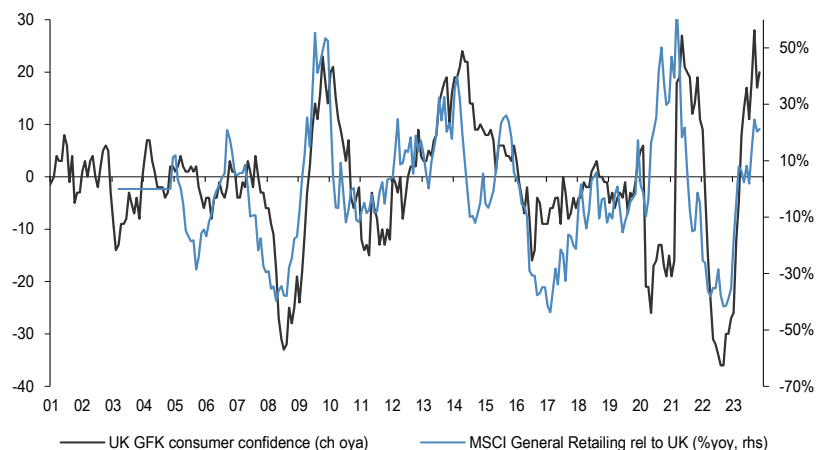
- The General retail sector has had a mixed 2023 and could struggle going forward. The consumer outlook could remain challenged, especially if we start to see meaningful labour market weakness.
- We note that valuations have derated and the sector no longer screens expensive.

European Retailing price relative



Source: Datastream

UK Retailing relative performance vs consumer Confidence



Source: Bloomberg Finance L.P., Datastream

European Retailing 12m Fwd P/E relative



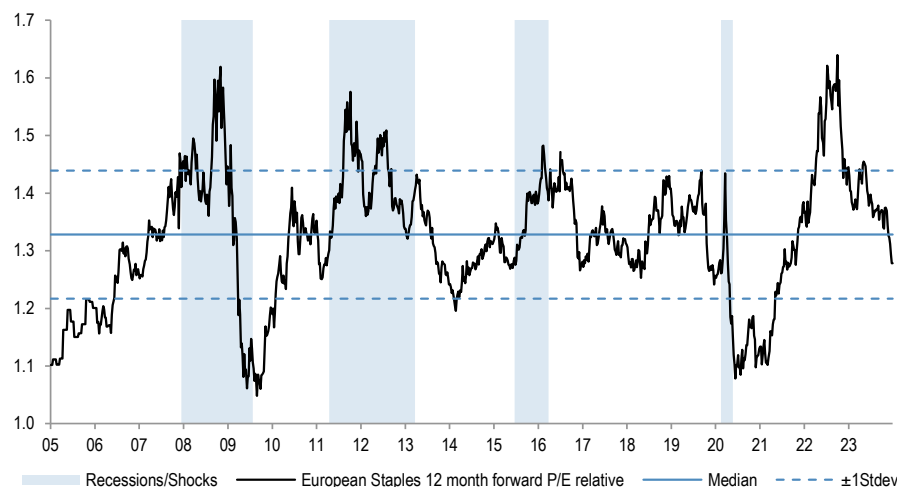
Source: IBES

# CONSUMER STAPLES: OVERWEIGHT

The sector typically did well at this stage of the cycle... valuations have improved

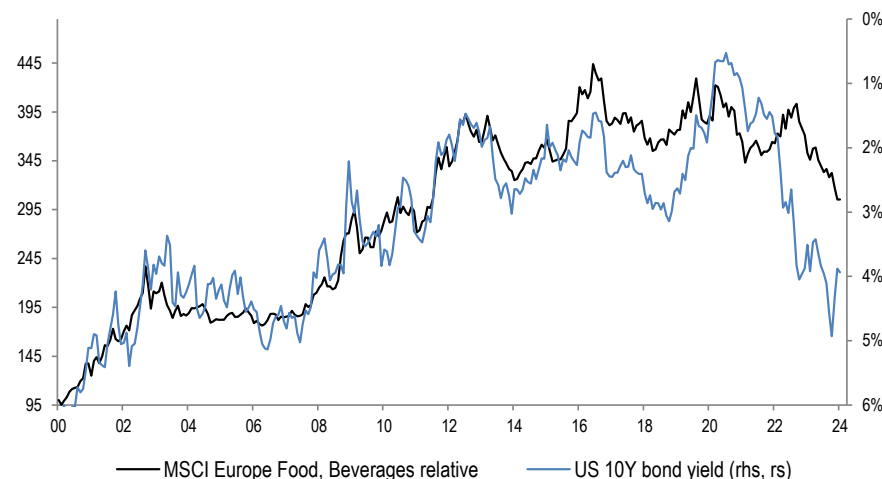
- European Staples had a poor run last year, as rising bond yields weighed on the sector. However, the sector should trade better going forward: the sector typically outperforms around the final Fed hike in the cycle. Also, we expect bond yields to move lower, which should help the sector.
- Valuations of the sector are not expensive anymore, they have derated, and are now at the cheap side of fair value.
- The gold to copper ratio - which symbolizes economic stress - has been rising in recent weeks and has in the past been a good proxy for the sector's relative performance. The recent divergence is notable, and should not last, in our view.

MSCI Europe Staples 12m Fwd PE relative



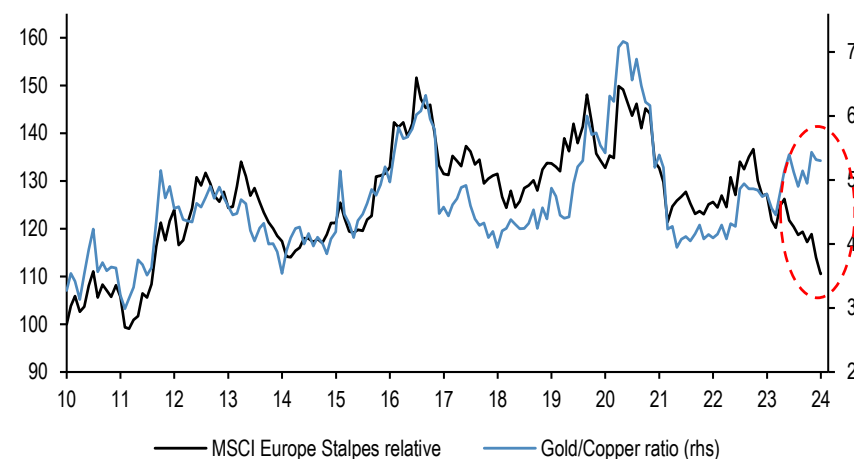
Source: IBES

MSCI Europe Food & Beverages vs US 10Y bond yield



Source: Datastream

European Staples relative and gold-copper ratio



Source: Datastream, Bloomberg Finance L.P.

J.P.Morgan

# UW Food & Drug Retail – falling Food CPI and PPIs, and increased price competition are a problem

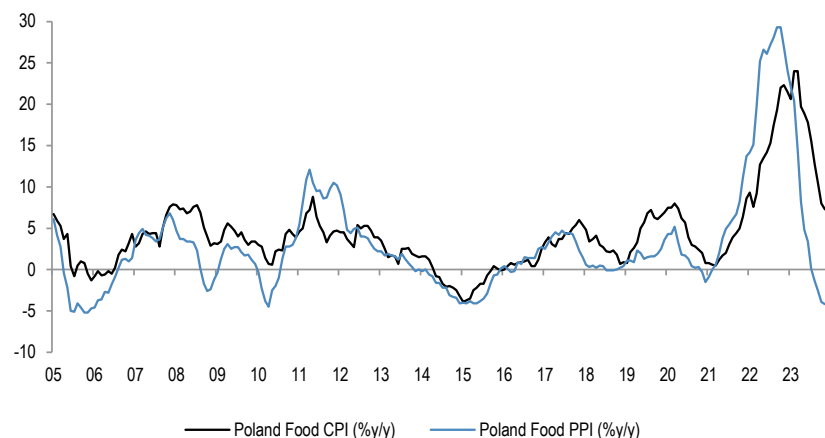
- Food Retail is likely to see increased price competition and our analysts project that margins for most companies will contract in 2024, with flat to low-single-digit volume growth.
- Falling PPIs and CPIs add to the pricing concerns. Food inflation is coming down at a rapid pace and is already in negative territory for some regions.
- JPM Agricultural commodity index has been weakening, suggesting further downside for the sector earnings.

## European Food Retail companies' margins

|                   | Earnings metric     | Earnings margin y/y |             |          |            |
|-------------------|---------------------|---------------------|-------------|----------|------------|
|                   |                     | 1H23                | 2H23E*      | 2023E*   | 2024E*     |
| Tesco UK          | Adj. EBIT, IFRS 16  | 47                  | 29          | 38       | (5)        |
| Sainsbury's       | Adj. EBIT, IFRS 16  | (4)                 | (16)        | (10)     | (6)        |
| B&M UK            | Adj. EBITDA, IAS 17 | 82                  | 61          | 68       | (127)      |
| Ahold Europe      | Adj. EBIT, IFRS 16  | (43)                | 4           | (19)     | 23         |
| Carrefour Europe  | Adj. EBIT, IFRS 16  | (8)                 | (9)         | (10)     | (8)        |
| B&M France        | Adj. EBITDA, IAS 17 | 15                  | (23)        | (11)     | 10         |
| Carrefour France  | Adj. EBIT, IFRS 16  | 36                  | 17          | 25       | 4          |
| Colruyt           | Adj. EBITDA, IAS 17 | 264                 | 42          | 150      | 45         |
| Jeronimo Portugal | Adj. EBITDA, IAS 17 | 1                   | 13          | 8        | (18)       |
| Tesco CE          | Adj. EBIT, IFRS 16  | (163)               | (218)       | (171)    | 28         |
| Jeronimo Poland   | Adj. EBITDA, IAS 17 | (10)                | (27)        | (19)     | (14)       |
| Ahold US          | Adj. EBIT, IFRS 16  | 13                  | (59)        | (24)     | (32)       |
| <b>Average</b>    |                     | <b>19</b>           | <b>(15)</b> | <b>2</b> | <b>(8)</b> |

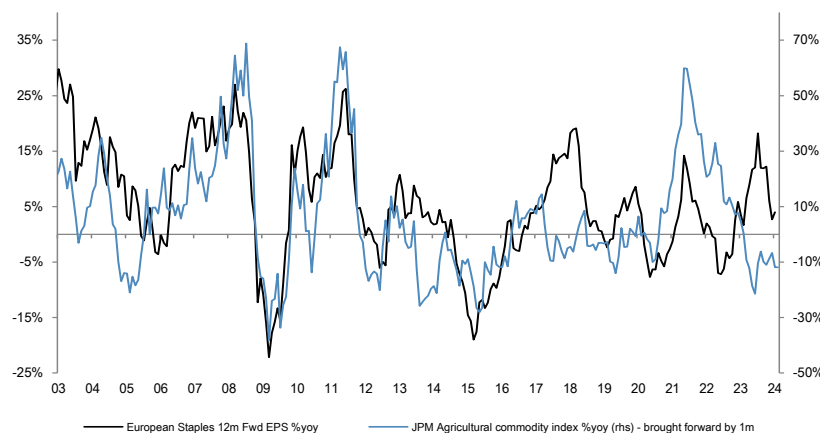
Source: J.P. Morgan European Food retail research

## Poland Food CPI vs PPI



Source: Bloomberg Finance L.P.

## European Food retail 12m Fwd EPS vs JPM Agriculture commodity index

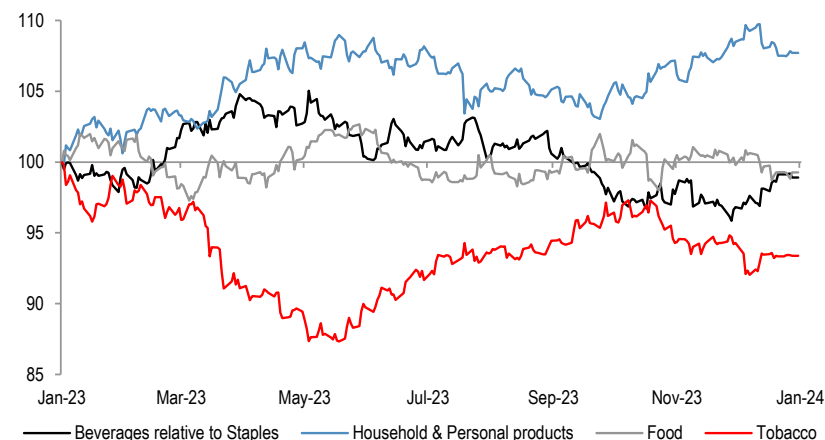


Source: IBES, J.P. Morgan

## OW Food, Beverage and Tobacco – underperformance could be an opportunity to add to the sector

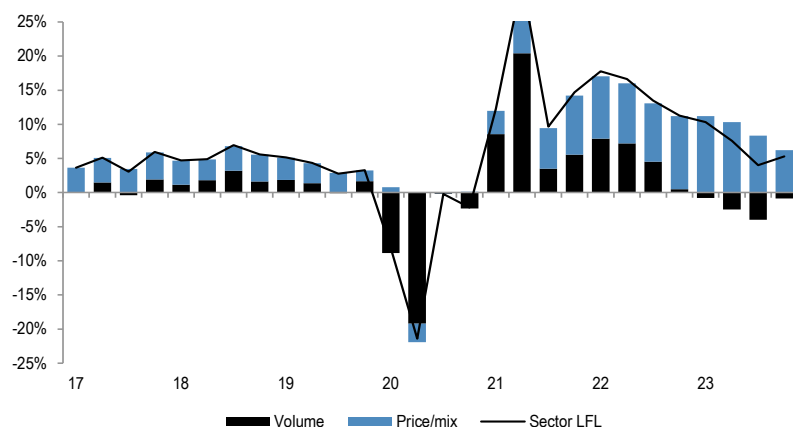
- Within Staples, Tobacco stocks have struggled the most last year. Regulatory issues in the US weighed on the sector, but the outlook from here might be less concerning.
- Beverages have fared relatively better. Volumes for the sub-sector have been weak last year, but are projected to inflect higher from here.
- For the Beverage sub-sector, volumes and margins are expected to improve as COGS (energy and grain prices) recede. Our sector analysts expect pricing to soften but are overall less bearish on the pricing / mix.

MSCI Europe Staples sub-sector performance relative



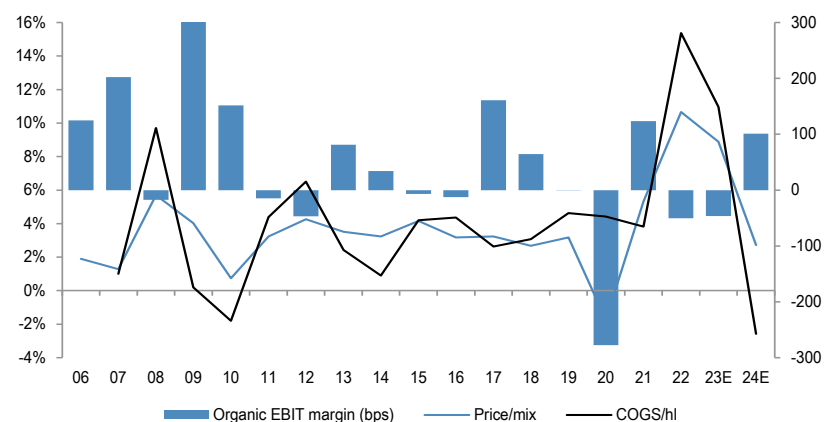
Source: Datastream

European Beverages top-line LFL, volume vs pricing



Source: J.P. Morgan European Staples Research, \*2023Q4 is forecast

European brewer average organic price/mix, COGS/hl and margin change

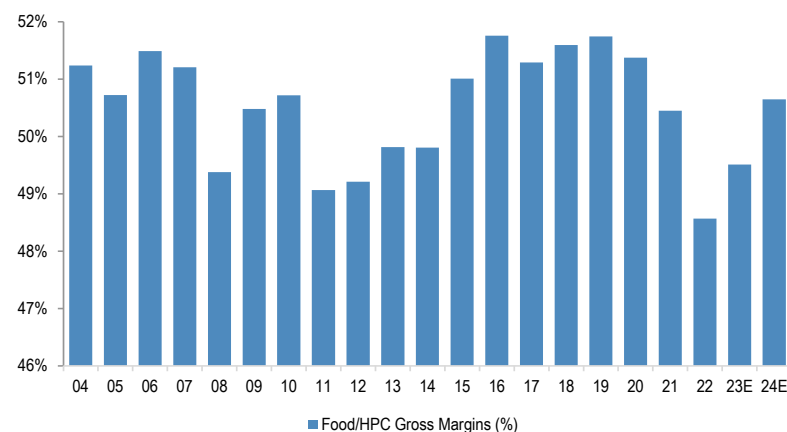


Source: J.P. Morgan European Staples Research

# OW Household and Personal products – declining COGS could drive margin recovery

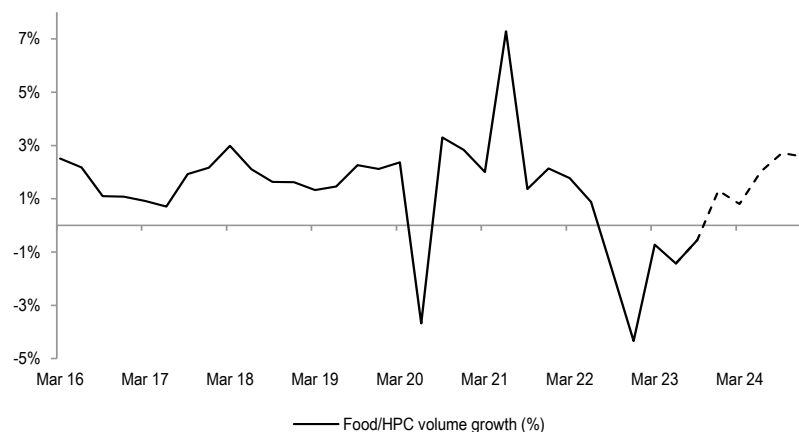
- Volume growth for the food / HPC subsector is expected to rebound over the coming quarters.
- Our sector analysts are also calling for margins to improve as somewhat softer pricing is more than offset by declining COGS. Falling commodity prices should be a significant tailwind for the sector in 2024.
- Valuations looked stretched at the start of last year, but we note now are on the cheap side of fair value.

European Food & HPC Adj. Gross margins



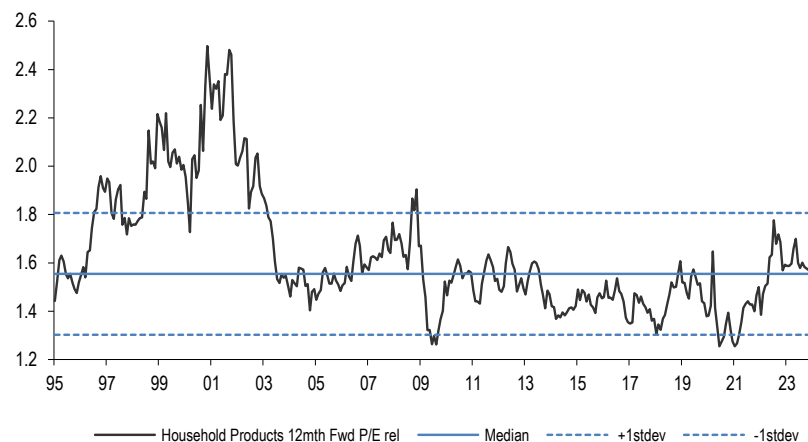
Source: J.P. Morgan European Staples research

European Food/HPC volume growth



Source: J.P. Morgan European Staples research

European HPC 12m Fwd. P/E relative

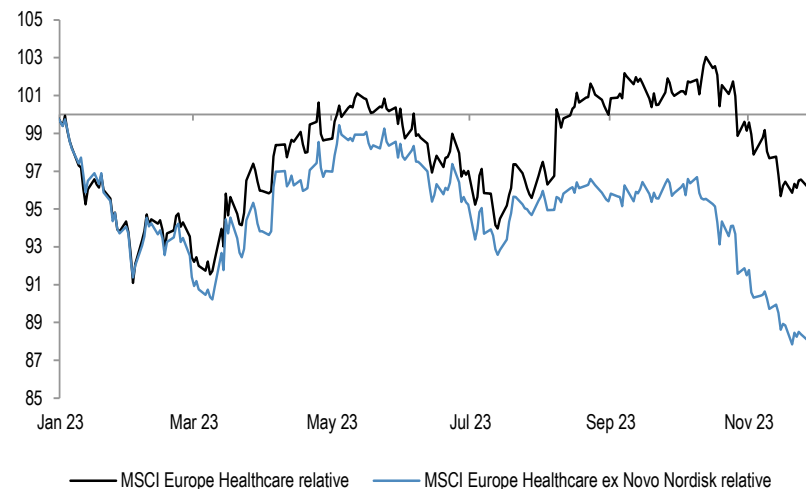


# HEALTHCARE: OVERWEIGHT

## Potential for lower yields and stronger dollar remain near term supports...

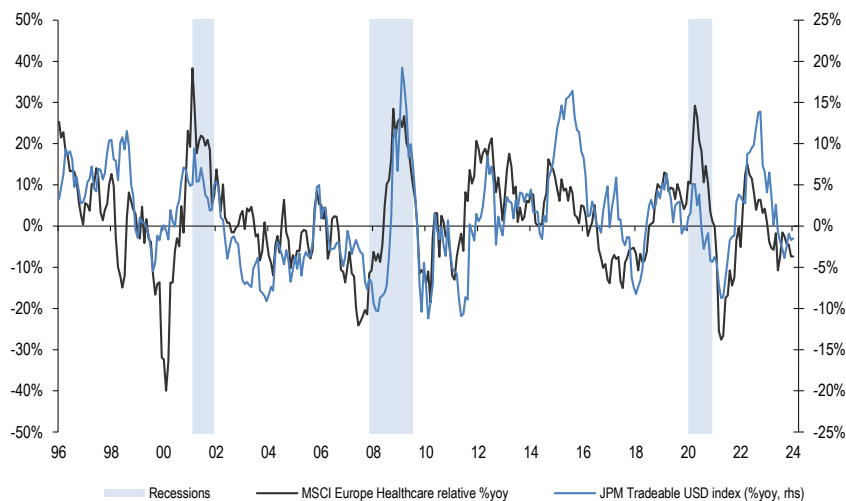
- Most of the sector performance can be attributed to a single stock, Novo Nordisk. Excluding Novo, Healthcare is down 12% relative to the market since 2023, which was supported by its GLP-1 drug.
- The sector has meaningful USD revenue exposure and tends to do better against a stronger dollar backdrop.
- However, valuations remain in expensive territory.

### European Healthcare relative



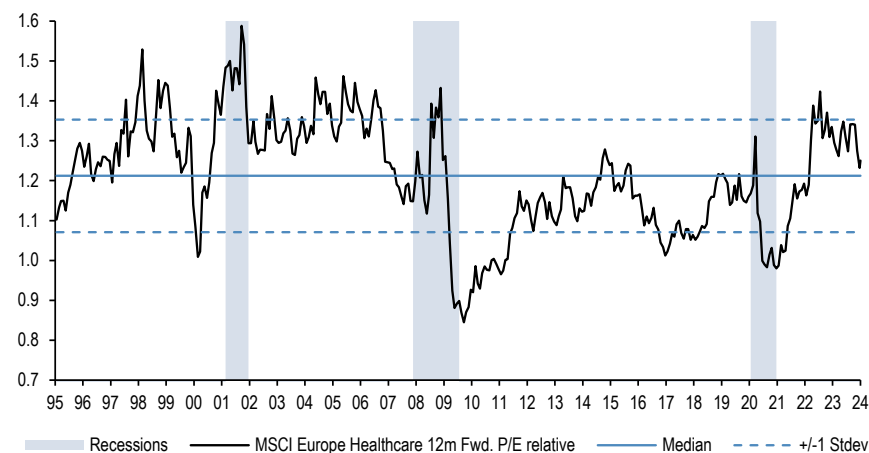
Source: Datastream

### MSCI Europe Healthcare relative and tradeable USD



Source: Bloomberg Finance L.P.

### European Healthcare 12m Fwd PE relative

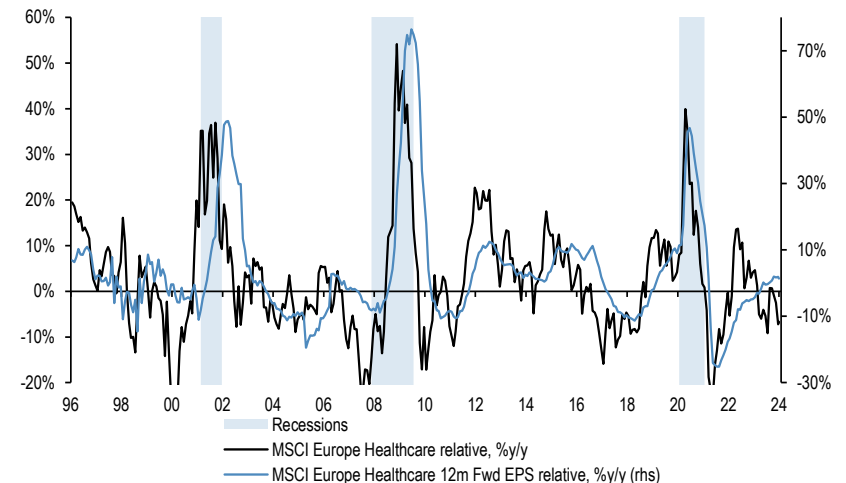


Source: IBES

## ...earnings are holding up, risk from patent expiry is limited in the near term

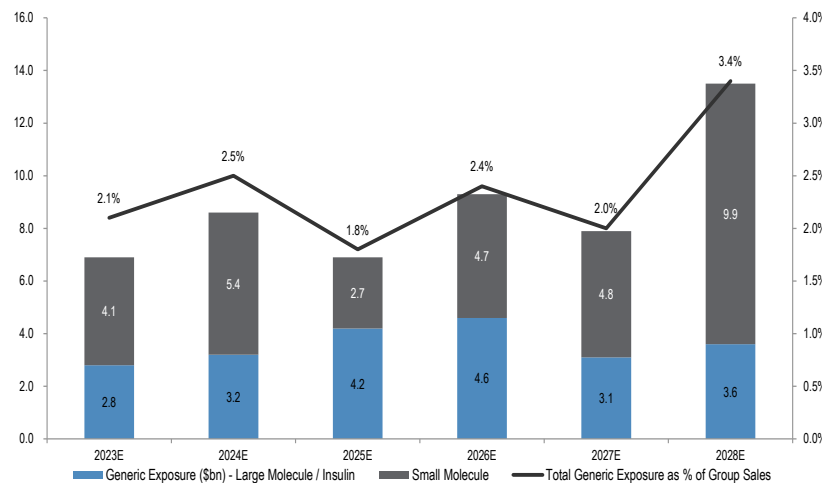
- Our sector analysts see upside potential to earnings, with new drugs pipeline, and patent expiry risk only at the end of the decade.
- Being a defensive sector, earnings are better insulated than the overall market during periods of economic weakness.
- The sector is also a traditional bond-proxy and should be helped if bond yields move lower.

European Healthcare 12m Fwd EPS and price relative



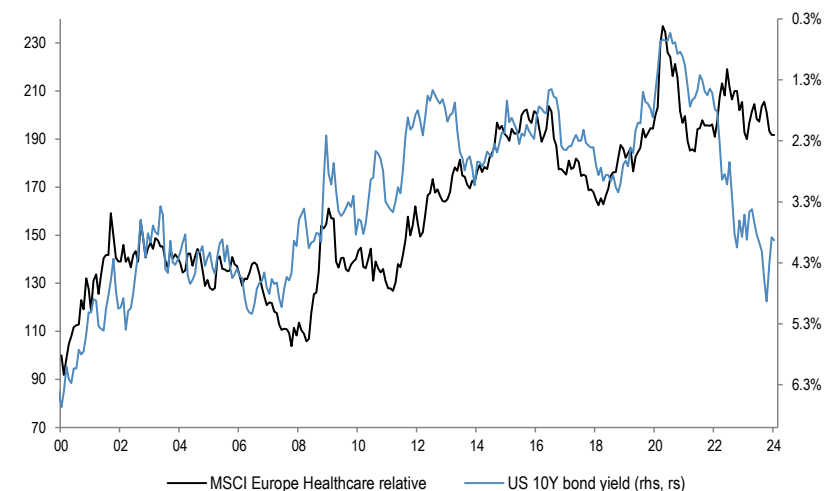
Source: IBES

Pharma Generics erosion timeline



Source: JPM European Healthcare Research

Healthcare price relative and 10Y bond yield



Source: Datastream

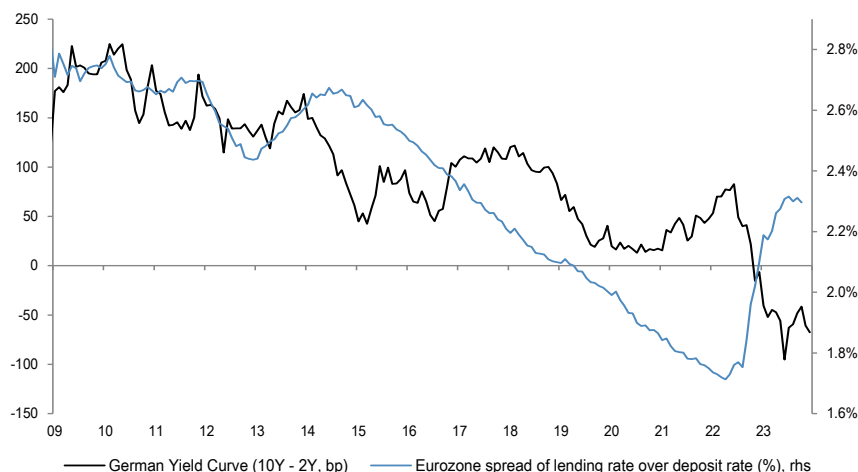


# FINANCIALS: UNDERWEIGHT

## UW Banks – downgraded to UW in October after strong performance...

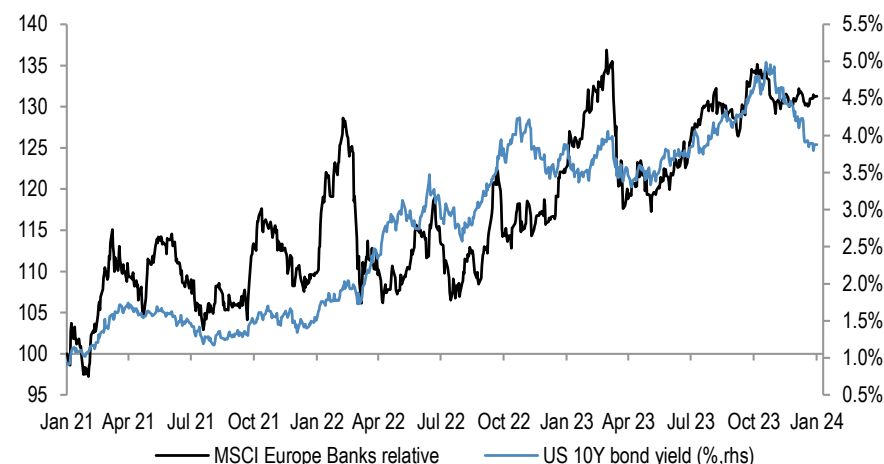
- European Banks were amongst the best performing sectors last year, building on the already strong returns from the sector since Q4 '20.
- The advantage of higher rates is now behind us, and NII for Banks is likely to peak out, as deposit betas rise, Euribor curve falls and risk from new bank taxes increase. We have cut the sector to UW in October 2023, believing that the tailwinds will turn.
- At 20x, leverage ratio for Banks is the highest among all sectors, putting them at risk if the macro environment weakens.
- However, valuations still remain supportive.

German yield curve and Eurozone Banks NIMs



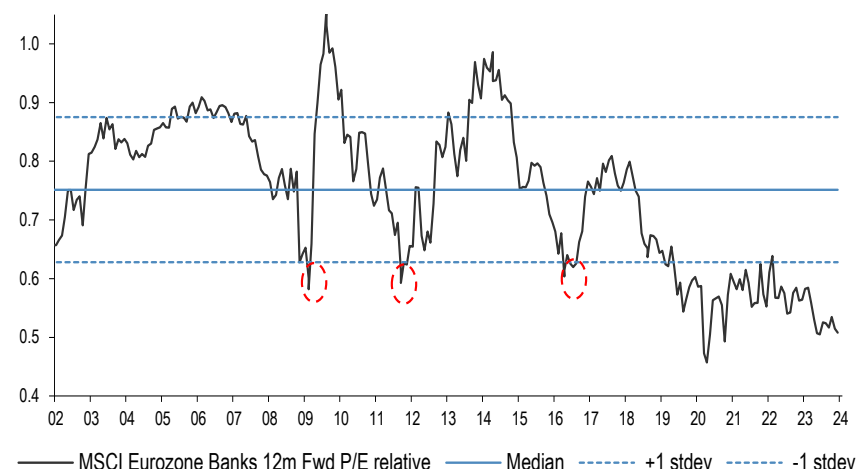
Source: J.P. Morgan

MSCI Europe banks relative and US10Y bond yield



Source: Datastream

Eurozone Banks 12m Fwd P/E relative



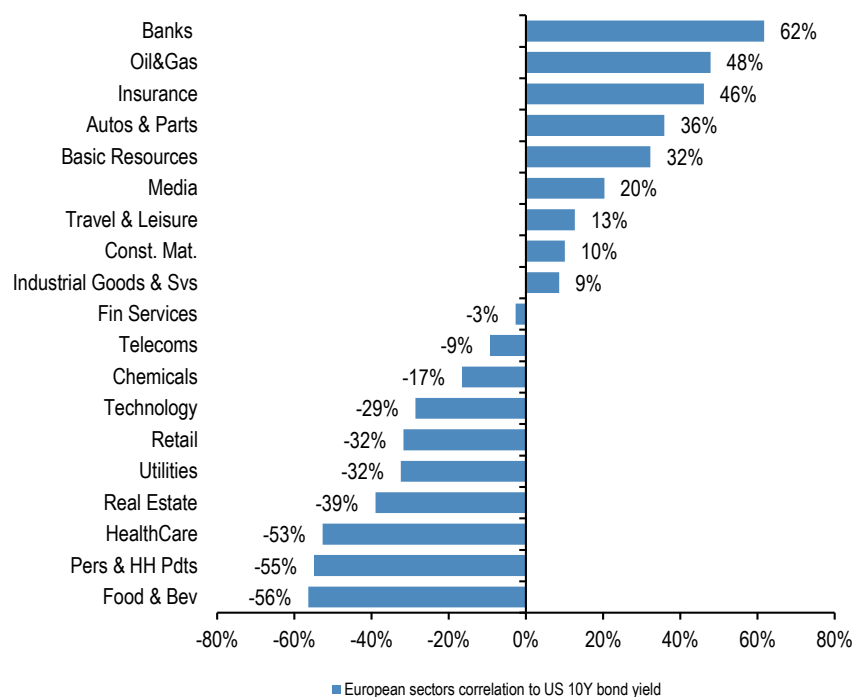
Source: IBES

J.P.Morgan

...bond yields and PMIs direction is the key for the potential P/E re-rating of the sector... we think both will move lower...

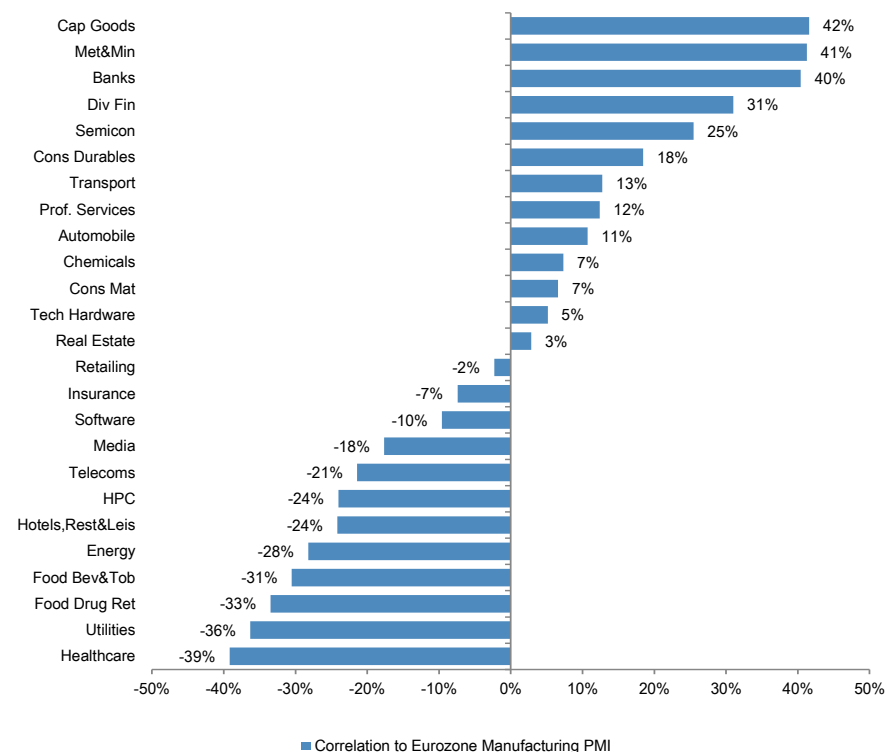
- Banks exhibit the highest sensitivity to the direction of bond yields, out of all sectors. If yields move lower, as we expect, that will be a problem for Banks.
- Similarly, Banks are unlikely to work if PMIs are weakening.

European sectors correlation to bond yields



Source: Bloomberg Finance L.P.

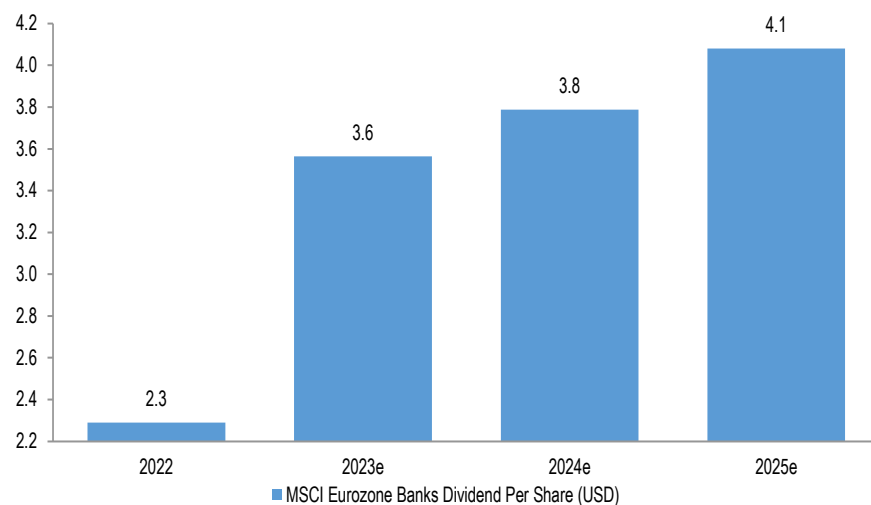
European sectors correlation to Eurozone manufacturing PMI



Source: Bloomberg Finance L.P.

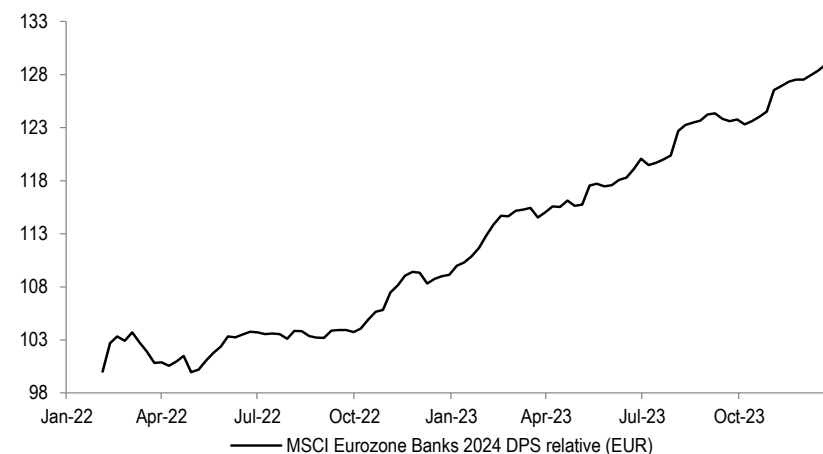
...this could imperil dividends outlook, which was the bright spot over the past two years

Eurozone Banks dividends projections



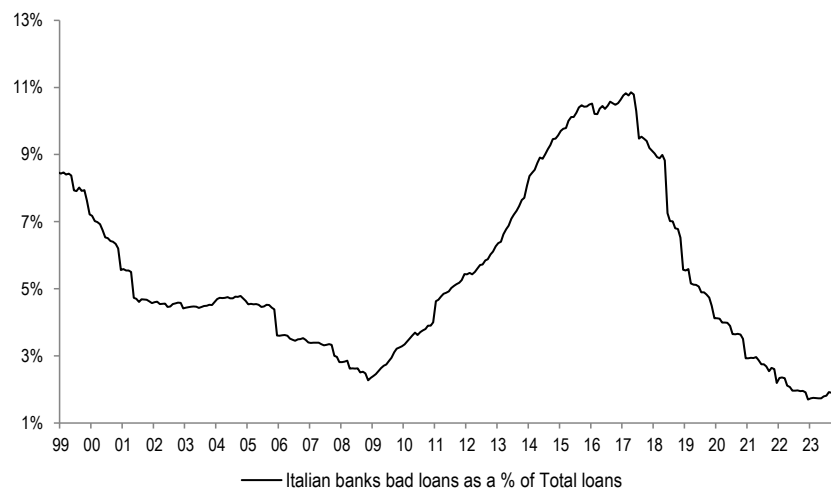
Source: IBES

MSCI Eurozone Banks 2024 DPS forecast relative



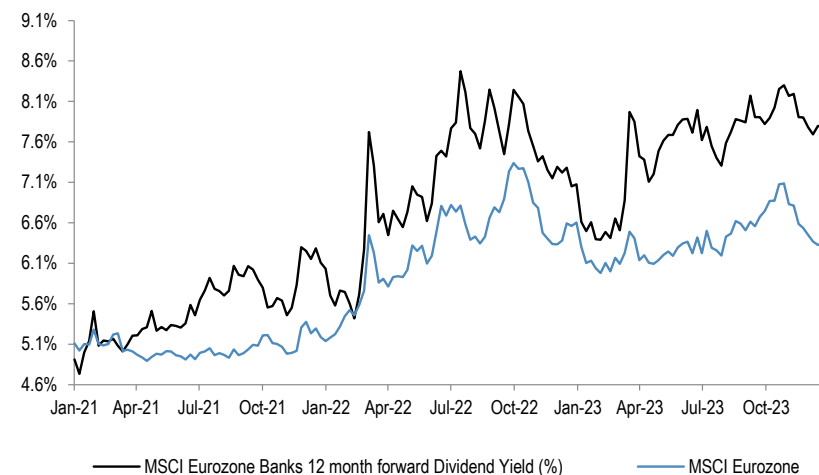
Source: IBES

Italian bad loans as a % of total loans



Source: Banca d'Italia

MSCI Eurozone Banks 12-month forward Dividend yield

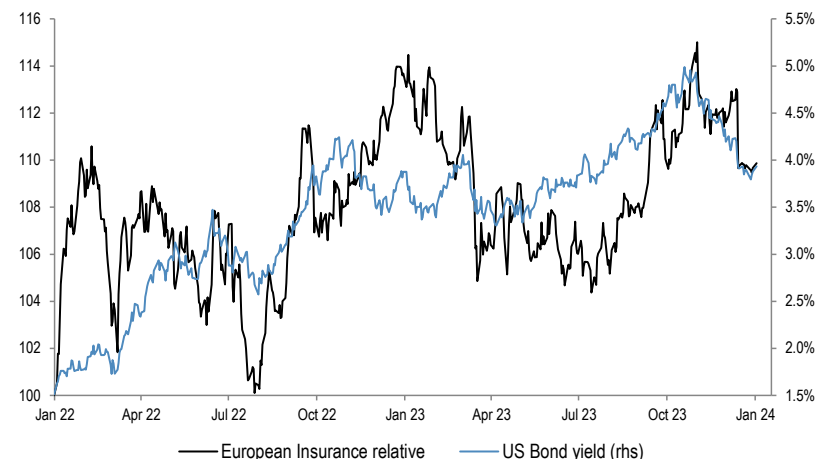


Source: IBES

# N Insurance – closely linked to bond yields and credit spreads, strong capital position and pricing is a support

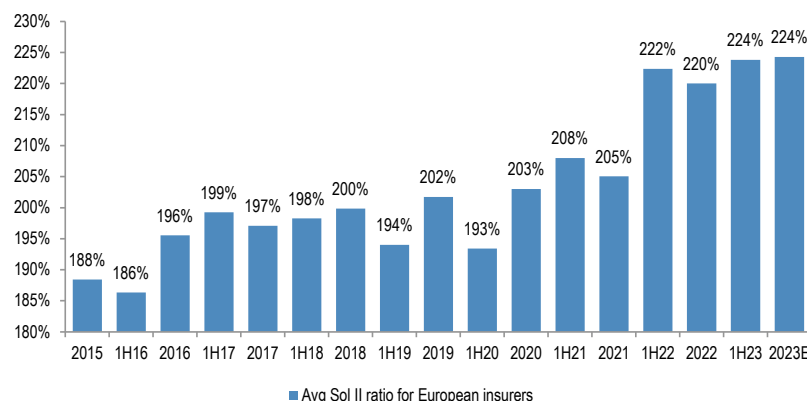
- The sector has a strong positive correlation with bond yields and will likely struggle if bond yields roll over.
- Global and US Property catastrophe rates are at their highest levels since 2006 and our analysts don't think they will be coming down anytime soon. This underpins the case for strong pricing for the sector.
- Earnings for the sector remain well supported by strong growth in premiums, and pricing power is likely to remain high.

European Insurance relative and US 10Y bond yield



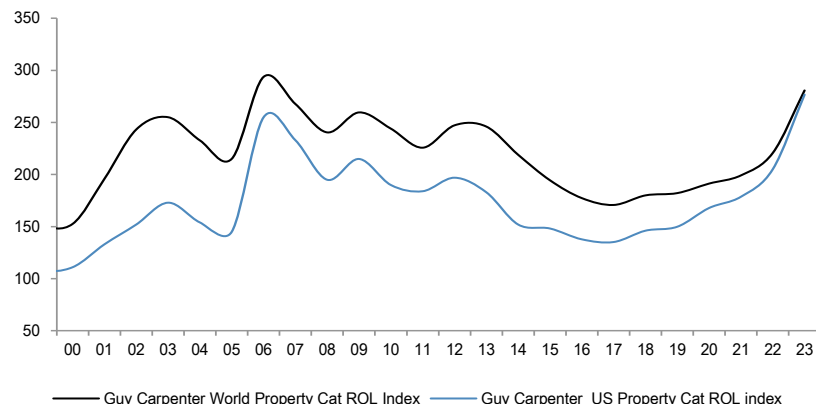
Source: Bloomberg Finance L.P.

Avg Sol II ratio for European Insurers



Source: JPM European Insurance Research

Guy Carpenter US and World Property Cat ROL Index



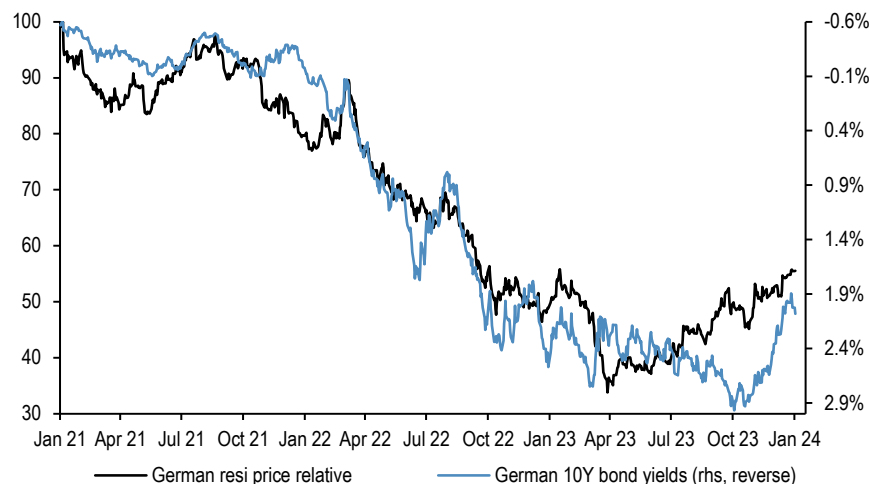
Source: JPM European Insurance Research

# REAL ESTATE: OVERWEIGHT

## Bond proxy; we upgrade the sector to OW after the sizeable underperformance

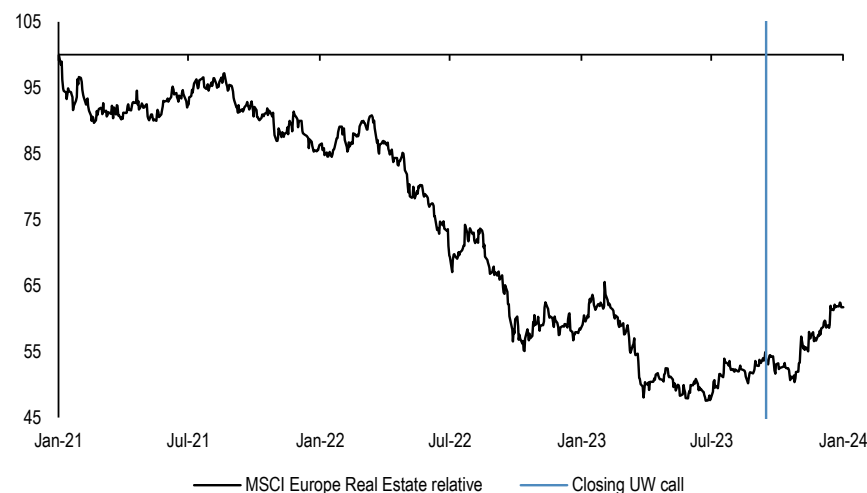
- The Real Estate sector has lost nearly half of its market capitalization relative to the market since Jan '21. Given the weak underperformance, we upgraded the sector to OW in our year ahead outlook.
- The sector is a bond proxy and does well when yields are moving lower.
- We also note that Real Estate companies are starting to get more comfortable with the growth outlook. The London office market has seen the highest volume of new office starts on record – with 5.1 million square feet (sq. ft.) of new construction starting across 43 schemes – according to Deloitte's Winter 2023 London Office Crane Survey. This is an almost a 16% jump versus 2022.

German Real Estate price relative and German bond yields



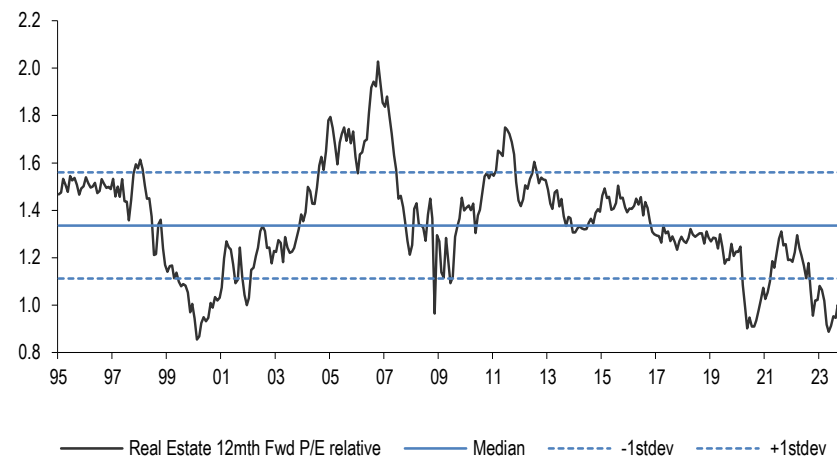
Source: Bloomberg Finance L.P.

European Real Estate price relative



Source: Datastream

MSCI Europe Real Estate 12m Fwd P/E relative



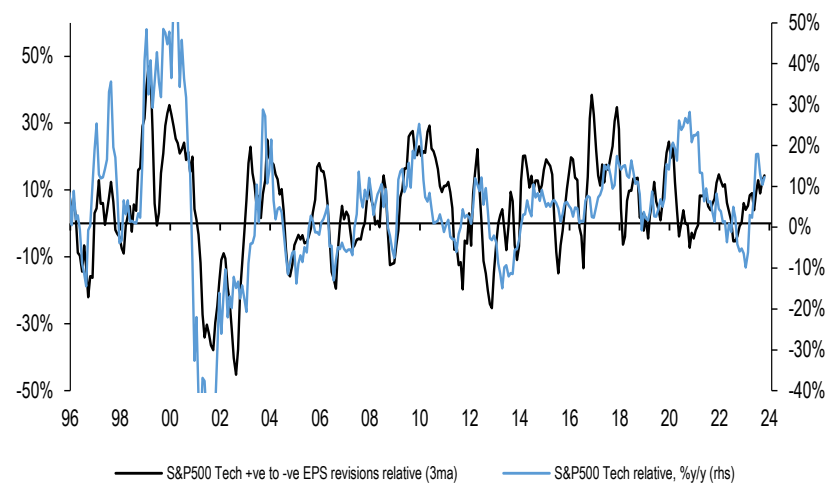
Source: Datastream

# TECHNOLOGY: NEUTRAL

We were constructive on Tech since October'22, but the sector is looking stretched, post a strong run...

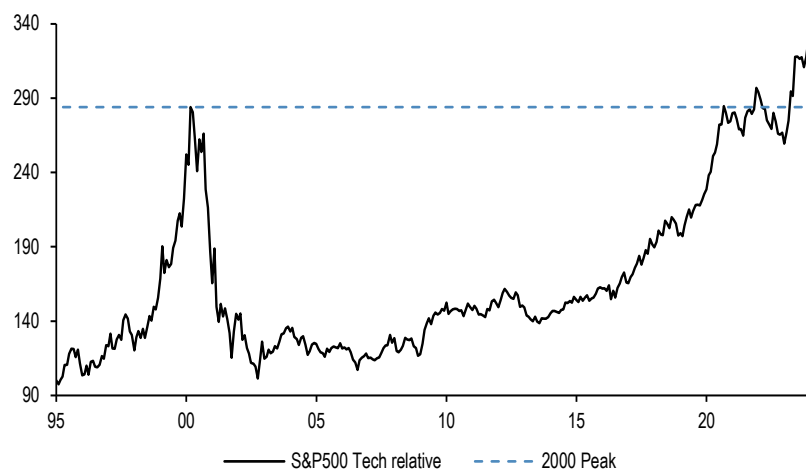
- We have argued in October '22 that one should be buying back Technology sector, following the sharp bout of prior underperformance.
- While we believe in bond yields to move lower, and advise a structural Growth exposure, we are uncomfortable to chase the Tech sector, post the strong run last year.

## US Tech +ve to -ve EPS revisions and performance



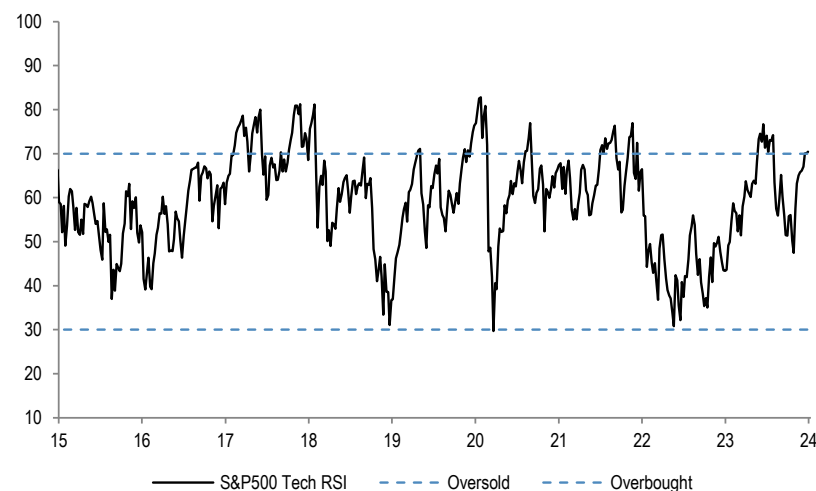
Source: IBES

## S&P500 Tech relative



Source: Datastream

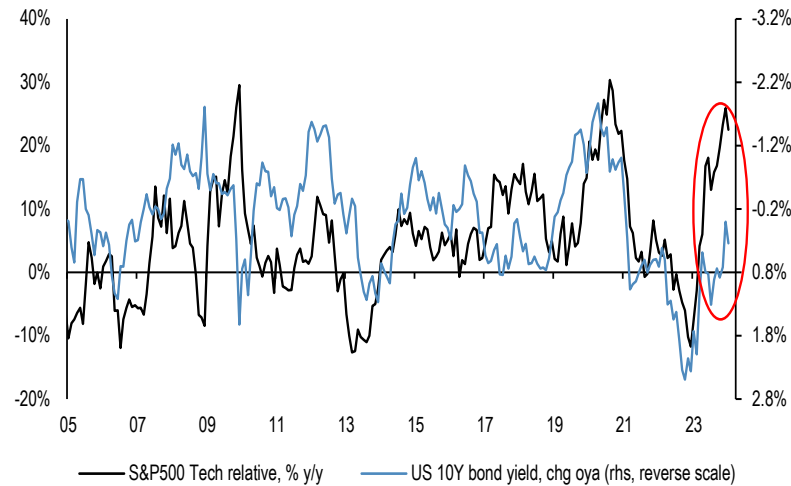
## S&P500 Tech RSI



Source: Bloomberg Finance L.P.

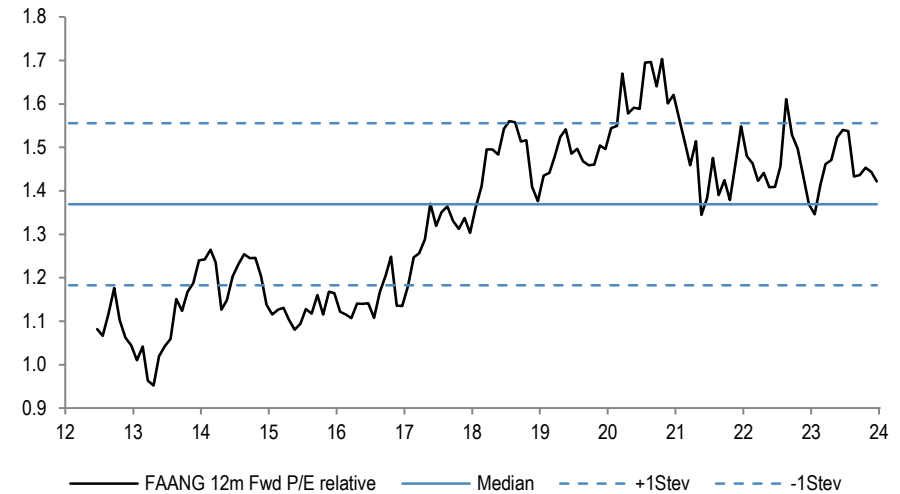
# ...Tech bounce appears to have over-discounted the fall in yields and valuations are stretched

S&P500 Tech relative and US 10Y bond yield



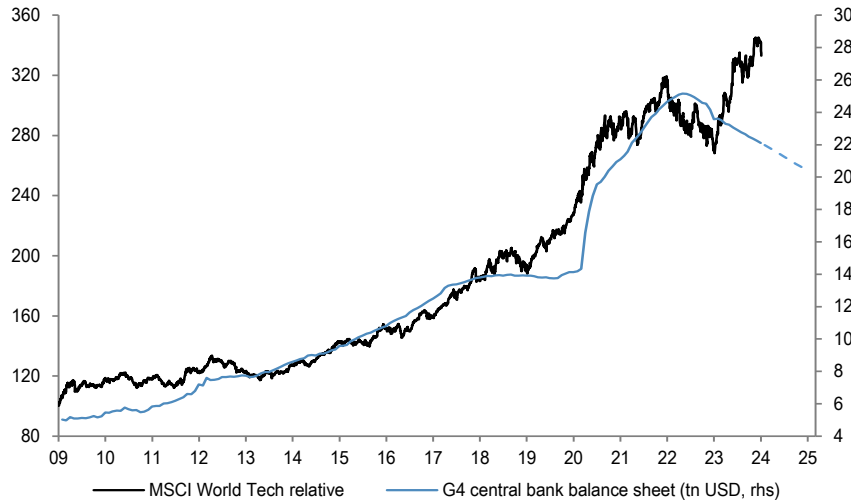
Source: Datastream

FAANG 12m Fwd. P/E relative



Source: IBES

MSCI World Tech relative and G4 central bank balance sheet



Source: Datastream

MSCI World Tech 12m Fwd. P/E relative

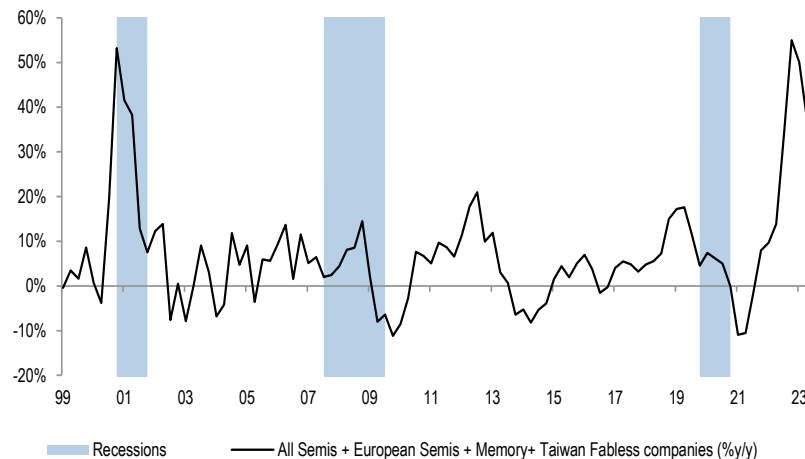


Source: IBES

## UW Semis – inventory and pricing could be headwinds

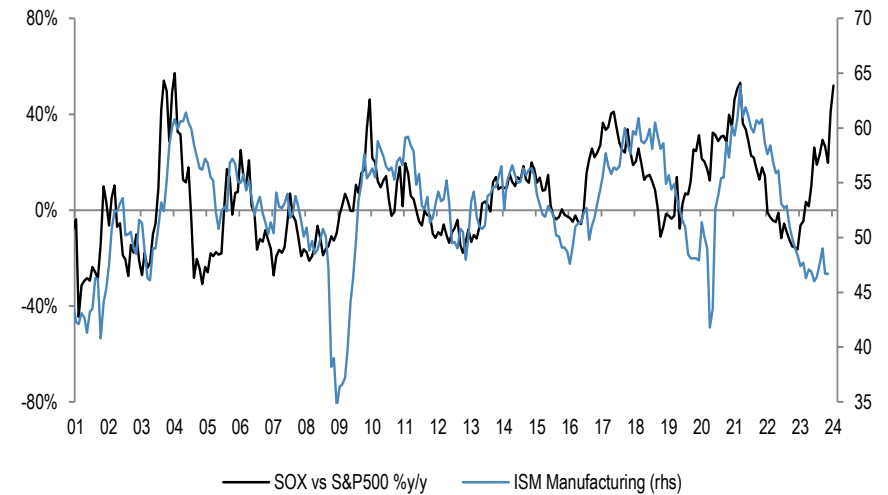
- Semis had a very strong run last year. We took advantage of this and downgraded Semis to Underweight in our year ahead. US Semis index is already discounting a rebound in ISM manufacturing, which may not come through into first half of this year.
- Inventory levels remain extreme, and we could see some destocking over the coming quarters, putting pressure on demand. This is likely to translate into weaker pricing and margins for the sector.
- Valuations look expensive.

### Global semiconductor inventory %y/y



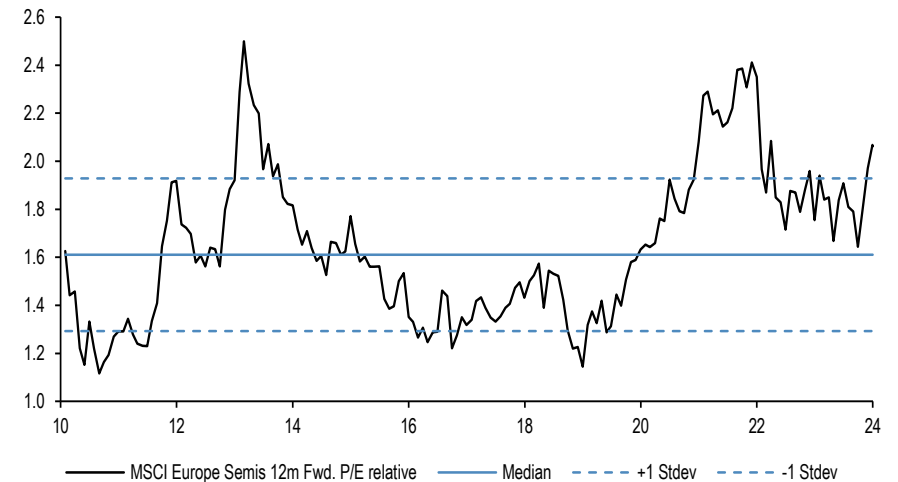
Source: JPM European Technology Research

### SOX relative and ISM



Source: IBES

### MSCI Europe Semis 12m Fwd PE relative



Source: IBES

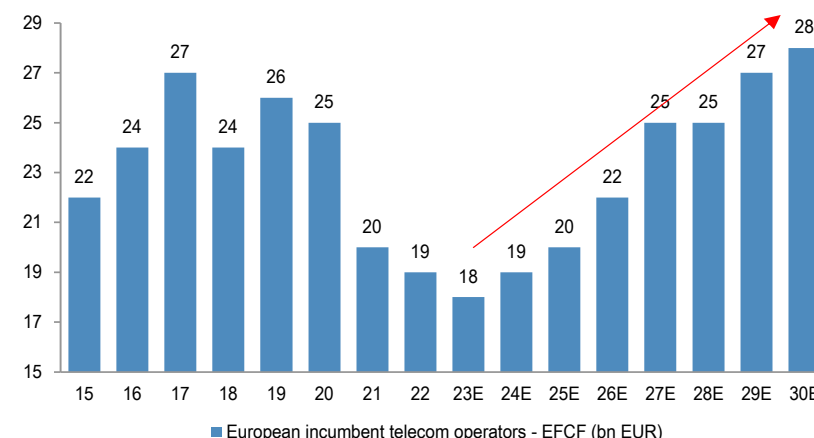


# COMMUNICATION SERVICES: OVERWEIGHT

## OW Telecoms - price hikes should drive revenue inflection; N Media

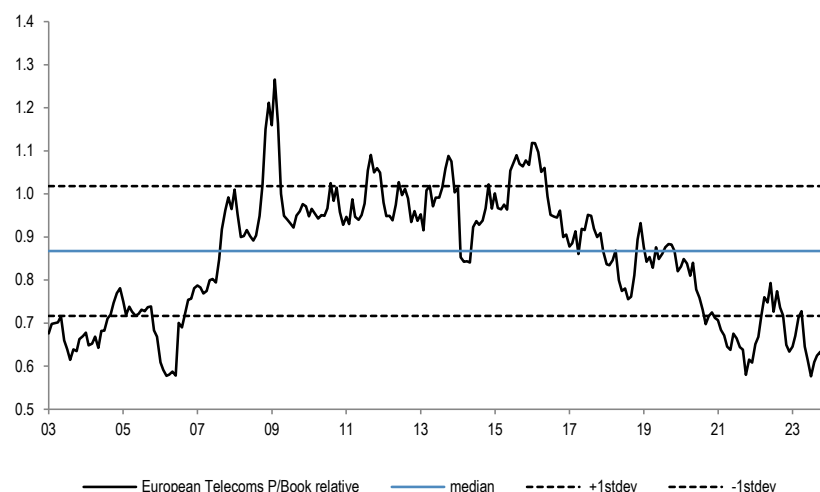
- Telecoms balance sheets have improved materially in the past few years. The sector offers close to 13% FCF yield, well above the overall market, and the companies offer attractive dividends that are well covered.
- A combination of better pricing and lower capex is helping the sector generate significantly better cash flow, underpinning the case for improving shareholder returns going forward.
- We view the sector as a cheap Defensive play and could continue to stabilize this year.

European incumbent Telecom operators - FCF



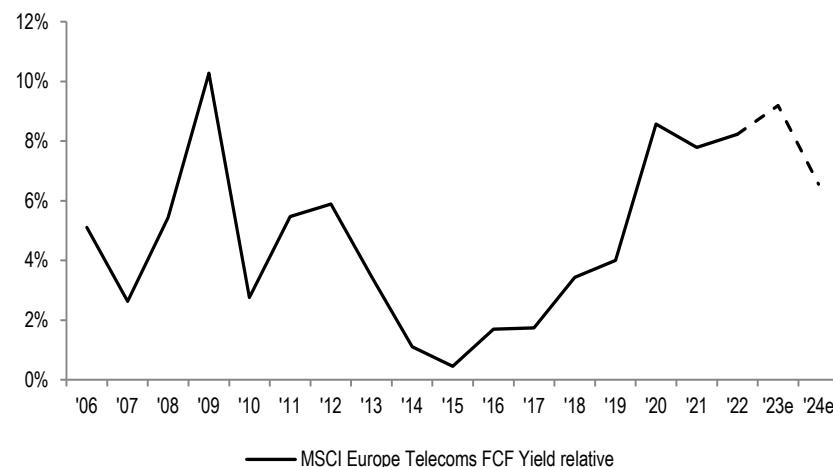
Source: J.P. Morgan Telecoms Research

European Telecoms Price to Book relative



Source: Datastream

European Telecoms FCF yield relative



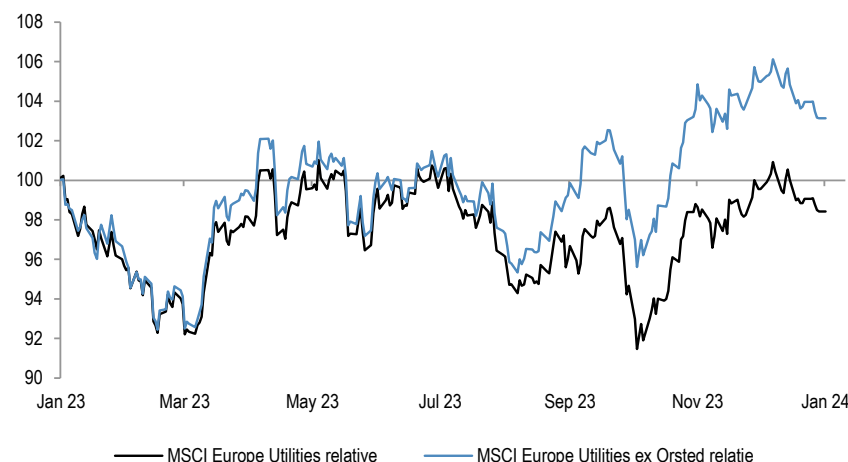
Source: Datastream

# UTILITIES: OVERWEIGHT

An opportunity to add, less regulatory uncertainty ahead, have strong pricing and likely more resilient earnings than the rest of the market...

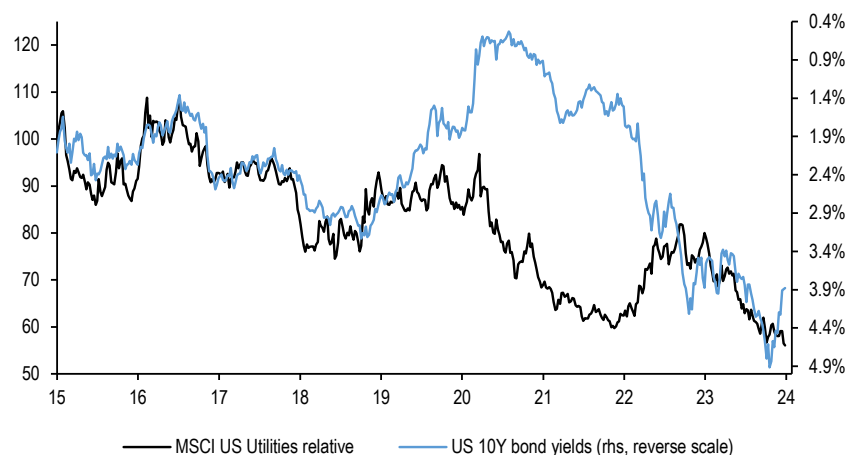
- The Utilities sector performance last year has been weighed down by the rise in bond yields and some stock specific issues.
- The correlation between sector performance and bond yields remains negative, and lower yields would help improve investor sentiment towards the sector.
- Valuations of the sector have come off the highs and are close to fair value now.

European Utilities relative



Source: Datastream

Utilities price relative vs bond yields



Source: Bloomberg Finance L.P.

European Utilities P/E relative

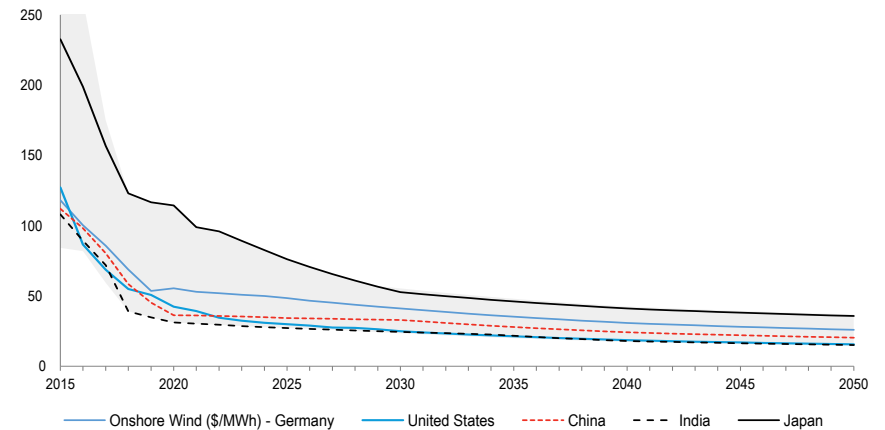


Source: IBES

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

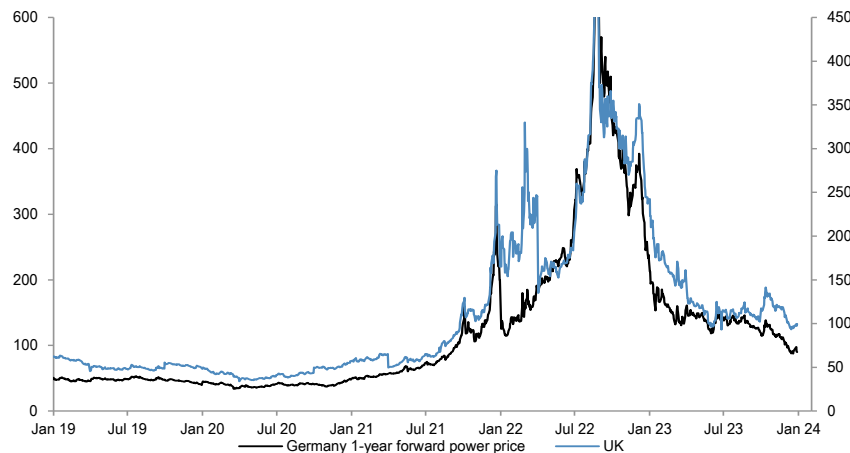
- The key argument that continues to drive the structural opportunity for the sector is the move towards renewables as they are more leveraged to real rates.
- Sector earnings have been holding up quite well so far, and are likely to continue to do so, especially given that power prices remain elevated. On average, Utility companies sell their power on 3-year forward contracts, which means that 2024 will likely see the final leg of power price increases.

Cost of Onshore wind (\$/MWh)



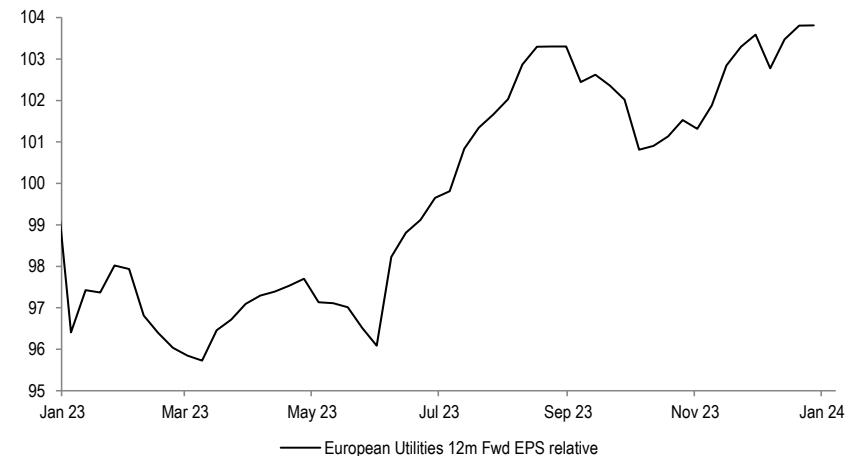
Source: Bloomberg Finance L.P., NEF

UK and Germany 1-year power forward



Source: JPM European Utilities Research team

European Utilities 12m Fwd EPS relative

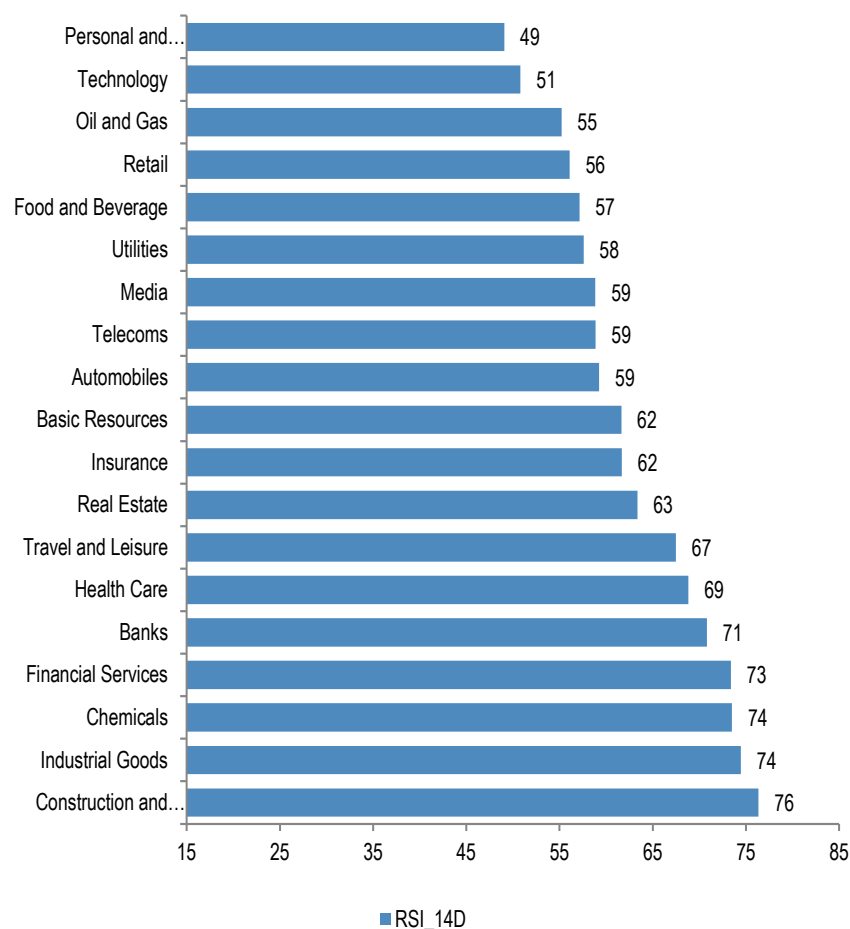


Source: IBES

# Technical

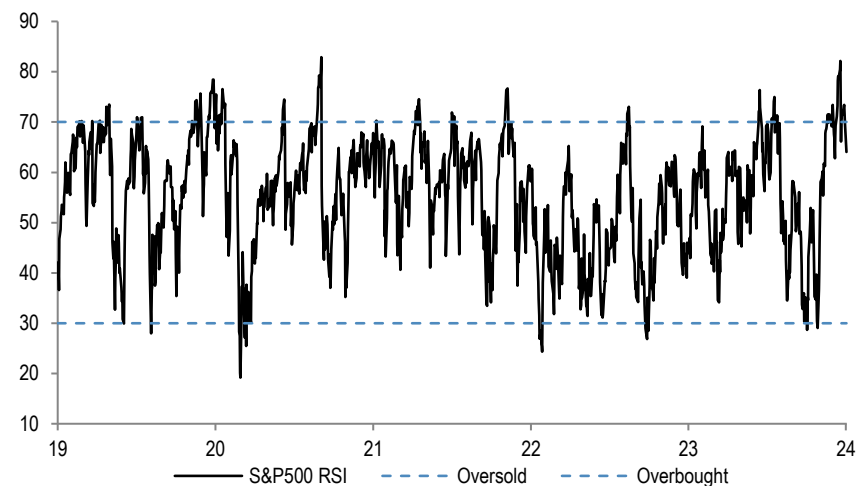
## Equities are coming off the overbought territory

SXXP sectors RSI



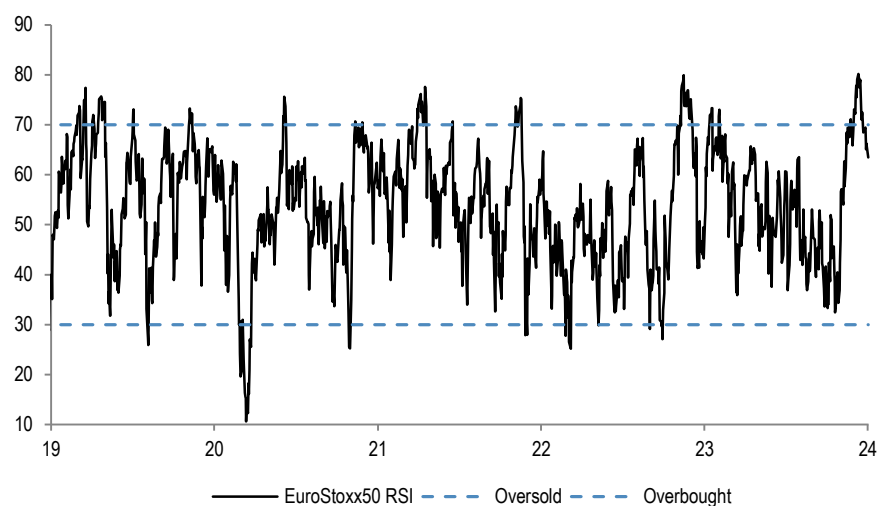
Source: Bloomberg Finance L.P

S&P500 RSI



Source: Bloomberg Finance L.P

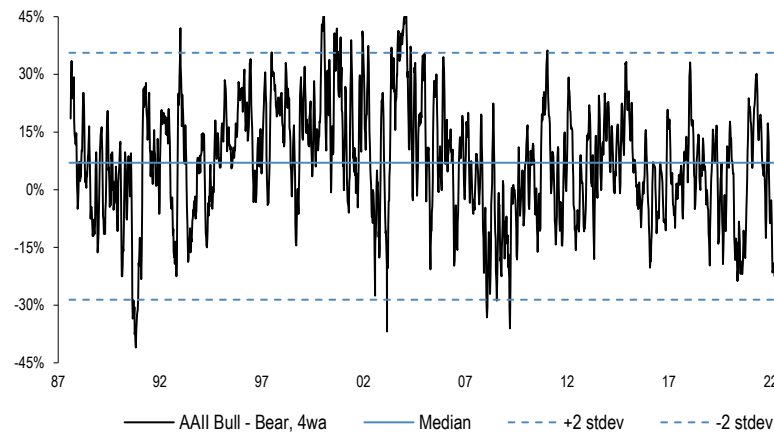
SX5E RSI



Source: Bloomberg Finance L.P

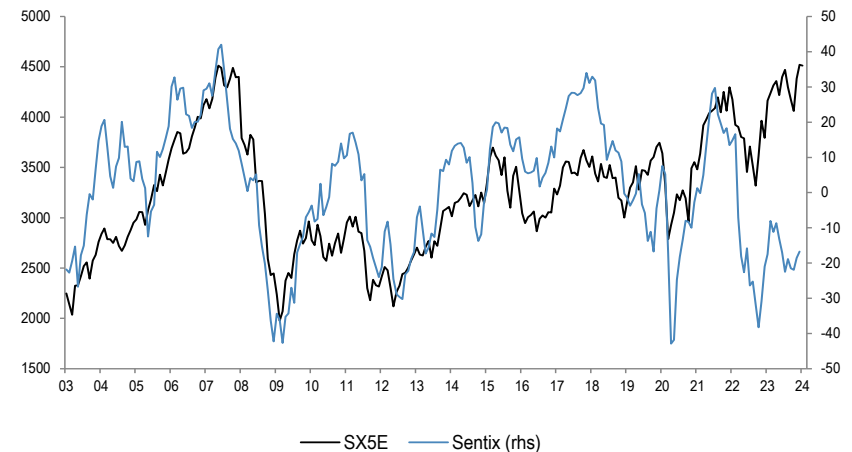
# Flows into International equities are still weak

AAll Bull-Bear



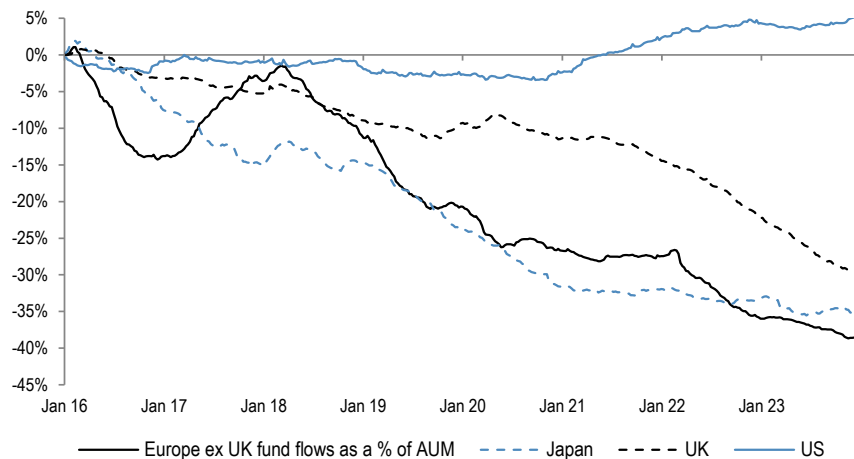
Source: Bloomberg Finance L.P

Sentix sentiment index vs SX5E



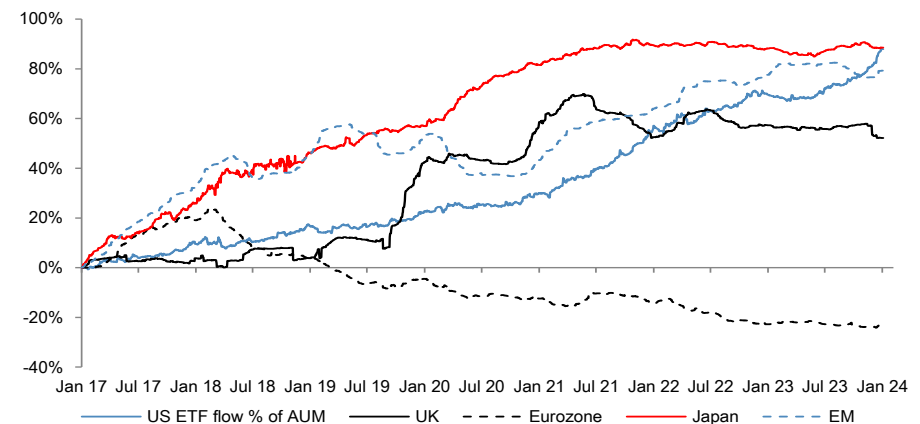
Source: Bloomberg Finance L.P

Cumulative fund flows into regional funds as % of AUM



Source: EPFR, as of 27<sup>th</sup> Dec, 2023. Japan includes Non-ETF purchases only

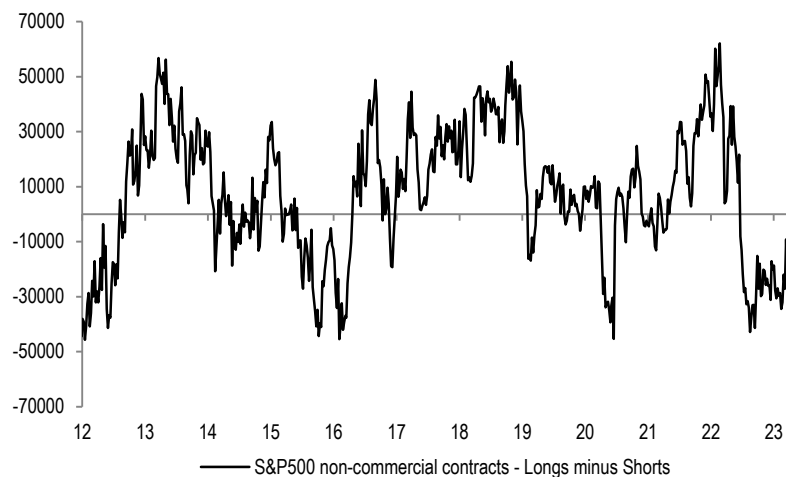
Cumulative fund flows into regional equity ETFs as % of AUM



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

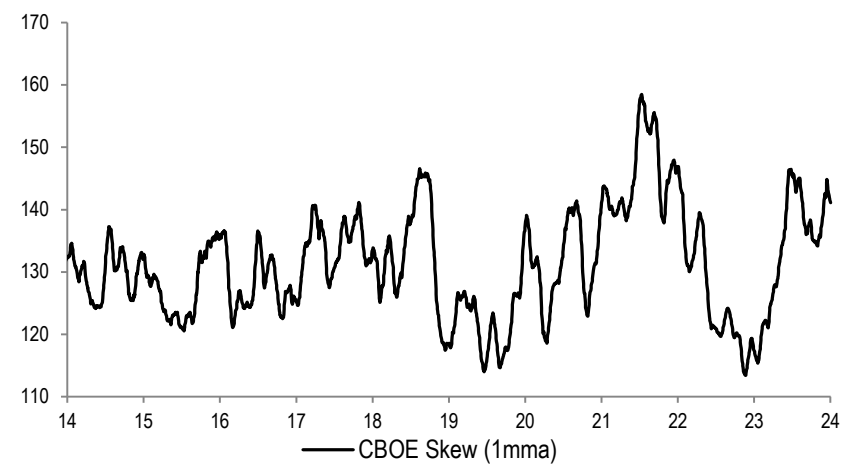
# Seasonals are better in Jan-April

## Speculative positions on S&P500 futures contracts



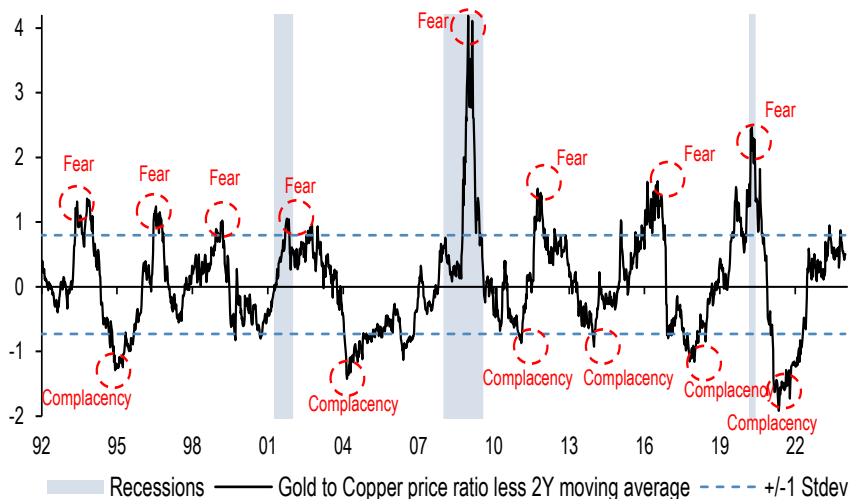
Source: Bloomberg Finance L.P.

## Equity skew



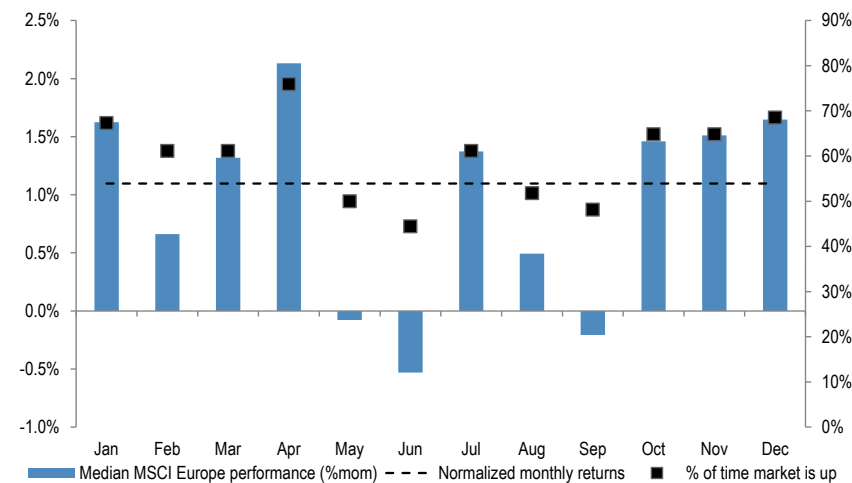
Source: Bloomberg Finance L.P.

## Gold-to-Copper price ratio



Source: Bloomberg Finance L.P.

## Seasonality\* of MSCI Europe performance



Source: Datastream, \*Median since 1970

# Equity Flows Snapshot

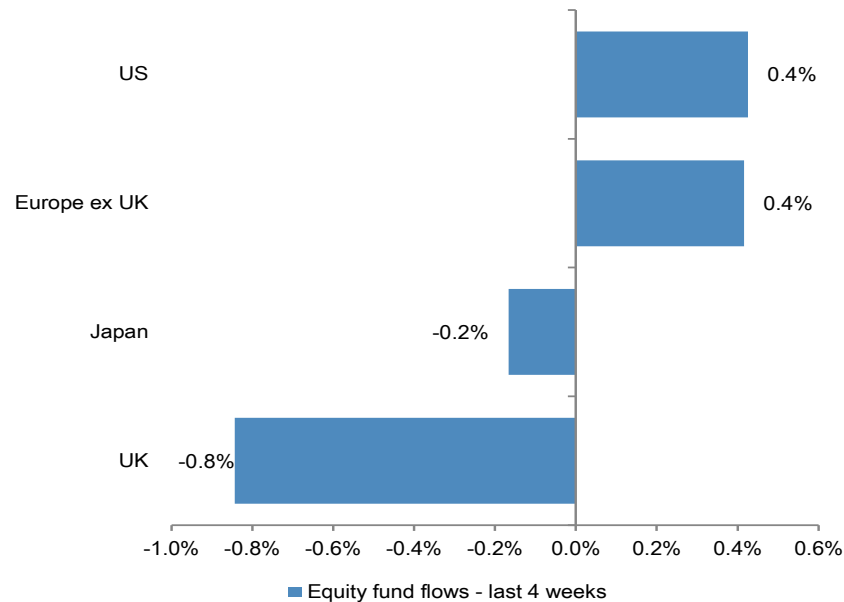
## DM Equity Fund Flows Summary

### Regional equity fund flows

|              | \$mn   |        |        |           |         | % AUM |       |       |           |        |
|--------------|--------|--------|--------|-----------|---------|-------|-------|-------|-----------|--------|
|              | 1w     | 1m     | 3m     | Since '23 | 12m     | 1w    | 1m    | 3m    | Since '23 | 12m    |
| Europe ex UK | -195   | 1,305  | -2,464 | -11,344   | -12,131 | -0.1% | 0.4%  | -0.8% | -4.0%     | -4.3%  |
| UK           | -117   | -2,223 | -5,518 | -28,787   | -28,689 | 0.0%  | -0.8% | -2.1% | -10.7%    | -10.7% |
| US           | 17,491 | 38,469 | 98,111 | 101,883   | 106,449 | 0.2%  | 0.4%  | 1.2%  | 1.3%      | 1.4%   |
| Japan        | 84     | -1,209 | -3,220 | 7,382     | 8,775   | 0.0%  | -0.2% | -0.5% | 1.2%      | 1.4%   |

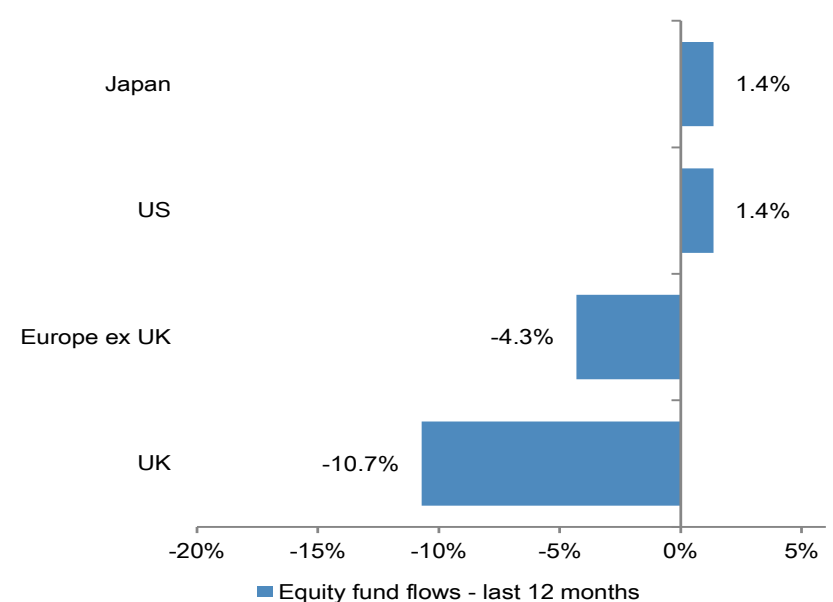
Source: EPFR

### DM Equity Fund flows - last month



Source: EPFR

### DM Equity Fund flows - last 12 months



Source: EPFR

# Global sector valuations

|                      | 12m Fwd P/E |             |             | P/book     |            |             | Cycle-adj P/E |             |             | 12m Fwd P/Sales |            |             |
|----------------------|-------------|-------------|-------------|------------|------------|-------------|---------------|-------------|-------------|-----------------|------------|-------------|
|                      | Last        | Median      | % to median | Last       | Median     | % to median | Last          | Median      | % to median | Last            | Median     | % to median |
| <b>World</b>         | <b>17.4</b> | <b>15.8</b> | <b>-10%</b> | <b>3.1</b> | <b>2.3</b> | <b>-26%</b> | <b>29.1</b>   | <b>24.6</b> | <b>-15%</b> | <b>2.0</b>      | <b>1.4</b> | <b>-31%</b> |
| Energy               | 9.7         | 14.3        | 47%         | 1.6        | 1.7        | 5%          | 16.2          | 16.8        | 4%          | 1.0             | 0.9        | -6%         |
| Chemicals            | 19.4        | 15.8        | -18%        | 2.0        | 1.9        | -7%         | 19.8          | 24.1        | 22%         | 1.8             | 1.3        | -26%        |
| Const Mat            | 15.0        | 14.1        | -6%         | 2.2        | 1.7        | -23%        | 24.4          | 20.1        | -17%        | 1.6             | 1.0        | -39%        |
| Metals&Mining        | 13.1        | 13.1        | 1%          | 1.6        | 1.6        | -3%         | 18.1          | 19.7        | 9%          | 1.2             | 0.9        | -21%        |
| Capital Goods        | 17.4        | 16.1        | -8%         | 2.1        | 2.0        | -4%         | 19.7          | 20.0        | 2%          | 1.5             | 1.0        | -38%        |
| Transport            | 19.2        | 16.0        | -17%        | 2.1        | 2.1        | -1%         | 20.9          | 26.4        | 26%         | 1.7             | 1.2        | -28%        |
| Business Services    | 23.9        | 18.8        | -21%        | -          | -          | -           | -             | -           | -           | 2.8             | 1.3        | -54%        |
| Automobile           | 12.5        | 11.7        | -6%         | 1.5        | 1.5        | -6%         | 16.4          | 18.9        | 15%         | 0.8             | 0.5        | -40%        |
| Cons Dur             | 17.8        | 17.5        | -2%         | 6.0        | 2.8        | -54%        | 42.4          | 34.0        | -20%        | 1.9             | 1.2        | -39%        |
| Media                | 19.9        | 20.0        | 0%          | 2.4        | 2.4        | 1%          | 23.5          | 28.9        | 23%         | 3.3             | 1.8        | -45%        |
| Retailing            | 27.7        | 20.7        | -25%        | 6.0        | 3.4        | -43%        | 36.9          | 32.9        | -11%        | 2.1             | 1.2        | -40%        |
| Hot,Rest&Leis        | 25.6        | 19.0        | -26%        | 6.1        | 2.5        | -60%        | 25.7          | 32.1        | 25%         | 3.2             | 2.1        | -33%        |
| Food&Drug Retailing  | 20.2        | 17.5        | -13%        | 3.6        | 3.2        | -13%        | 25.4          | 30.3        | 19%         | 0.5             | 0.4        | -18%        |
| Food Bev & Tob       | 16.5        | 17.3        | 5%          | 2.8        | 2.8        | -1%         | 24.1          | 28.1        | 17%         | 2.1             | 1.9        | -7%         |
| HPC                  | 21.5        | 20.5        | -4%         | 3.9        | 2.2        | -44%        | 28.9          | 29.1        | 1%          | 2.8             | 2.2        | -21%        |
| Healthcare           | 18.2        | 17.2        | -6%         | 4.1        | 3.3        | -20%        | 34.1          | 32.3        | -5%         | 1.9             | 1.9        | -1%         |
| Banks                | 9.2         | 11.7        | 27%         | 1.0        | 1.2        | 16%         | 12.3          | 19.6        | 59%         | 2.4             | 2.4        | 0%          |
| Div Fin              | 17.7        | 21.1        | 19%         | -          | -          | -           | -             | -           | -           | 3.2             | 1.9        | -40%        |
| Insurance            | 11.1        | 11.5        | 4%          | 1.6        | 1.6        | 0%          | 17.9          | 21.8        | 22%         | 1.0             | 0.9        | -13%        |
| Real Estate          | 26.4        | 21.1        | -20%        | 1.2        | 1.4        | 8%          | 14.2          | 20.0        | 41%         | 4.7             | 14.8       | 212%        |
| Software&Svs         | 30.0        | 23.1        | -23%        | 7.0        | 4.0        | -43%        | 50.9          | 44.8        | -12%        | 6.8             | 3.4        | -50%        |
| Tech Hardware        | 23.8        | 17.8        | -25%        | 2.4        | 2.3        | -5%         | 26.5          | 31.2        | 18%         | 4.0             | 1.5        | -62%        |
| Semicon              | 23.9        | 16.6        | -30%        | 5.7        | 2.6        | -55%        | 51.4          | 30.4        | -41%        | 7.2             | 3.0        | -58%        |
| Telecoms             | 17.4        | 15.4        | -11%        | 1.9        | 2.2        | 17%         | 15.7          | 20.3        | 29%         | 2.4             | 1.4        | -44%        |
| Utilities            | 14.4        | 15.0        | 4%          | 1.8        | 1.6        | -11%        | 19.8          | 18.9        | -4%         | 1.3             | 1.1        | -15%        |
| <b>Cyclicals</b>     | <b>22.0</b> | <b>17.3</b> | <b>-21%</b> | <b>4.6</b> | <b>2.3</b> | <b>-49%</b> | <b>27.6</b>   | <b>28.9</b> | <b>5%</b>   | <b>3.5</b>      | <b>1.5</b> | <b>-58%</b> |
| <b>Defensives</b>    | <b>17.7</b> | <b>17.2</b> | <b>-3%</b>  | <b>3.5</b> | <b>2.9</b> | <b>-18%</b> | <b>26.2</b>   | <b>27.3</b> | <b>4%</b>   | <b>1.8</b>      | <b>1.5</b> | <b>-18%</b> |
| <b>Cyc. Vs. Def.</b> | <b>1.2</b>  | <b>1.0</b>  | <b>-19%</b> | <b>1.3</b> | <b>0.8</b> | <b>-38%</b> | <b>1.1</b>    | <b>1.1</b>  | <b>1%</b>   | <b>1.9</b>      | <b>1.0</b> | <b>-49%</b> |

Source: Datastream, MSCI, IBES. At 02<sup>nd</sup> Jan 2024. 12m Fwd P/E since 1995, Cycle-adjusted P/E since 1983, P/Book since 1980, P/Sales since 2000



## European sector valuations

|                        | 12m Fwd P/E |             |             | P/book     |            |             | Cycle-adj P/E |             |             | 12m Fwd P/Sales |            |             |
|------------------------|-------------|-------------|-------------|------------|------------|-------------|---------------|-------------|-------------|-----------------|------------|-------------|
|                        | Last        | Median      | % to median | Last       | Median     | % to median | Last          | Median      | % to median | Last            | Median     | % to median |
| <b>Europe</b>          | <b>12.9</b> | <b>14.0</b> | <b>9%</b>   | <b>2.0</b> | <b>1.8</b> | <b>-7%</b>  | <b>20.8</b>   | <b>19.7</b> | <b>-5%</b>  | <b>1.4</b>      | <b>1.3</b> | <b>-9%</b>  |
| Energy                 | 7.0         | 12.6        | 80%         | 0.5        | 1.2        | 145%        | 13.3          | 14.3        | 8%          | 0.5             | 0.7        | 56%         |
| Chemicals              | 20.9        | 15.1        | -28%        | 2.0        | 1.9        | -6%         | 19.2          | 18.7        | -2%         | 1.1             | 0.9        | -17%        |
| Const Mat              | 11.9        | 12.8        | 8%          | 2.1        | 1.7        | -21%        | 24.4          | 17.1        | -30%        | 0.6             | 0.9        | 60%         |
| Metals&Mining          | 10.2        | 10.9        | 7%          | 1.1        | 1.3        | 23%         | 14.3          | 15.2        | 6%          | 0.9             | 0.7        | -21%        |
| Capital Goods          | 17.4        | 15.1        | -13%        | 2.3        | 1.9        | -16%        | 21.7          | 21.2        | -3%         | 1.2             | 0.7        | -36%        |
| Business Services      | 19.1        | 14.4        | -25%        | -          | -          | -           | -             | -           | -           | 1.5             | 1.2        | -19%        |
| Transport              | 19.9        | 17.3        | -13%        | 1.7        | 1.4        | -20%        | 17.2          | 21.1        | 22%         | 1.3             | 0.8        | -40%        |
| Automobile             | 5.6         | 9.8         | 74%         | 0.8        | 1.1        | 43%         | 8.7           | 12.5        | 43%         | 0.4             | 0.4        | 10%         |
| Cons Dur               | 19.9        | 16.7        | -16%        | 6.1        | 2.8        | -55%        | 45.8          | 35.4        | -23%        | 1.5             | 1.5        | -6%         |
| Media                  | 15.6        | 16.2        | 3%          | 2.6        | 2.4        | -9%         | 18.5          | 23.4        | 27%         | 1.8             | 1.7        | -8%         |
| Retailing              | 14.9        | 17.6        | 18%         | 4.0        | 3.2        | -19%        | 22.7          | 23.1        | 1%          | 1.9             | 1.1        | -40%        |
| Hot,Rest&Leis          | 21.7        | 17.3        | -20%        | 3.9        | 1.7        | -56%        | 16.2          | 19.5        | 20%         | 1.3             | 0.7        | -45%        |
| Food&Drug Retailing    | 12.4        | 14.4        | 16%         | 3.3        | 2.9        | -11%        | 20.8          | 26.6        | 28%         | 0.3             | 0.3        | -3%         |
| Food Bev & Tob         | 16.2        | 16.9        | 4%          | 2.3        | 2.4        | 5%          | 22.7          | 24.3        | 7%          | 1.7             | 1.2        | -27%        |
| HPC                    | 19.4        | 20.6        | 6%          | 4.4        | 2.4        | -45%        | 32.2          | 24.1        | -25%        | 2.6             | 2.2        | -17%        |
| Healthcare             | 16.6        | 16.8        | 1%          | 3.3        | 3.0        | -8%         | 29.2          | 26.3        | -10%        | 2.9             | 3.0        | 1%          |
| Banks                  | 6.5         | 10.9        | 67%         | 0.8        | 0.9        | 10%         | 12.3          | 12.7        | 3%          | 1.5             | 2.2        | 44%         |
| Diversified Financials | 13.4        | 11.9        | -11%        | -          | -          | -           | -             | -           | -           | 2.0             | 2.3        | 14%         |
| Insurance              | 9.8         | 10.4        | 6%          | 1.4        | 1.5        | 4%          | 14.7          | 21.3        | 45%         | 0.8             | 0.6        | -22%        |
| Real Estate            | 14.3        | 18.7        | 31%         | 0.8        | 1.0        | 25%         | 8.9           | 23.9        | 168%        | 12.3            | 9.0        | -27%        |
| Software&Svs           | 22.6        | 21.6        | -4%         | 3.7        | 3.8        | 3%          | 28.0          | 33.8        | 21%         | 6.8             | 2.6        | -61%        |
| Tech Hardware          | 15.4        | 17.9        | 16%         | 1.0        | 2.2        | 120%        | 16.6          | 22.2        | 34%         | 3.7             | 1.6        | -58%        |
| Semicon                | 25.0        | 21.4        | -14%        | 2.7        | 2.4        | -12%        | 43.3          | 38.6        | -11%        | 9.5             | 3.5        | -63%        |
| Telecoms               | 13.9        | 14.3        | 3%          | 1.5        | 2.1        | 46%         | 13.7          | 19.7        | 44%         | 1.7             | 1.4        | -13%        |
| Utilities              | 12.9        | 13.9        | 8%          | 1.8        | 1.5        | -15%        | 18.0          | 19.0        | 6%          | 1.2             | 1.2        | -1%         |
| <b>Cyclicals</b>       | <b>15.3</b> | <b>15.2</b> | <b>0%</b>   | <b>2.6</b> | <b>1.9</b> | <b>-25%</b> | <b>23.1</b>   | <b>20.4</b> | <b>-12%</b> | <b>1.3</b>      | <b>0.9</b> | <b>-34%</b> |
| <b>Defensives</b>      | <b>16.3</b> | <b>16.1</b> | <b>-1%</b>  | <b>2.6</b> | <b>2.6</b> | <b>-3%</b>  | <b>23.4</b>   | <b>23.2</b> | <b>-1%</b>  | <b>1.8</b>      | <b>1.5</b> | <b>-16%</b> |
| <b>Cyc. vs Def.</b>    | <b>0.9</b>  | <b>0.9</b>  | <b>-1%</b>  | <b>1.0</b> | <b>0.8</b> | <b>-23%</b> | <b>1.0</b>    | <b>0.9</b>  | <b>-11%</b> | <b>0.7</b>      | <b>0.6</b> | <b>-22%</b> |

Source: Datastream, MSCI, IBES. At 04<sup>th</sup> Jan 2024. 12m Fwd P/E since 1995, Cycle-adjusted P/E since 1983, P/Book since 1980, P/Sales since 2000

## UK sector valuations

|                     | 12m Fwd P/E |        |             | P/book |        |             | Cycle-adj P/E |        |             | 12m Fwd P/Sales |        |             |
|---------------------|-------------|--------|-------------|--------|--------|-------------|---------------|--------|-------------|-----------------|--------|-------------|
|                     | Last        | Median | % to median | Last   | Median | % to median | Last          | Median | % to median | Last            | Median | % to median |
| UK                  | 10.8        | 13.1   | 21%         | 1.8    | 1.8    | 4%          | 17.0          | 17.4   | 3%          | 1.2             | 1.1    | -8%         |
| Energy              | 7.1         | 12.8   | 79%         | 0.2    | 1.1    | 396%        | 22.1          | 16.4   | -26%        | 0.6             | 0.6    | 5%          |
| Chemicals           | 27.5        | 16.0   | -42%        | 1.5    | 2.6    | 72%         | 13.5          | 19.1   | 41%         | 3.9             | 0.8    | -80%        |
| Const Mat           | -           | -      | -           | 1.3    | 2.0    | 52%         | 17.1          | 17.0   | 0%          | -               | 1.3    | -           |
| Metals&Mining       | 10.9        | 11.4   | 4%          | 1.3    | 1.7    | 35%         | 17.0          | 17.0   | 0%          | 0.7             | 0.9    | 22%         |
| Capital Goods       | 17.8        | 14.0   | -22%        | 1.9    | 2.6    | 34%         | 20.1          | 17.7   | -12%        | 1.3             | 0.8    | -38%        |
| Transport           | -           | -      | -           | 3.6    | 2.6    | -28%        | 18.5          | 19.2   | 4%          | -               | -      | -           |
| Business Services   | 23.4        | 16.5   | -29%        | -      | -      | -           | -             | -      | -           | 4.2             | 1.3    | -69%        |
| Automobile          | -           | -      | -           | -      | -      | -           | 5.2           | 15.9   | 206%        | -               | -      | -           |
| Cons Dur            | 15.2        | 10.8   | -29%        | 3.5    | 4.8    | 40%         | 15.2          | 28.3   | 86%         | 1.6             | 1.9    | 20%         |
| Media               | 12.6        | 15.4   | 22%         | 2.4    | 2.2    | -8%         | 22.8          | 23.0   | 1%          | 1.5             | 1.5    | 0%          |
| Retailing           | 11.9        | 13.7   | 16%         | 3.3    | 2.6    | -22%        | 17.1          | 19.6   | 15%         | 0.7             | 0.7    | -7%         |
| Hot,Rest&Leis       | 20.4        | 16.2   | -20%        | 5.4    | 1.9    | -65%        | 14.8          | 20.3   | 37%         | 1.5             | 0.8    | -46%        |
| Food&Drug Retailing | 15.3        | 14.3   | -6%         | 4.5    | 3.0    | -33%        | 18.9          | 23.4   | 24%         | 0.3             | 0.4    | 26%         |
| Food Bev & Tob      | 9.3         | 14.2   | 52%         | 1.6    | 2.7    | 66%         | 17.9          | 22.7   | 27%         | 2.1             | 1.9    | -8%         |
| HPC                 | 16.0        | 18.3   | 15%         | 2.2    | 1.5    | -32%        | 13.0          | 19.9   | 53%         | 2.0             | 2.8    | 38%         |
| Healthcare          | 13.7        | 15.8   | 15%         | 2.9    | 5.2    | 76%         | 29.1          | 23.0   | -21%        | 3.1             | 2.8    | -10%        |
| Banks               | 6.1         | 10.5   | 73%         | 0.6    | 0.9    | 51%         | 13.9          | 12.3   | -12%        | 1.7             | 2.2    | 25%         |
| Div Fin             | 11.8        | 13.3   | 13%         | -      | -      | -           | -             | -      | -           | 5.1             | 3.0    | -41%        |
| Insurance           | 10.5        | 10.6   | 1%          | 1.6    | 1.9    | 22%         | 13.0          | 15.1   | 16%         | 0.8             | 0.8    | -3%         |
| Real Estate         | 20.0        | 21.0   | 5%          | 0.9    | 0.9    | -6%         | 13.3          | 24.7   | 86%         | 12.1            | 26.5   | 119%        |
| Software&Svs        | 31.3        | 18.6   | -41%        | 5.7    | 4.5    | -21%        | 29.9          | 31.2   | 4%          | 4.9             | 3.1    | -37%        |
| Tech Hardware       | -           | -      | -           | 1.9    | 3.1    | 64%         | 11.9          | 26.0   | 119%        | -               | 1.1    | -           |
| Semicon             | -           | -      | -           | -      | -      | -           | 57.0          | -      | -           | -               | 13.1   | -           |
| Telecoms            | 10.2        | 13.4   | 31%         | 1.0    | 2.2    | 123%        | 7.4           | 19.3   | 162%        | 0.8             | 1.5    | 96%         |
| Utilities           | 13.1        | 13.4   | 2%          | 1.7    | 2.4    | 44%         | 16.4          | 16.1   | -2%         | 1.2             | 0.9    | -25%        |
| Cyclicals           | 12.9        | 14.1   | 10%         | 2.8    | 2.4    | -13%        | 26.6          | 20.8   | -22%        | 1.5             | 1.2    | -20%        |
| Defensives          | 9.4         | 14.3   | 51%         | 2.4    | 3.6    | 48%         | 20.3          | 21.0   | 3%          | 1.9             | 1.8    | -6%         |
| Cyc. Vs. Def.       | 1.4         | 0.9    | -32%        | 1.1    | 0.7    | -41%        | 1.3           | 1.0    | -24%        | 0.8             | 0.7    | -10%        |

Source: Datastream, MSCI, IBES. At 02<sup>nd</sup> Jan 2024. 12m Fwd P/E since 1995, Cycle-adjusted P/E since 1983, P/Book since 1980, P/Sales since 2000

## Regional GDP, CPI, Interest Rate and Exchange Outlook

|                  | Real GDP |       |       | Real GDP                     |       |       |       |       |       | Consumer prices |       |       |       |
|------------------|----------|-------|-------|------------------------------|-------|-------|-------|-------|-------|-----------------|-------|-------|-------|
|                  | % oya    |       |       | % over previous period, saar |       |       |       |       |       | % oya           |       |       |       |
|                  | 2023E    | 2024E | 2025E | 3Q23                         | 4Q23E | 1Q24E | 2Q24E | 3Q24E | 4Q24E | 3Q23            | 1Q24E | 3Q24E | 1Q25E |
| United States    | 2.5      | 1.6   | 1.5   | 4.9                          | 2.0   | 1.3   | 0.5   | 0.5   | 0.7   | 3.6             | 2.7   | 2.3   | 2.4   |
| Eurozone         | 0.5      | 0.4   | 1.0   | -0.5                         | 0.0   | 0.5   | 0.7   | 0.7   | 0.7   | 5.0             | 2.4   | 1.9   | 2.0   |
| United Kingdom   | 0.3      | 0.1   | -0.1  | -0.5                         | 0.0   | 1.0   | 0.5   | -0.8  | -1.0  | 6.7             | 4.4   | 3.2   | 2.6   |
| Japan            | 2.0      | 0.7   | 0.7   | -2.9                         | 0.5   | 1.3   | 1.6   | 0.7   | 0.7   | 3.1             | 4.0   | 4.0   | 2.5   |
| Emerging markets | 4.1      | 3.8   | 3.6   | 3.6                          | 2.2   | 2.3   | 1.9   | 1.9   | 1.9   | 3.8             | 4.0   | 3.7   | 3.4   |
| Global           | 2.7      | 2.2   | 2.2   | 5.7                          | 3.7   | 4.0   | 3.6   | 3.7   | 3.6   | 4.0             | 3.3   | 2.9   | 2.8   |

| Official interest rate | Forecast       | Forecast for |        |        |        |        |
|------------------------|----------------|--------------|--------|--------|--------|--------|
|                        | next change    | Current      | Mar 24 | Jun 24 | Sep 24 | Dec 24 |
| Federal funds rate     | Jun 24 (-25bp) | 5.50         | 5.50   | 5.25   | 4.75   | 4.25   |
| Depo rate              | Sep 24 (-25bp) | 4.00         | 4.00   | 4.00   | 3.75   | 3.25   |
| Bank Rate              | 4Q24 (-25bp)   | 5.25         | 5.25   | 5.25   | 5.25   | 4.75   |
| Pol rate IOER          | 3Q24 (+10bp)   | -0.10        | -0.10  | -0.10  | 0.00   | 0.00   |

| 10 Yr<br>Govt BY | Forecast for end of |        |        |        |        |
|------------------|---------------------|--------|--------|--------|--------|
|                  | 3-Jan-24            | Mar 24 | Jun 24 | Sep 24 | Dec 24 |
| US               | 3.97                | 3.95   | 3.80   | 3.75   | 3.65   |
| Euro Area        | 2.05                | 2.40   | 2.25   | 2.15   | 2.00   |
| United Kingdom   | 3.65                | 3.95   | 3.80   | 3.55   | 3.45   |
| Japan            | 0.61                | 0.85   | 0.90   | 1.00   | 1.00   |

| Exchange rates vs US\$ | Forecast for end of |        |        |        |        |
|------------------------|---------------------|--------|--------|--------|--------|
|                        | 2-Jan-24            | Mar 24 | Jun 24 | Sep 24 | Dec 24 |
| EUR                    | 1.09                | 1.03   | 1.05   | 1.10   | 1.13   |
| GBP                    | 1.26                | 1.18   | 1.19   | 1.24   | 1.26   |
| CHF                    | 0.85                | 0.92   | 0.90   | 0.86   | 0.85   |
| JPY                    | 142                 | 153    | 151    | 148    | 146    |
| DXV                    | 102.2               | 108.7  | 107.1  | 102.7  | 100.3  |

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

# European countries' valuations and EPS growth metrics

| Fwd P/E        |             |             |            |                   | P/Book     |            |           |                   | Div Yield (%) |            | Perf        |            | EPS Growth |           |           |                       | GDP Growth |            |            |
|----------------|-------------|-------------|------------|-------------------|------------|------------|-----------|-------------------|---------------|------------|-------------|------------|------------|-----------|-----------|-----------------------|------------|------------|------------|
|                |             |             |            |                   |            |            |           |                   |               |            | 2022        | Since '23  |            |           |           |                       |            |            |            |
|                | Current     | LT Median   | % Disc     | % Disc Rel to EMU | Current    | LT Median  | % Disc    | % Disc Rel to EMU | Current       | LT Median  |             |            | 2023e      | 2024e     | 2025e     | Since '23 12m Fwd EPS | 2023e      | 2024e      | 2025e      |
| Austria        | 6.8         | 11.5        | -41%       | -30%              | 0.9        | 1.2        | -24%      | -18%              | 6.1           | 2.4        | -24%        | 8%         | -10%       | -6%       | -2%       | -1.5%                 | -0.5       | 0.3        | 1.5        |
| Belgium        | 16.4        | 14.0        | 18%        | 31%               | 1.6        | 1.9        | -17%      | -20%              | 2.4           | 3.0        | -8%         | 1%         | 30%        | 5%        | 13%       | 11.6%                 | 1.4        | 0.8        | 1.3        |
| Finland        | 14.5        | 15.4        | -6%        | 5%                | 1.7        | 2.3        | -25%      | -35%              | 4.8           | 3.5        | -12%        | -10%       | -25%       | 11%       | 11%       | -13.7%                | -0.1       | 0.5        | 1.4        |
| France         | 13.4        | 13.9        | -4%        | 6%                | 1.9        | 1.7        | 12%       | 11%               | 2.7           | 3.1        | -10%        | 15%        | 0%         | 4%        | 9%        | 0.8%                  | 0.8        | 0.5        | 1.0        |
| Germany        | 11.3        | 13.1        | -14%       | -4%               | 1.4        | 1.7        | -13%      | -14%              | 3.3           | 2.7        | -19%        | 16%        | 0%         | 8%        | 11%       | 6.4%                  | -0.1       | 0.2        | 0.8        |
| Greece         | 9.4         | 12.8        | -26%       | -18%              | 1.0        | 1.5        | -31%      | -28%              | 2.8           | 2.6        | 4%          | 41%        | 4%         | -2%       | 4%        | 56.1%                 | 2.2        | 1.5        | 2.2        |
| Ireland        | 12.9        | 14.8        | -13%       | -4%               | 1.7        | 1.9        | -11%      | -14%              | 1.2           | 2.0        | -22%        | 18%        | 42%        | 1%        | 8%        | 22.6%                 | -1.4       | 2.6        | 3.4        |
| Italy          | 8.3         | 13.1        | -37%       | -29%              | 1.2        | 1.2        | 3%        | 1%                | 4.8           | 3.7        | -12%        | 28%        | 11%        | 0%        | 2%        | 18.8%                 | 0.7        | 0.4        | 0.8        |
| Netherlands    | 17.3        | 14.4        | 20%        | 35%               | 2.9        | 2.2        | 28%       | 36%               | 2.0           | 2.7        | -25%        | 18%        | 23%        | 6%        | 18%       | 17.2%                 | 0.2        | 0.7        | 1.5        |
| Portugal       | 15.3        | 15.1        | 1%         | 13%               | 2.1        | 2.0        | 3%        | 2%                | 3.3           | 3.7        | 4%          | 1%         | 33%        | 7%        | 7%        | 4.0%                  | 2.1        | 1.1        | 2.0        |
| Spain          | 10.3        | 12.8        | -20%       | -11%              | 1.3        | 1.5        | -12%      | -11%              | 4.1           | 4.0        | -3%         | 25%        | 12%        | 3%        | 4%        | 22.6%                 | 2.4        | 1.3        | 1.2        |
| <b>EMU</b>     | <b>12.3</b> | <b>13.6</b> | <b>-9%</b> |                   | <b>1.7</b> | <b>1.7</b> | <b>1%</b> |                   | <b>3.1</b>    | <b>3.1</b> | <b>-15%</b> | <b>16%</b> | <b>5%</b>  | <b>5%</b> | <b>9%</b> | <b>60.3%</b>          | <b>0.5</b> | <b>0.5</b> | <b>1.4</b> |
| Norway         | 10.2        | 11.7        | -13%       |                   | 1.8        | 1.7        | 7%        |                   | 5.5           | 3.6        | 0%          | 3%         | -38%       | 12%       | -2%       | -16.3%                | 1.1        | 0.7        | 1.3        |
| Sweden         | 14.6        | 15.1        | -3%        |                   | 2.3        | 2.2        | 3%        |                   | 2.7           | 3.0        | -19%        | 17%        | 20%        | 0%        | 8%        | 8.1%                  | -0.5       | 0.1        | 2.0        |
| Switzerland    | 17.2        | 16.2        | 6%         |                   | 3.5        | 2.8        | 26%       |                   | 3.1           | 2.8        | -19%        | 3%         | 1%         | 9%        | 13%       | -1.5%                 | 0.8        | 1.1        | 1.5        |
| Denmark        | 26.7        | 16.6        | 61%        |                   | 5.8        | 3.2        | 79%       |                   | 1.6           | 1.7        | 0%          | 26%        | -31%       | 17%       | 24%       | 6.1%                  | 1.1        | 1.4        | 1.9        |
| United Kingdom | 10.8        | 13.1        | -17%       |                   | 1.8        | 1.9        | -5%       |                   | 3.6           | 3.6        | 3%          | 3%         | -13%       | 5%        | 6%        | -6.4%                 | 0.3        | 0.1        | -0.1       |
| <b>Europe</b>  | <b>12.9</b> | <b>14.0</b> | <b>-8%</b> |                   | <b>2.0</b> | <b>1.9</b> | <b>5%</b> |                   | <b>3.1</b>    | <b>3.2</b> | <b>-11%</b> | <b>11%</b> | <b>-3%</b> | <b>5%</b> | <b>9%</b> | <b>49.4%</b>          | <b>0.5</b> | <b>0.4</b> | <b>1.0</b> |
| US             | 20.0        | 16.5        | 21%        |                   | 4.5        | 2.9        | 53%       |                   | 1.5           | 1.8        | -21%        | 24%        | 2%         | 11%       | 13%       | 6.8%                  | 2.5        | 1.6        | 1.5        |

Source: Datastream, IBES, J.P. Morgan Economics Research, consensus forecast in italics, 02<sup>nd</sup> Jan 2024

# Global Equities Performance & Valuations

| 3M Performance  | Market | Energy | Materials | Industrials | Discretionary | Staples | Healthcare | Financials | IT    | Telecom | Utilities |
|-----------------|--------|--------|-----------|-------------|---------------|---------|------------|------------|-------|---------|-----------|
| US              | 10.8%  | -4.7%  | 10.4%     | 13.2%       | 11.1%         | 6.4%    | 7.9%       | 15.7%      | 12.3% | 8.3%    | 14.6%     |
| Europe          | 6.3%   | -1.9%  | 10.4%     | 12.7%       | 4.7%          | 0.2%    | -0.3%      | 7.8%       | 16.6% | 4.7%    | 12.7%     |
| UK              | 2.8%   | -3.3%  | 7.7%      | 11.2%       | 8.9%          | -2.9%   | -1.0%      | 3.4%       | 17.7% | 1.6%    | 10.7%     |
| Euro            | 8.5%   | 0.4%   | 11.3%     | 13.4%       | 3.8%          | 7.8%    | -4.6%      | 9.6%       | 15.7% | 6.3%    | 13.9%     |
| Switzerland     | 2.2%   | -      | 13.9%     | 12.8%       | 2.9%          | -4.6%   | -2.3%      | 8.4%       | -     | -6.7%   | -         |
| Japan           | 2.4%   | -5.8%  | 11.2%     | 2.8%        | -1.1%         | -0.7%   | -0.5%      | -2.7%      | 11.5% | 3.4%    | 1.7%      |
| World           | 9.3%   | -3.5%  | 10.4%     | 11.3%       | 8.5%          | 4.1%    | 5.8%       | 11.8%      | 12.6% | 7.7%    | 13.3%     |
| 12M Performance |        |        |           |             |               |         |            |            |       |         |           |
| US              | 24.2%  | -3.7%  | 10.1%     | 17.7%       | 39.6%         | -0.4%   | 2.3%       | 12.4%      | 50.0% | 51.9%   | -8.7%     |
| Europe          | 10.1%  | 3.0%   | 5.3%      | 21.7%       | 10.0%         | -3.6%   | 4.0%       | 14.4%      | 28.5% | 9.8%    | 7.3%      |
| UK              | 3.2%   | 6.7%   | -11.3%    | 28.2%       | 14.1%         | -11.4%  | -2.0%      | 10.1%      | 33.2% | 0.5%    | 7.5%      |
| Euro            | 14.0%  | 0.4%   | 12.6%     | 21.3%       | 10.1%         | 9.6%    | -2.6%      | 16.3%      | 29.4% | 13.7%   | 10.4%     |
| Switzerland     | 3.1%   | -      | 23.6%     | 26.7%       | -4.6%         | -8.2%   | -4.6%      | 16.1%      | -     | -0.1%   | -         |
| Japan           | 25.9%  | 29.6%  | 39.8%     | 29.7%       | 32.1%         | 7.4%    | 2.6%       | 25.6%      | 42.1% | 14.4%   | 38.9%     |
| World           | 20.3%  | -1.3%  | 9.7%      | 19.8%       | 31.9%         | -0.7%   | 2.7%       | 12.0%      | 48.3% | 42.9%   | -3.2%     |
| P/Book (-1M)    |        |        |           |             |               |         |            |            |       |         |           |
| US              | 4.3    | 2.2    | 2.8       | 5.4         | 8.9           | 5.6     | 4.6        | 2.0        | 10.7  | 3.7     | 1.9       |
| Europe          | 1.9    | 1.3    | 1.7       | 3.3         | 1.9           | 3.0     | 3.8        | 1.0        | 4.8   | 1.3     | 1.7       |
| UK              | 1.9    | 1.4    | 2.6       | 6.5         | 3.0           | 2.5     | 6.8        | 1.0        | 11.1  | 0.6     | 2.5       |
| Euro            | 1.6    | 1.2    | 1.4       | 2.8         | 1.8           | 2.6     | 1.7        | 0.9        | 5.1   | 1.5     | 1.6       |
| Switzerland     | 2.9    | -      | 3.3       | 6.4         | 2.7           | 4.8     | 4.7        | 1.2        | -     | 3.8     | -         |
| Japan           | 2.1    | 1.0    | 1.7       | 2.3         | 2.2           | 2.9     | 3.6        | 1.0        | 3.9   | 2.9     | 1.1       |
| World           | 3.0    | 1.8    | 2.0       | 3.3         | 3.9           | 4.0     | 4.2        | 1.5        | 8.9   | 3.0     | 1.7       |
| 12m Fw P/E      |        |        |           |             |               |         |            |            |       |         |           |
| US              | 20.2   | 11.1   | 19.2      | 20.5        | 27.1          | 19.1    | 18.0       | 14.6       | 27.2  | 17.9    | 15.7      |
| Europe          | 12.9   | 7.0    | 14.9      | 18.1        | 12.4          | 16.5    | 16.1       | 8.3        | 23.7  | 13.8    | 12.9      |
| UK              | 10.7   | 7.1    | 11.8      | 20.1        | 17.0          | 12.1    | 13.3       | 7.5        | 29.5  | 10.2    | 13.2      |
| Euro            | 12.4   | 6.7    | 15.8      | 16.0        | 11.4          | 18.5    | 13.9       | 7.7        | 24.2  | 14.9    | 12.6      |
| Switzerland     | 17.2   | -      | 21.0      | 23.3        | 15.1          | 22.2    | 14.5       | 14.0       | 26.1  | 15.3    | -         |
| Japan           | 13.9   | 6.9    | 12.6      | 13.5        | 11.0          | 19.7    | 24.4       | 10.3       | 22.0  | 17.7    | 7.0       |
| World           | 17.5   | 9.8    | 16.1      | 18.6        | 19.8          | 18.1    | 17.9       | 12.1       | 26.8  | 17.6    | 14.3      |
| 12m fw EPS Gr   |        |        |           |             |               |         |            |            |       |         |           |
| US              | 11.2   | -2.8   | 3.8       | 12.0        | 13.7          | 5.5     | 17.1       | 7.3        | 16.9  | 16.5    | 7.7       |
| Europe          | 5.3    | -0.1   | 9.9       | 7.4         | 2.7           | 6.0     | 8.9        | 6.0        | 6.0   | 8.9     | -1.0      |
| UK              | 4.8    | 7.6    | 1.3       | 11.7        | 3.8           | 4.5     | 9.2        | 2.4        | 10.6  | 2.1     | -1.1      |
| Euro            | 4.6    | -8.4   | 17.6      | 13.8        | 1.8           | 9.8     | 5.1        | 6.8        | 3.5   | 11.4    | -7.2      |
| Switzerland     | 9.1    | -      | 10.1      | 2.8         | 7.5           | 4.1     | 7.5        | 22.2       | 11.3  | 0.7     | -         |
| Japan           | 8.1    | -0.1   | 11.7      | -3.1        | 13.6          | 16.4    | 6.3        | 12.6       | 9.3   | 28.8    | -3.0      |
| World           | 9.1    | -0.9   | 6.1       | 8.2         | 10.5          | 6.3     | 14.6       | 6.5        | 15.9  | 16.2    | 4.2       |
| Dividend Yield  |        |        |           |             |               |         |            |            |       |         |           |
| US              | 1.9    | 3.1    | 1.9       | 1.7         | 2.0           | 2.8     | 2.1        | 2.1        | 0.9   | 3.5     | 3.5       |
| Europe          | 3.3    | 4.9    | 4.1       | 2.3         | 2.7           | 3.1     | 2.6        | 4.8        | 1.2   | 4.1     | 4.9       |
| UK              | 4.0    | 4.2    | 5.8       | 1.7         | 2.7           | 4.6     | 2.7        | 4.6        | 1.3   | 6.0     | 4.7       |
| Euro            | 3.2    | 5.4    | 3.4       | 2.3         | 2.7           | 2.2     | 3.2        | 5.0        | 1.1   | 3.3     | 5.0       |
| Switzerland     | 3.0    | -      | 2.3       | 2.8         | 2.8           | 2.5     | 3.2        | 3.9        | -     | 4.3     | -         |
| Japan           | 2.5    | 6.3    | 2.7       | 2.6         | 2.1           | 2.4     | 1.9        | 3.6        | 1.6   | 2.7     | 2.0       |
| World           | 2.4    | 3.9    | 3.0       | 2.0         | 2.2           | 2.9     | 2.2        | 3.1        | 1.0   | 3.5     | 4.0       |

Source: IBES, MSCI, Datastream, At 02<sup>nd</sup> Jan 2024, \* Discount to MSCI World

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