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Equity Strategy

Three key drivers of to date resilient corporate profitability to turn weaker

- Bulls are to a good extent basing their constructive market call on the premise that corporate profits are set to accelerate, supported by the bottoming out in activity indicators that is now in progress, such as PMIs and ISM. Indeed, a number of forecasters have in the past few weeks raised their index targets on the back of the more optimistic earnings outlook. However, **the earnings reality might turn out to be the opposite** as we move through the year.
- In aggregate, and despite a few notable exceptions, **corporate profit margins are elevated in a historical context, and appear to be peaking out** - top chart. The historical pattern where profit margins always start to move lower ahead of the next economic downturn is clear. We see 3 sources of downside to profit margins and to earnings from here:
- 1. Many corporates benefitted from the **unique feature of this cycle: as interest rates increased 300bp+, the net interest expense came down**. That could be explained by companies locking in low cost of financing through extending the duration of their debt, and also through many corporates seeing an improving return on their cash balances. **This, rather counter-intuitive, development is set to normalize as time passes**. Companies will have to roll their debt into higher cost of credit. Separately, the basket of stocks with high refinancing needs is losing 20% vs SXXP over a year ago - JPDEHFCL, and our basket of cash rich companies is ahead by 14% - JPDEHFCW. **We think this outperformance will continue through 1H**.
- 2. **Topline was exceptionally strong post COVID for many corporates, as pricing power was high**, companies were able to pass on input cost pressure with ease. As nominal GDP growth rates fade, and as PPIs have turned negative, margins could weaken. We are still of the view that COVID induced inflation spike will end up fully unwound, as per our Oct '22 report, and this in turn suggests that corporate profitability winners need to reset. Historically, the **positive correlation between earnings and PPIs has been clear**.
- 3. US economic activity was much more robust last year than most assumed, and this has potentially boosted productivity and in turn reduced ULCs. If the economy slows, partly because the supports that it enjoyed last year do not repeat, such as fiscal stimulus, ULCs could pick up. **Profit margin proxy, corporate deflator minus ULCs, could turn into more of a headwind**.
- Putting the above 3 together, one might end up with a disappointing profits outcome even without seeing an outright recession, and we note that 2024 EPS projections keep coming down in key regions. Now, could S&P500 earnings do much better than economy wide profits? It is interesting to note that for S&P500 all the profit growth in the past few quarters was due to Magnificent 7, and this is **one of the reasons why we remain OW Growth vs Value**. Ex these stocks, EPS growth for the remaining S&P500 constituents is outright negative. USD plays a role here, and if it gets stronger, as we suspect, then the S&P500 earnings might not outperform NIPA much.

Equity Strategy

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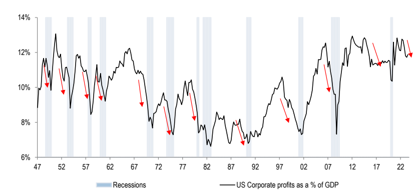
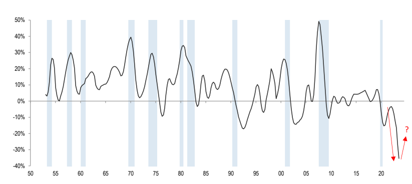
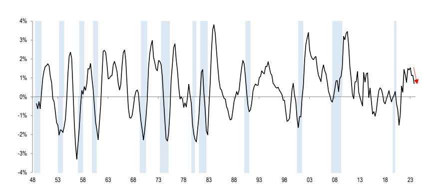
Profit margins are elevated in the historical context, and have started to soften... they always move lower ahead of the next downturn...



...net interest component was strongly accretive to corporate bottom line over the past few years, with net interest expense collapsing, but this is likely as good as it gets...



...ULCs are set to move higher, as well... this shoud lead to a rollover in margin proxy - deflator minus ULCs



Source: FRED,J.P. Morgan.

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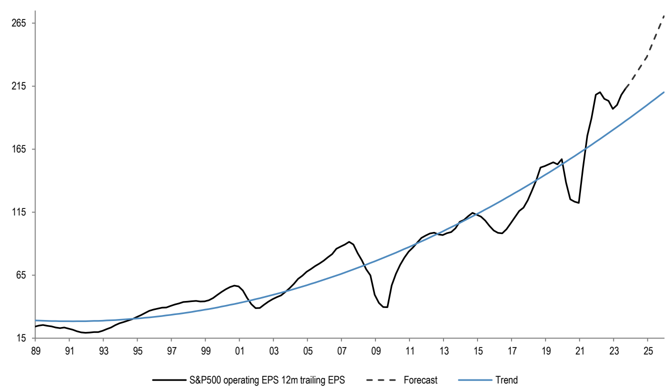
Three key drivers of to date resilient corporate profitability to turn weaker

Figure 1: S&P500 EPS vs Trend

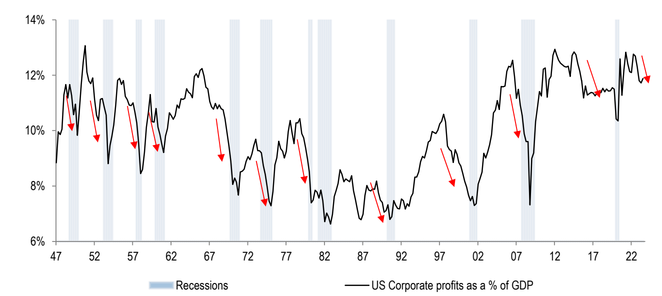


Source: Datastream, IBES

Consensus projections are for S&P500 EPS growth to accelerate in 2024 and 2025, to 10-11% pace, from 2% seen in 2023. Bulls are basing their constructive market call on this, but the question is whether earnings and margins will continue to grow from what is an already elevated starting point?

Profit margins are elevated, and starting to show some softening of late...

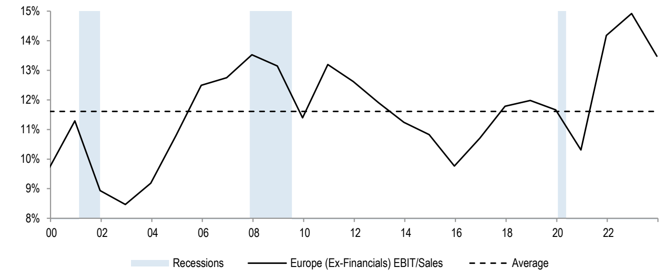
Figure 2: NIPA profit margins



Source: BEA

US profit margins are close to historical highs, and are softening from the peak levels. We note that the rollover in margins always historically preceded the next downturn.

Figure 3: MSCI Europe (ex Financials) EBIT margin



Source: Datastream

European profit margins are also at elevated levels, in the historical context. Some sectors such as commodities and Chemicals are subdued, but most other sectors are at highs, leaving the overall margin level elevated.

Table 1: MSCI World EBIT Margin and Earnings growth - consensus

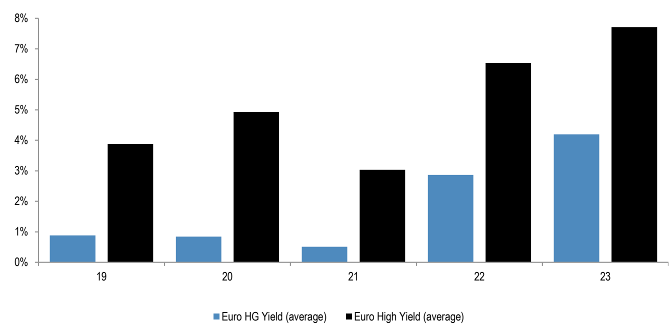
	EBIT Margin				Earnings growth		
	23e	24e	25e	Change 24e-23e (bps)	23e	24e	25e
World	14.5%	14.9%	15.7%	40.2	1.0%	7.6%	12.1%

Source: Datastream, IBES, *EBIT margin is for ex Financials and Real Estate

The consensus is projecting an acceleration in EPS growth and in margins this year, but we see risks to this.

...we believe profitability trends will be weaker over the next year: 1) Corporate profit margins have benefitted from lower interest expense. but that could start to reverse

Figure 4: Euro IG and HY Yield



Source: J.P. Morgan

Compared to pre-pandemic levels , the yield on the Euro denominated investment grade credit has gone up more than 300bp, from 0.9% in 2019 to 4.2% on average in 2023. Cost of borrowing for high yielders has risen by 380bp over the same time frame.

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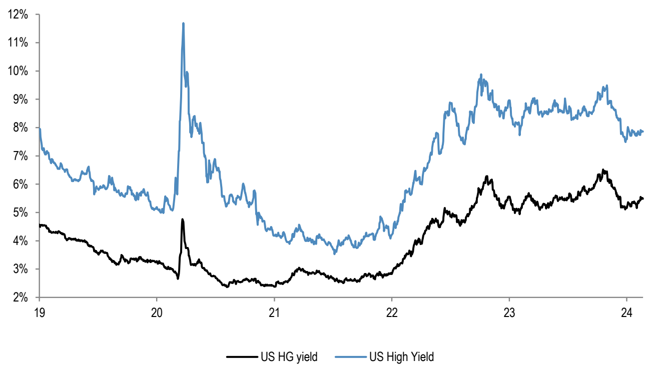
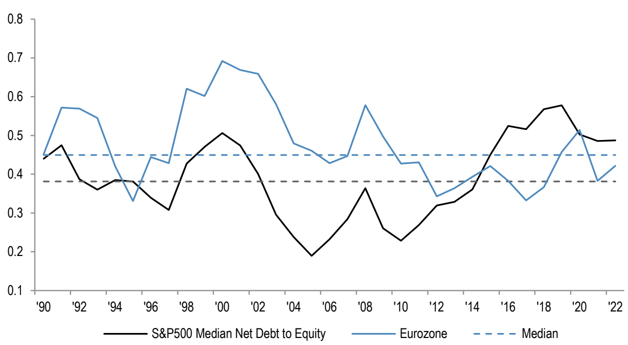
Figure 5: US HG and HY Yield



Source: J.P. Morgan

US corporate debt has seen yields rising by similar magnitude.

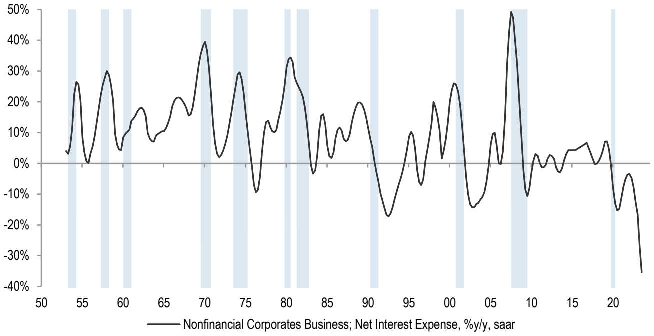
Figure 6: US and Eurozone Median Net Debt to Equity



Source: Datastream

At the same time, net leverage of both the US and European corporates has not changed all that much, to be close to the historical averages.

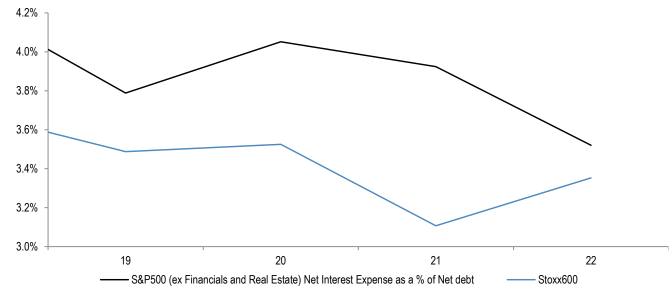
Figure 7: Nonfinancial corporate business: Net Interest Expenses



Source: FRED

What is interesting is that despite the big increase in borrowing costs it appears that companies are on average paying less in interest now than before the pandemic. Data from the St. Louis Fed tracking aggregate interest expense for non-financial corporates in the US shows a sharp decline over the past few years.

Figure 8: S&P500 and Stoxx600 Net interest expense as a % of Net Debt



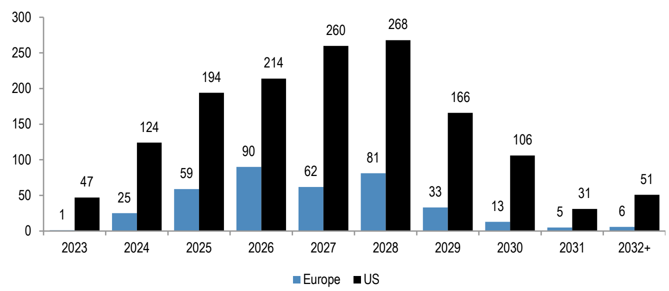
Source: Bloomberg Finance L.P.

Our bottom up analysis on S&P500 shows that almost 40% of the index constituents have either seen their net interest expense go down, or the income on their cash balances improve compared to 2019. For Stoxx600, more than half the companies are paying less in interest expense versus 2019, or are earning more interest on their cash balances.

We also looked at the effective interest rate (net interest expense / net debt) that companies were paying on their debt. Here again we note that 42% of companies in the S&P500 (excluding net cash companies from the denominator) and 36% of companies in the Stoxx600 are paying a lower rate of interest on their debt versus the pre-pandemic levels. This finding is supported by work from our Credit strategists who concluded that, at an aggregate level, as a rate of change vs 2019, companies were net earnings more interest on their cash balances compared to what they were paying in additional coupons on their debt.

The reasons why this happened range from: a large number of corporates tapped debt markets during the period of extremely low interest rates, extending the duration of debt on their books, and locking in low cost of financing, which didn't need to roll over yet, and at the same time on their cash balances companies started to earn some positive rate of return. We do not think that can last, the positive effect is as good as it gets, in our view.

Figure 9: European and US High Yield bonds maturity profile (EUR billion)



Source: J.P. Morgan Credit Strategy

Limited refinancing needs thus far meant that, at an aggregate level, companies were largely shielded from the higher borrowing costs. This is starting to change. We note that a growing volume of debt is to be refinanced over the next few years. At the same time, we expect central banks will commence rate cuts this year, which will reduce the income on cash that corporates are earning.

Table 2: Debt Distribution - Stoxx600

	Debt Distribution Average Years to Maturity	% Debt maturing this year	% Debt maturing in next 3 years	#cos whose more than 60% of total debt is maturing this year	#cos whose more than 60% of total debt is maturing in next 3 years	#cos whose more than 40% of total debt is maturing this year	#cos whose more than 40% of total debt is maturing in next 3 years
ENERGY	6.0	3.6%	26.7%	4	8	4	13
FINANCIALS	5.0	7.5%	36.1%	16	56	23	83
REAL ESTATE	4.8	4.3%	33.5%	5	14	8	26
MATERIALS	3.9	5.3%	35.7%	7	25	16	48
INDUSTRIALS	3.9	6.4%	37.0%	33	74	48	106
COMMUNICATION SERVICES	5.3	4.6%	30.2%	7	16	10	24
CONSUMER STAPLES	4.7	8.0%	33.3%	13	24	17	42
CONSUMER DISCRETIONARY	3.5	0.9%	46.1%	27	52	33	60
UTILITIES	6.7	4.8%	24.0%	1	7	2	19
HEALTH CARE	4.5	0.0%	30.6%	12	25	15	38
INFORMATION TECHNOLOGY	3.7	10.0%	42.1%	12	21	17	25

Source: Bloomberg Finance L.P.

In Europe, quite a few companies in the Technology, Industrials and Consumer Discretionary sectors need to refinance a significant proportion of their debt over the next year.

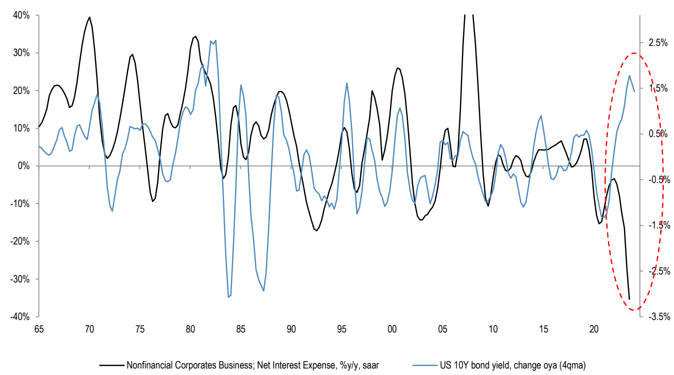
Table 3: Debt Distribution - S&P500

	Debt Distribution Average Years to Maturity	% Debt maturing this year	% Debt maturing in next 3 years	#cos whose more than 60% of total debt is maturing this year	#cos whose more than 60% of total debt is maturing in next 3 years	#cos whose more than 40% of total debt is maturing this year	#cos whose more than 40% of total debt is maturing in next 3 years
ENERGY	11.0	4.1%	20.8%	0	3	1	12
FINANCIALS	7.5	4.5%	24.5%	4	17	5	43
REAL ESTATE	6.6	3.6%	24.9%	0	2	0	20
MATERIALS	10.5	3.3%	25.6%	0	1	0	16
INDUSTRIALS	7.5	0.1%	23.9%	10	21	16	51
COMMUNICATION SERVICES	11.9	2.7%	15.1%	0	1	0	8
CONSUMER STAPLES	9.8	6.7%	24.6%	1	4	2	24
CONSUMER DISCRETIONARY	5.4	0.0%	25.6%	6	16	7	40
UTILITIES	13.3	4.1%	15.4%	0	1	1	7
HEALTH CARE	7.2	3.7%	21.1%	10	17	11	39
INFORMATION TECHNOLOGY	5.7	2.4%	26.6%	13	26	18	46

Source: Bloomberg Finance L.P.

The Consumer Discretionary, Technology and Real Estate sectors in the US have relatively high proportion of shorter duration debt.

Figure 10: Nonfinancial corporate business: Net Interest Expense versus US 10Y bond yield



Source: Bloomberg Finance L.P., FRED

This suggests that the startling divergence that was seen between the rising interest rates and falling net interest expense seen over the past 3 years is set to start closing.

Our analysts have flagged stocks like Safran, BAE systems, Sanofi, GSK and Novartis among those that have benefitted from this.

The basket of stocks with high refinancing needs will likely keep struggling...

In our 2024 outlook report, we had introduced a couple of stock baskets centered around this theme.

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Table 4: JPM European losers of higher financing costs - JPDEHFCL Index

Name	Ticker	Sector	ND/EBITDA 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. Srvcs	6.2
Snam SpA	SRG IM	Utilities	6.1
Enagas SA	ENG SM	Utilities	5.1
Infrastrutture Wireless Italia	INW IM	Comm. Srvcs	4.6
Grifols SA	GRF SM	Health care	4.4
Redeia Corp SA	RED SM	Utilities	4.0
LANXESS AG	LXS GR	Materials	4.0
Fresenius SE & Co KGaA	FRE GR	Health care	3.6
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
BASF SE	BAS GR	Materials	2.5
Givaudan SA	GIVN SW	Materials	2.5
British American Tobacco PLC	BATS LN	Staples	2.4
Electrolux AB	ELUXB SS	Discretionary	2.4
Alstom SA	ALO FP	Industrials	2.3
ams-OSRAM AG	AMS SW	IT	2.2
Ashtead Group PLC	AHT LN	Industrials	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: J.P. Morgan

On the negative side, we identified companies that have high leverage and face meaningful refinancing risk in the near-term.

…while cash rich companies should keep working in the near term

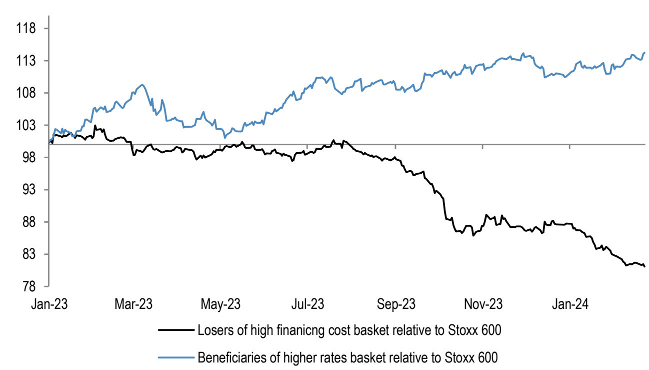
Table 5: JPM European Beneficiaries of higher rates - JPDEHFCW Index

Name	Ticker	Sector
Publicis Groupe SA	PUB FP	Comm. Srvcs
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: J.P. Morgan

On the other hand, we argued that companies that are cash rich, or benefit from still high interest rates, will be well positioned.

Figure 11: JPM Beneficiaries of higher rates basket relative



Source: Bloomberg Finance L.P.

This losers basket has lagged the Stoxx600 index by almost 20% over the last year, while beneficiaries basket is outperforming the Stoxx600 index by 14% since the start of last year. We believe this trend should continue, at least in the 1H of this year.

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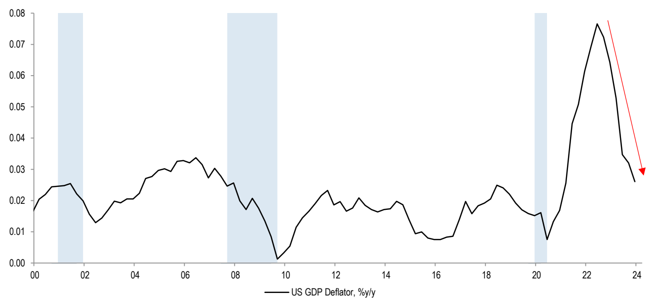
2) Corporate topline was very strong post COVID, with high pricing power, but these are not sustainable

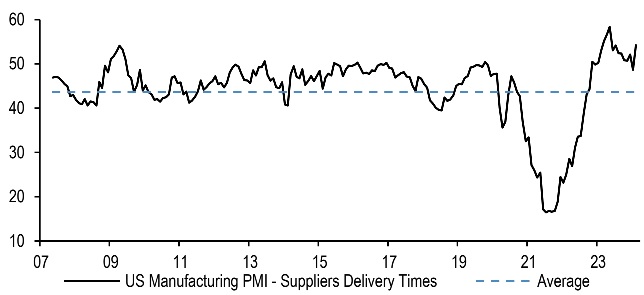
Figure 12: USD GDP Deflator



Source: J.P. Morgan

Corporates benefitted from the very strong topline growth post COVID. Many had like-for-like sales growth of a magnitude never seen before. This was helped by strong consumer backdrop, supported by ample liquidity.

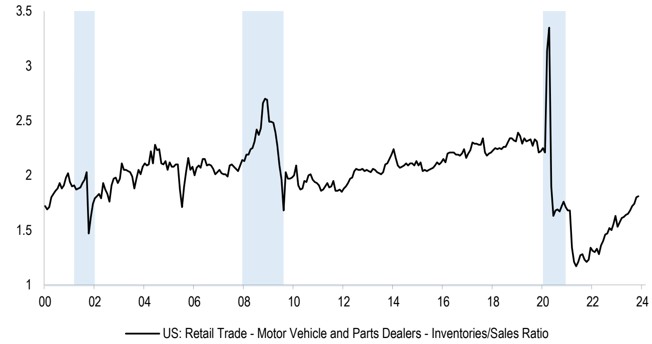
Figure 13: US Manufacturing PMI - Supplier Delivery Times



Source: J.P. Morgan

At the same time, the supply chain distortions created by COVID-related shutdowns created huge supply-demand imbalances. While this at face value increased costs and resulted in production outages in a wide range of industries, companies were able to more than offset any negative impact on their bottom-line through aggressive pricing.

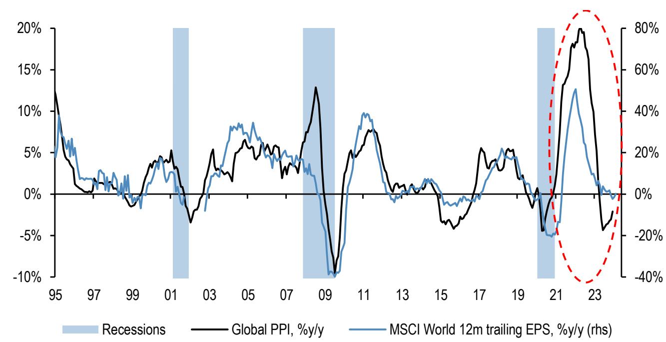
Figure 14: US Retail trade - Motor Vehicle Inventory/sales



Source: J.P. Morgan

We believe that this period of very strong pricing power is ending. Inventory levels across a number of industries are normalising, as are sales.

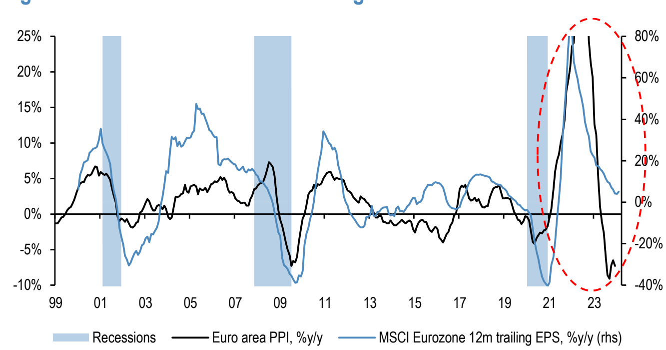
Figure 15: MSCI World12m trailing EPS and Global PPI



Source: Datastream, J.P. Morgan

As PPIs turn negative, corporate earnings will likely follow.

Figure 16: MSCI Eurozone 12m trailing EPS and Euro area PPI



Source: Bloomberg Finance L.P., Datastream

Producer prices have seen bigger declines in the Euro Area, and the positive fit is as good.

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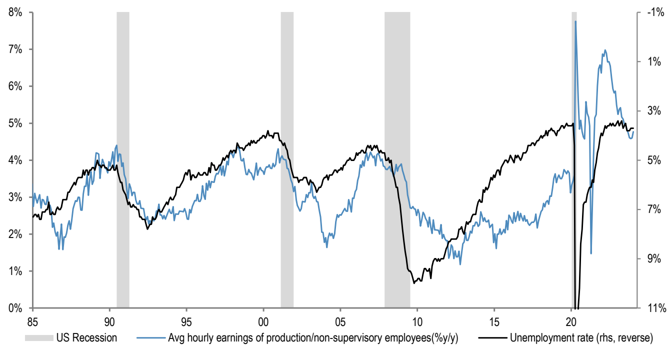
3) ULCs could pick up as topline slows, and as wage costs are sticky

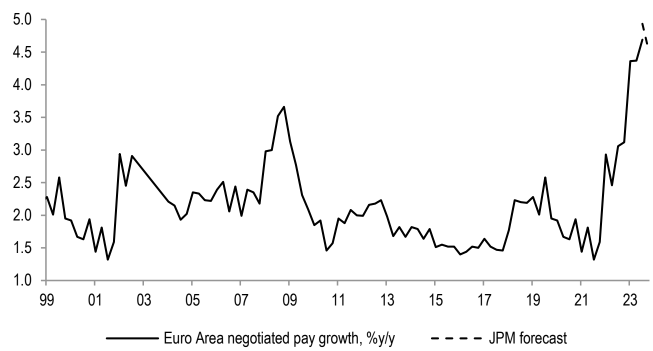
Figure 17: Unemployment rate and avg hourly earnings



Source: FRED

The strong improvement in productivity was a big factor behind the resilience in margins over the past year, but that could have been flattered by elevated topline growth, which was supported by one-off factors such as excess liquidity and the aggressive government spending. Even though the labour market was extremely tight and delivered higher wages, the strong output has kept unit labour costs in check.

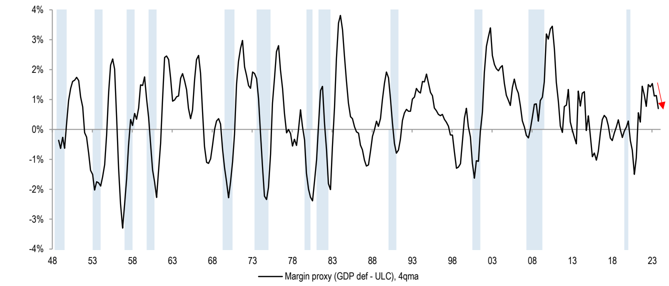
Figure 18: Euro area negotiated pay growth



Source: J.P. Morgan

US wage growth has peaked, but could stay elevated for a while. Eurozone wage growth also appears to be peaking, but at elevated levels.

Figure 19: GDP Deflator minus ULCs - US

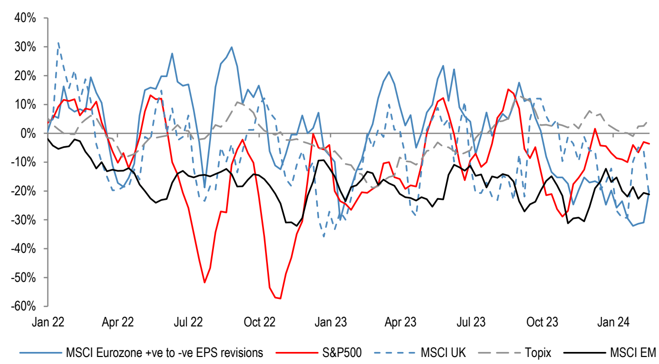


Source: J.P. Morgan, FRED

Looking forward, wages will likely remain sticky around current elevated levels, and productivity might slow, as topline slows. Our margin proxy (GDP deflator minus ULCs) has peaked and we believe it will continue to weaken further.

Earnings projections are continuing to be revised lower...

Figure 20: Weekly EPS revisions for key regions



Source: IBES

EPS revisions remain negative for all major markets, Japan being the notable exception, where we keep our key OW.

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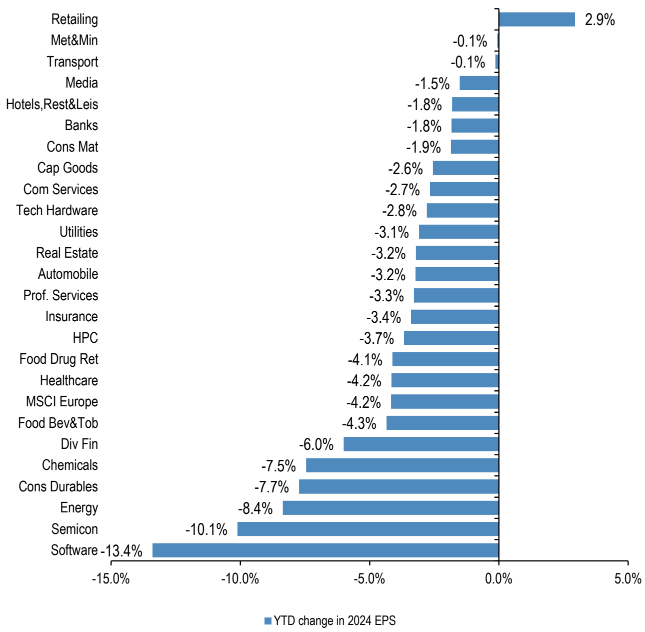
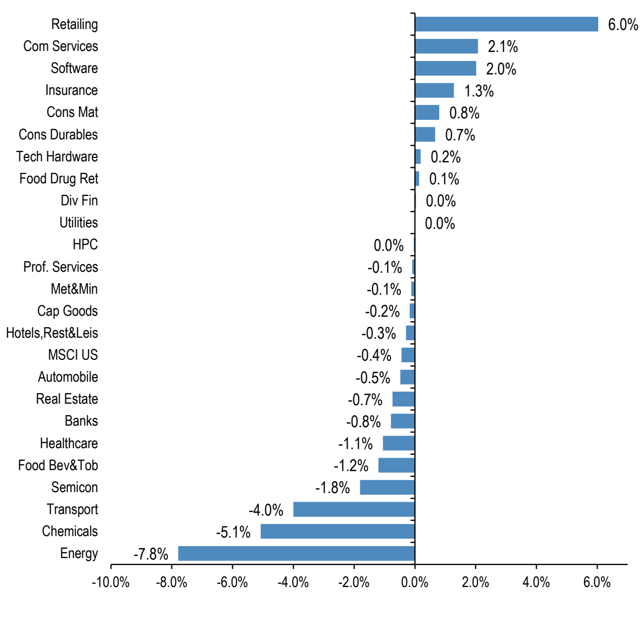
Figure 21: MSCI Europe sectors 2024 EPS - change ytd



Source: IBES

Except Retail, every European sector has seen cuts to its 2024 earnings projections in the last couple of months.

Figure 22: MSCI US sectors 2024 EPS change ytd



Source: IBES

Even in the US, which has delivered stronger EPS growth, most sectors have seen downgrades to 2024 earnings projections.

...all the EPS growth is still narrowly concentrated in the Magnificent 7...

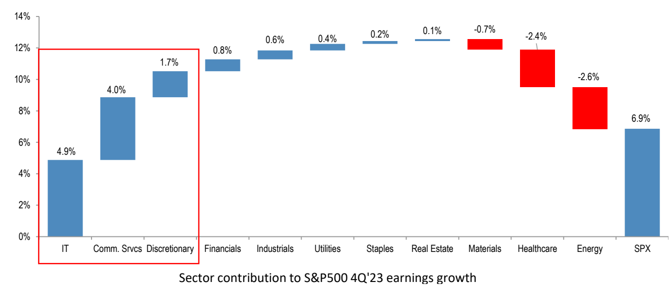
Table 6: Q4 Earnings summary

Q4 Earnings Summary		
	S&P500	**Stoxx600**
% companies reported	82%	55%
% companies beating EPS	77%	52%
EPS %y/y	7%	-11%
% companies beating Sales	57%	37%
Sales %y/y	4%	-7%

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

On the surface, S&P500 earnings delivery of 7% y/y in Q4 appears healthy.

Figure 23: S&P500 sector contribution to 4Q'23 earnings growth



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

However, we note that ex the magnificent 7 (Apple, Microsoft, Amazon, Nvidia, Meta, Tesla and Alphabet), US earnings growth is actually negative at -4% y/y.

Table 7: Magnificent 7, SPX and SPX ex Mag 7 earnings growth

	23e Net income growth
APPLE	-2.8%
AMAZON.COM	-
MICROSOFT	5.6%
NVIDIA	-25.7%
ALPHABET A	21.9%
TESLA	-24.2%
META PLATFORMS A	61.1%
Magnificent 7	18.2%
S&P ex Magnificent 7	-4.1%
S&P500	-1.0%

Source: Datastream

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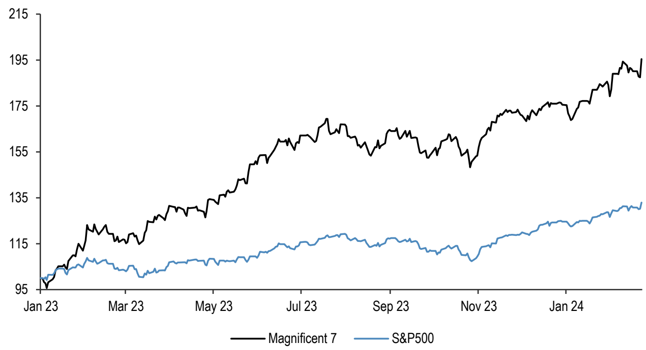
For the whole last year, Magnificent 7 earnings grew strongly, and the remaining 493 stocks recorded negative EPS growth.

Figure 24: Magnificent 7 and S&P500 performance

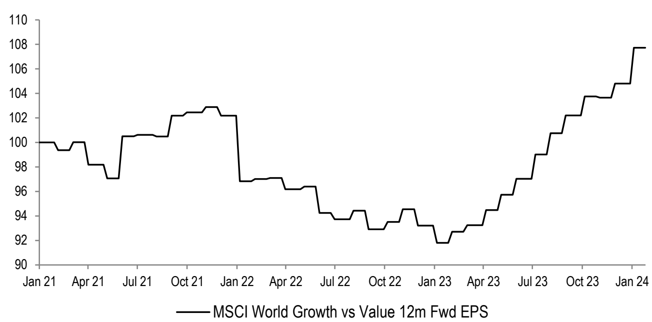


Source: Datastream

The divergence in earnings for the Magnificent 7 stocks and the rest of the market largely explains the wide divergence in relative performance over the last year.

...we maintain OW Growth vs Value stye...

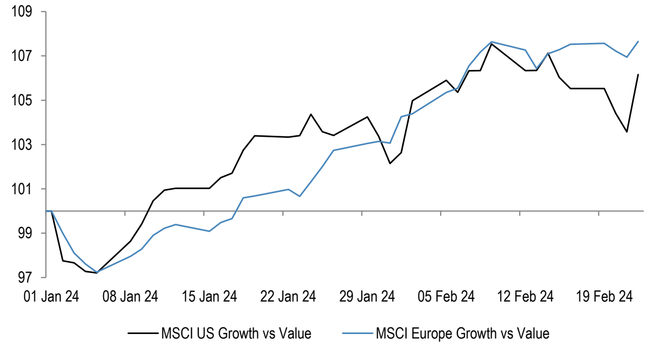
Figure 25: MSCI World Growth vs Value 12m Fwd. EPS



Source: Datastream

Similarly, we note that Growth stocks have been delivering much better earnings compared to Value.

Figure 26: MSCI US and Europe Growth vs Value

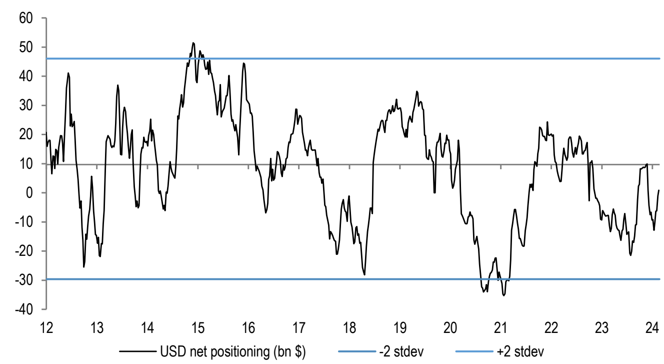


Source: Datastream

This is behind our continued preference for Growth over Value style that we held through 2023, and are continuing this year.

...S&P500 earnings are more international than NIPA profits… if USD strengthens, S&P500 earnings might not be able to outperform NIPA

Figure 27: USD net positioning



Source: J.P. Morgan

The question is could S&P500 earnings perform better than NIPA profits. Perhaps not if USD strengthens, as S&P500 earnings are typically more international than NIPA profits. We note that USD positioning is not very stretched at present, and the interest rate differential could work in support of USD as we move through this year.

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Equity Strategy Key Calls and Drivers

So far this year, US is ahead of International, Growth is outperforming Value, large caps are again beating small, and China continued struggling. We believe that this, ultimately unhealthy, high concentration and narrow leadership is set to continue until something breaks. To buy Value, beta and International stocks, one needs to see a reflationary backdrop, in our view, but we could have the exact opposite. The risk is of a disappointment on both sides of the Goldilocks narrative. Fed cuts might still be overdiscounted, despite the recent hawkish repricing, and the chances are that inflation picks up again, supply side driven, rather than due to stronger activity, freight rates have nearly tripled. We believe our long duration call made in October will have legs in 2024, but have argued at the start of this year that yields will likely consolidate near term, and the USD could be bottoming out. Regionally, we have preferred US to International stocks since May of last year, and don't see that changing yet. We remain cautious on China, keep fading the bounces, and keep OW Japan – it remains our top regional pick. We are OW Growth vs Value, continuing our call from 2023, and continue to be UW Banks call started in Q4 of last year, after three years of Banks beating the market.

Table 8: J.P. Morgan Equity Strategy — Factors driving our medium-term views

Driver	Impact	Our Core Working Assumptions	Recent Developments
Global Growth	Neutral	At risk of weakening as consumer strength wanes	Global composite PMI is at 51.8
European Growth	Negative	Manufacturing and services are converging on the downside; industry data stays weak	
Monetary Policy	Neutral	Fed pivot could be accompanied by activity weakness	
Currency	Neutral	USD could strengthen again	
Earnings	Negative	Corporate pricing power is likely to weaken from here	2024 EPS projections are continuing their downtrend
Valuations	Negative	At 21x, US forward P/E is still stretched, especially vs real yield	MSCI Europe on 13.5x Fwd P/E
Technicals	Negative	Sentiment and positioning are stretched post the Nov-Dec rally	RSIs are in overbought territory

Source: J.P. Morgan estimates

Table 9: : Base Case and Risk

Scenario	Assumption
Upside scenario	No further hawkish tilt by the Fed. No landing
Base-case scenario	Inflation to fall further, risk of downturn still elevated. Earnings downside from here
Downside scenario	Further Fed tightening and global recession to become a base case again

Source: J.P. Morgan estimates.

Table 10: Index targets

	Dec '24 Target	22-Feb-24	% upside
MSCI Eurozone	**256**	286	-11%
FTSE 100	**7,700**	7,684	0%
MSCI EUROPE	**1,850**	1,986	-7%
DJ EURO STOXX 50	**4,250**	4,855	-12%
DJ STOXX 600 E	**460**	495	-7%

Source: J.P. Morgan.

Table 11: Key Global sector calls

Overweight	Neutral	Underweight
Healthcare	Technology	Capital Goods ex A&D
Telecoms	Discretionary	Food& Drug Retail
Food, Beverage & Tobacco	Mining	Autos
Real Estate	Transportation	Banks
Utilities		

Source: J.P. Morgan

Table 12: J.P. Morgan Equity Strategy — Key sector calls*

Sector	Recommendations	Key Drivers
Healthcare	Overweight	Potential for lower yields and stronger dollar remain near term support, earnings are also holding up
Staples	Overweight	Sector is one of the best performers around the last Fed hike in the cycle, lower bond yields and better relative EPS momentum should further support
Banks	Underweight	Downgraded to UW in October after 3 years of strong performance. Bond yields and PMIs direction is the key for the potential P/E re-rating of the sector, we think both will move lower
Chemicals	Underweight	The sector trades at 70% premium to the market, well above historical norm. pricing continues to deteriorate, downside risks to current earnings and margin projections

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

Table 13: J.P. Morgan Equity Strategy — Key regional calls

Region	Recommendations	J.P. Morgan Views
EM	Neutral	China tactical chance for a bounce, but structural bearish call remains
DM	Neutral	
US	Neutral	Expensive, with earnings risk. However, if markets weaken in the first half, US could fare relatively better vs Eurozone
Japan	Overweight	Japan is attractively priced; diverging policy path and TSE reforms are tailwinds
Eurozone	Underweight	Growth-Policy trade-off likely to deteriorate further; Eurozone is typically a high beta on the way down
UK	Overweight	Valuations still look very attractive, low beta with the highest regional dividend yield

Source: J.P. Morgan estimates.

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Top Picks

Table 14: J.P. Morgan European Strategy: Top European picks

						Market Cap	EPS Growth			Dividend Yield	12m Fwd P/E			Performance	
Name	Ticker	Sector	Rating	Price	Currency	(€ Bn)	23e	24e	25e	24e	Current	10Y Median	% Premium	-3m	-12m
ENI	ENI IM	Energy	OW	14	E	48.0	-35%	-8%	2%	6.5%	6.3	12.7	-51%	-3%	1%
TOTALENERGIES	TTE FP	Energy	OW	59	E	141.1	-33%	-4%	4%	5.3%	7.0	10.6	-34%	-4%	1%
SHELL	SHEL LN	Energy	OW	30	E	189.6	-23%	0%	5%	4.0%	7.7	11.2	-32%	0%	6%
NOVOZYMES B	NZYMB DC	Materials	OW	386	DK	24.2	-18%	17%	10%	1.1%	29.8	29.2	2%	7%	10%
CRH PUBLIC LIMITED	CRH LN	Materials	OW	78	U$	49.7	-11%	10%	9%	1.8%	15.5	15.1	3%	28%	69%
RIO TINTO	RIO LN	Materials	OW	5170	£	103.7	-11%	10%	-9%	6.7%	8.4	10.3	-19%	-6%	-14%
NORSK HYDRO	NHY NO	Materials	OW	57	NK	10.2	-60%	21%	36%	4.4%	10.4	12.9	-20%	-10%	-27%
ANGLO AMERICAN	AAL LN	Materials	OW	1770	£	25.4	-52%	-5%	5%	4.1%	10.0	9.5	4%	-21%	-43%
SCHNEIDER ELECTRIC	SU FP	Industrials	OW	208	E	118.9	2%	15%	11%	1.7%	24.4	16.4	48%	26%	35%
ASHTEAD GROUP	AHT LN	Industrials	OW	5524	£	28.3	26%	3%	14%	1.4%	15.8	14.1	12%	17%	2%
RYANAIR HOLDINGS	RYA ID	Industrials	OW	20	E	23.0	-	31%	35%	0.0%	9.4	13.1	-29%	16%	40%
AIRBUS	AIR FP	Industrials	OW	147	E	116.4	10%	3%	25%	1.7%	21.6	18.4	18%	10%	20%
MTU AERO ENGINES HLDG.	MTX GR	Industrials	OW	215	E	11.6	24%	11%	13%	2.1%	17.4	18.1	-4%	14%	-7%
STELLANTIS	STLAM IM	Discretionary	OW	24	E	76.8	12%	-7%	1%	6.4%	4.4	4.8	-10%	31%	49%
BMW	BMW GR	Discretionary	OW	105	E	66.6	-34%	-10%	2%	5.3%	6.4	7.7	-17%	11%	-
INDITEX	ITX SM	Discretionary	OW	41	E	127.9	27%	30%	9%	3.6%	21.7	24.3	-11%	11%	44%
ADIDAS	ADS GR	Discretionary	OW	187	E	33.7	-110%	-	128%	0.7%	52.1	24.6	112%	0%	33%
RICHEMONT N	CFR SW	Discretionary	OW	136	SF	84.2	78%	-2%	11%	1.8%	20.1	20.4	-2%	19%	-6%
COMPASS GROUP	CPG LN	Discretionary	OW	2203	£	44.0	50%	13%	12%	1.9%	22.2	20.8	7%	6%	13%
COLRUYT GROUP	COLR BB	Staples	OW	40	E	5.1	-27%	61%	7%	2.0%	15.1	17.6	-14%	3%	56%
ANHEUSER-BUSCH INBEV	ABI BB	Staples	OW	58	E	118.1	-7%	15%	14%	2.1%	18.0	19.5	-8%	1%	3%
NOVO NORDISK 'B'	NOVOB DC	Health Care	OW	853	DK	516.2	52%	23%	21%	1.1%	36.1	22.7	59%	22%	71%
ASTRAZENECA	AZN LN	Health Care	OW	10036	£	182.0	9%	13%	11%	2.3%	15.2	17.8	-14%	-1%	-13%
SMITH & NEPHEW	SN/ LN	Health Care	OW	1138	£	11.6	12%	12%	8%	2.8%	13.7	18.4	-26%	10%	-7%
UBS GROUP	UBSG SW	Financials	OW	25	SF	89.4	-99%	3670%	99%	2.5%	21.1	10.4	104%	6%	23%
NATWEST GROUP	NWG LN	Financials	OW	228	£	23.3	38%	-27%	12%	7.4%	5.9	10.4	-43%	12%	-20%
ING GROEP	INGA NA	Financials	OW	13	E	44.3	106%	-12%	11%	8.7%	6.7	9.1	-27%	0%	-1%
INTESA SANPAOLO	ISP IM	Financials	OW	3	E	53.0	79%	15%	1%	10.2%	6.4	10.2	-37%	14%	17%
LONDON STOCK EXCHANGE GROUP	LSEG LN	Financials	OW	8844	£	56.0	3%	10%	14%	1.4%	23.8	22.7	5%	0%	18%
AMUNDI (WI)	AMUN FP	Financials	OW	62	E	12.6	4%	4%	7%	6.7%	9.7	12.7	-23%	11%	1%
DASSAULT SYSTEMES	DSY FP	IT	OW	43	E	57.9	6%	7%	11%	0.6%	33.0	31.5	5%	1%	15%
ASML HOLDING	ASML NA	IT	OW	877	E	350.4	41%	-6%	51%	0.7%	43.1	26.5	63%	38%	48%
ASM INTERNATIONAL	ASM NA	IT	OW	558	E	27.6	-3%	8%	29%	0.6%	39.7	16.2	146%	22%	78%
DEUTSCHE TELEKOM	DTE GR	Telecoms	OW	22	E	111.5	-10%	10%	13%	3.8%	12.1	14.3	-15%	3%	6%
BT GROUP	BT/A LN	Telecoms	OW	107	£	12.5	9%	-11%	-1%	7.2%	5.7	8.9	-35%	-12%	-24%
RELX	REL LN	Industrials	OW	3475	£	76.5	12%	8%	9%	1.7%	27.9	19.3	45%	14%	36%
HELLOFRESH	HFG GR	Staples	OW	12	E	2.1	-47%	60%	46%	0.0%	10.8	19.6	-45%	-16%	-43%
RWE	RWE GR	Utilities	OW	31	E	23.1	24%	-51%	-18%	3.5%	11.2	13.0	-14%	-18%	-23%
ENEL	ENEL IM	Utilities	OW	6	E	60.3	23%	4%	1%	7.7%	8.8	12.0	-27%	-7%	13%
SEGRO	SGRO LN	Real Estate	OW	871	£	12.5	6%	7%	7%	3.2%	24.7	25.3	-2%	6%	5%

Source: Datastream, MSCI, IBES, J.P. Morgan, Prices and Valuations as of COB 22nd Feb, 2024. Past performance is not indicative of future returns.

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

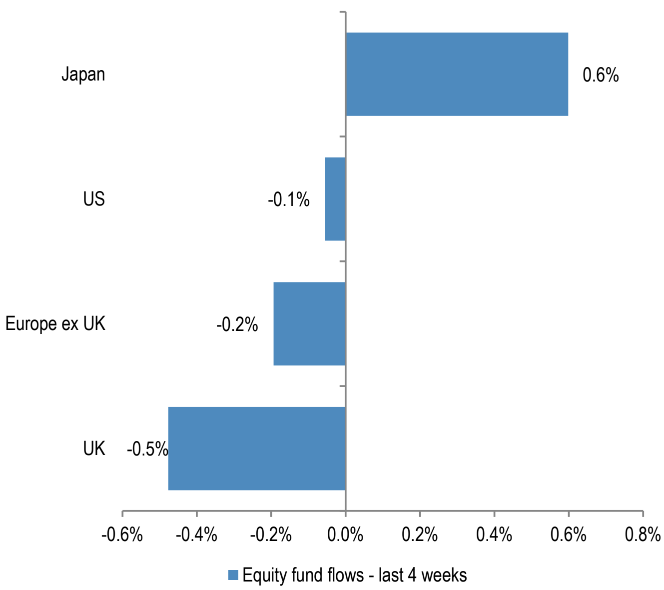
Equity Flows Snapshot

Table 15: DM Equity Fund Flows Summary

	Regional equity fund flows									
	$mn					% AUM				
	1w	1m	3m	ytd	12m	1w	1m	3m	ytd	12m
Europe ex UK	-170	-626	-421	-1,130	-13,385	0.0%	0.2%	-0.1%	0.2%	0.6%
UK	-204	-1,291	-5,453	-1,706	-27,686	-0.1%	-0.2%	-0.1%	-0.3%	-4.3%
US	-15,608	-5,327	85,647	-10,252	98,959	-0.1%	-0.5%	-2.2%	-0.6%	-9.8%
Japan	1,066	4,555	-3,691	4,236	11,862	-0.2%	-0.1%	1.0%	-0.1%	1.2%

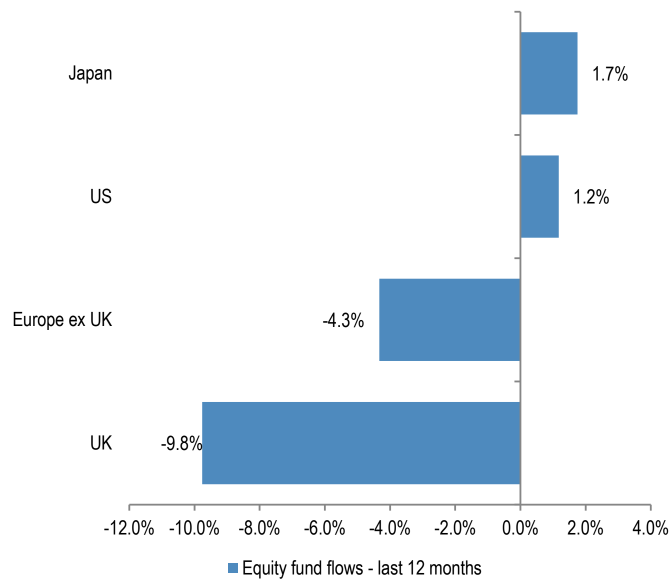
Source: EPFR, as of 7th Feb, 2024

Figure 28: DM Equity Fund flows – last month



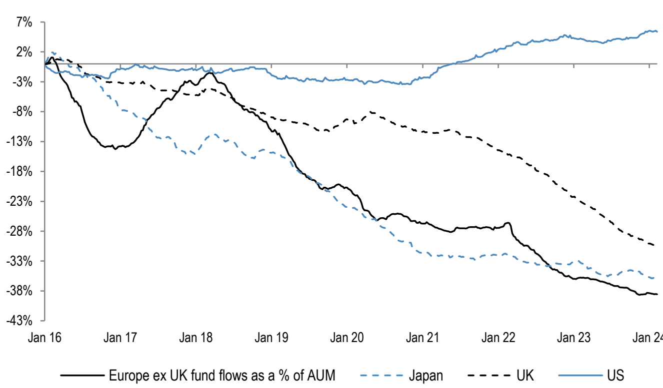
Source: EPFR, Japan includes BoJ purchases.

Figure 29: DM Equity Fund flows – last 12 months



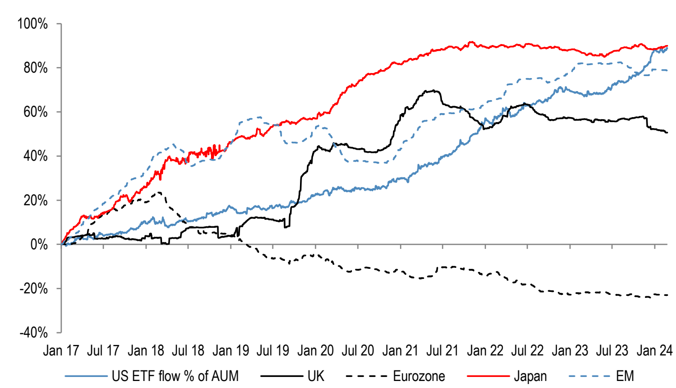
Source: EPFR, Japan includes BoJ purchases.

Figure 30: Cumulative fund flows into regional funds as a percentage of AUM



Source: EPFR, as of 7th Feb, 2024. Japan includes Non-ETF purchases only.

Figure 31: Cumulative fund flows into regional equity ETFs as a percentage of AUM



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

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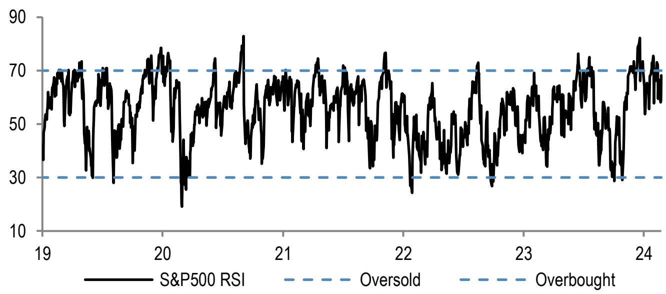
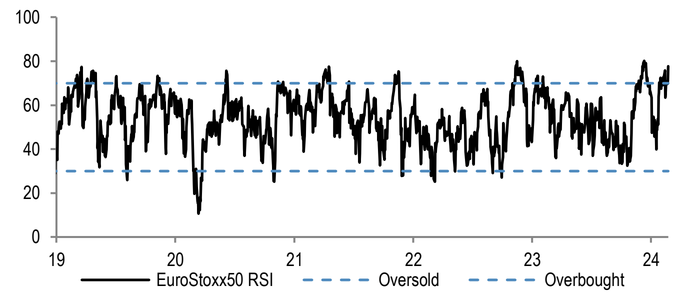
Technical Indicators

Figure 32: S&P500 RSI



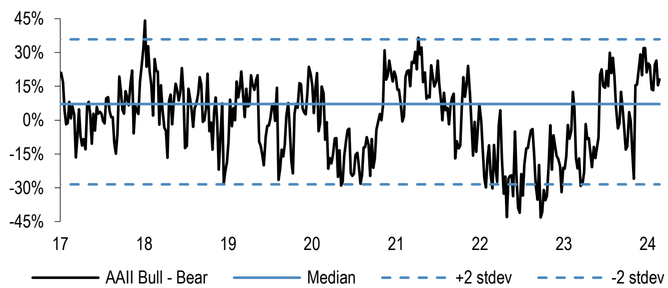
Source: Bloomberg Finance L.P.

Figure 33: EuroStoxx50 RSI



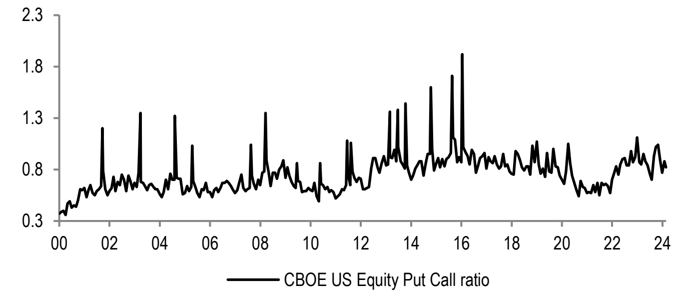
Source: Bloomberg Finance L.P.

Figure 34: AAII Bull-Bear



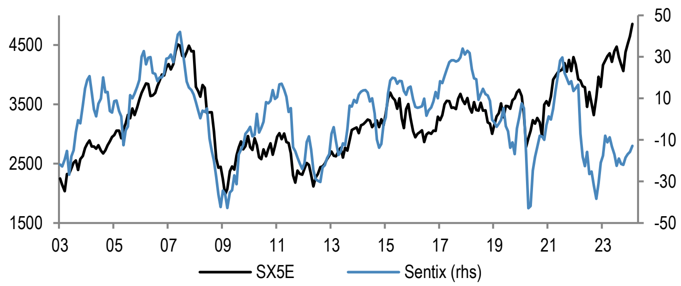
Source: Bloomberg Finance L.P

Figure 35: Put-call ratio



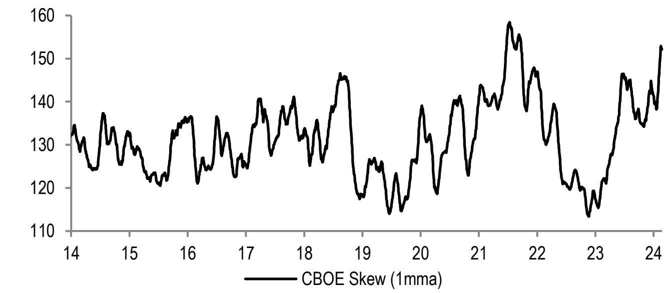
Source: Bloomberg Finance L.P.

Figure 36: Sentix Sentiment Index vs SX5E



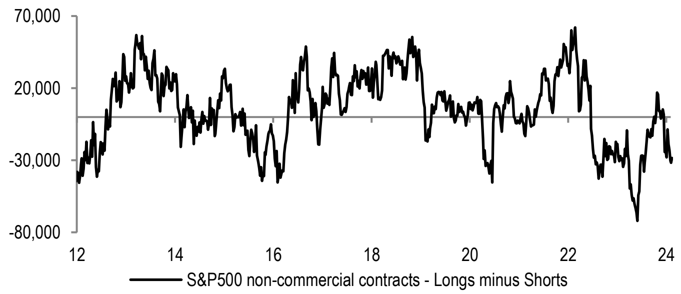
Source: Bloomberg Finance L.P.

Figure 37: Equity Skew



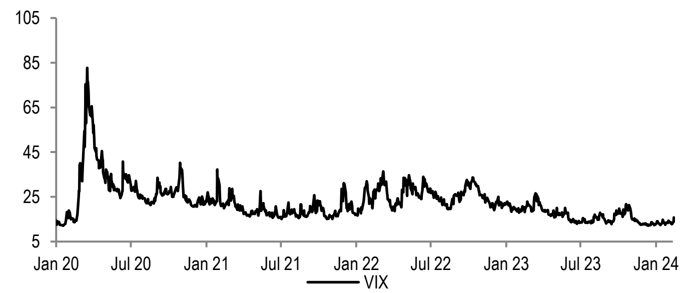
Source: Bloomberg Finance L.P.

Figure 38: Speculative positions in S&P500 futures contracts



Source: Bloomberg Finance L.P.

Figure 39: VIX



Source: Bloomberg Finance L.P.

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Performance

Table 16: Sector Index Performances — MSCI Europe

(%change)		Local currency		
Industry Group		**4week**	**12m**	**YTD**
Europe		**3.7**	**6.0**	**3.6**
Energy		**1.7**	**(3.2)**	**(3.3)**
Materials		**1.6**	**(3.5)**	**(3.5)**
	Chemicals	4.9	1.9	(0.3)
	Construction Materials	8.8	40.7	9.2
	Metals & Mining	(5.6)	(23.8)	(13.1)
Industrials		**5.0**	**17.0**	**5.3**
	Capital Goods	5.9	19.7	5.7
	Transport	(5.3)	(0.3)	(3.4)
	Business Svs	6.0	13.6	8.9
Consumer Discretionary		**12.4**	**5.9**	**9.5**
	Automobile	16.2	11.1	11.5
	Consumer Durables	17.6	3.3	12.3
	Media	1.5	13.3	6.2
	Retailing	1.1	1.7	0.0
	Hotels,Restaurants&Leisure	2.9	11.0	6.6
Consumer Staples		**2.4**	**(6.9)**	**0.7**
	Food & Drug Retailing	(0.6)	(4.4)	(3.8)
	Food Beverage & Tobacco	1.5	(11.2)	0.3
	Household Products	5.2	2.5	2.8
Healthcare		**4.0**	**6.7**	**5.8**
Financials		**2.5**	**5.4**	**2.3**
	Banks	2.2	3.0	1.3
	Diversified Financials	2.0	8.6	0.7
	Insurance	3.3	7.3	5.3
Real Estate		**(1.1)**	**(2.3)**	**(5.5)**
Information Technology		**4.1**	**34.6**	**15.7**
	Software and Services	2.0	43.0	14.5
	Technology Hardware	(0.4)	(1.1)	(1.3)
	Semicon & Semicon Equip	6.2	38.0	19.9
Telecommunications Services		**(1.6)**	**(1.6)**	**2.3**
Utilities		**(4.7)**	**(4.1)**	**(8.7)**

Source: MSCI, Datastream, as at COB 22nd Feb, 2024.

Table 17: Country and Region Index Performances

(%change)		Local Currency			US$		
Country	**Index**	**4week**	**12m**	**YTD**	**4week**	**12m**	**YTD**
Austria	ATX	(0.7)	(1.3)	(0.6)	(0.9)	0.4	(2.8)
Belgium	BEL 20	1.8	(5.0)	(0.3)	1.6	(3.3)	(2.4)
Denmark	KFX	11.3	34.7	13.9	11.1	36.9	11.4
Finland	HEX 20	(2.6)	(12.0)	(2.0)	(2.8)	(10.5)	(4.1)
France	CAC 40	6.0	8.4	4.9	5.8	10.2	2.6
Germany	DAX	2.7	12.8	3.7	2.6	14.7	1.5
Greece	ASE General	4.9	28.9	9.8	4.7	31.1	7.4
Ireland	ISEQ	5.9	17.2	9.2	5.7	19.2	6.8
Italy	FTSE MIB	7.3	19.4	6.6	7.1	21.4	4.3
Japan	Topix	5.1	34.7	12.4	3.0	20.5	5.3
Netherlands	AEX	5.2	13.3	9.0	5.0	15.3	6.7
Norway	OBX	(1.0)	(0.8)	(2.8)	(1.4)	(2.6)	(6.1)
Portugal	BVL GEN	(4.4)	(6.0)	(10.0)	(4.6)	(4.4)	(12.0)
Spain	IBEX 35	2.2	10.5	0.4	2.1	12.4	(1.8)
Sweden	OMX	2.7	9.1	1.3	3.8	9.8	(1.3)
Switzerland	SMI	1.6	0.8	2.2	(0.0)	6.2	(2.4)
United States	S&P 500	3.9	27.5	6.7	3.9	27.5	6.7
United States	NASDAQ	3.4	39.4	6.9	3.4	39.4	6.9
United Kingdom	FTSE 100	2.1	(3.1)	(0.6)	1.4	1.4	(1.6)
EMU	MSCI EMU	4.3	9.5	5.2	4.1	11.4	3.0
Europe	**MSCI Europe**	**3.7**	**6.0**	**3.6**	**3.3**	**8.9**	**1.2**
Global	MSCI AC World	3.9	22.3	6.1	3.7	21.9	5.1

Source: MSCI, Datastream, as at COB 22nd Feb, 2024.

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Earnings

Table 18: IBES Consensus EPS Sector Forecasts — MSCI Europe

	EPS Growth (%yoy)			
	2023	2024E	2025E	2026E
Europe	**(3.4)**	**3.7**	**9.7**	**9.3**
Energy	**(32.1)**	**(3.3)**	**3.3**	**12.2**
Materials	**(38.1)**	**7.3**	**10.1**	**9.1**
Chemicals	(34.7)	18.0	17.8	12.8
Construction Materials	10.9	6.2	8.9	0.1
Metals & Mining	(46.6)	0.1	2.0	9.8
Industrials	**(1.0)**	**8.1**	**13.5**	**11.2**
Capital Goods	21.0	12.4	13.4	11.2
Transport	(56.1)	(20.7)	18.5	11.9
Business Svs	4.5	8.2	10.7	10.8
Discretionary	**7.1**	**2.4**	**10.2**	**9.4**
Automobile	1.2	(3.5)	5.1	6.4
Consumer Durables	(5.3)	5.9	14.0	13.0
Media	(2.1)	10.3	9.3	10.1
Retailing	52.0	14.4	17.1	4.8
Hotels,Restaurants&Leisure	90.2	17.8	20.4	19.5
Staples	**2.6**	**3.8**	**8.5**	**7.9**
Food & Drug Retailing	3.1	6.2	12.0	7.4
Food Beverage & Tobacco	2.0	2.8	8.2	8.2
Household Products	4.2	5.8	8.1	7.4
Healthcare	**2.6**	**5.9**	**14.0**	**11.0**
Financials	**15.5**	**6.2**	**7.7**	**7.3**
Banks	29.0	0.9	4.4	4.6
Diversified Financials	(22.3)	20.5	22.2	23.1
Insurance	12.0	12.8	7.8	4.7
Real Estate	**12.2**	**(4.2)**	**4.5**	**3.3**
IT	**22.2**	**(10.8)**	**27.8**	**15.3**
Software and Services	46.2	(18.6)	20.5	12.9
Technology Hardware	(20.8)	11.5	8.2	9.4
Semicon & Semicon Equip	28.1	(12.0)	40.2	18.5
Telecoms	**(10.5)**	**14.3**	**10.1**	**8.2**
Utilities	**3.0**	**(2.5)**	**1.2**	**1.7**

Source: IBES, MSCI, Datastream. As at COB 22nd Feb, 2024.

Table 19: IBES Consensus EPS Country Forecasts

		EPS growth (%change)			
Country	**Index**	**2023**	**2024E**	**2025E**	**2026E**
Austria	ATX	(14.7)	(6.0)	3.7	(2.2)
Belgium	BEL 20	15.7	2.9	11.1	13.1
Denmark	Denmark KFX	(14.8)	26.1	20.8	16.3
Finland	MSCI Finland	(25.1)	5.9	10.9	9.2
France	CAC 40	(1.9)	2.3	8.6	9.4
Germany	DAX	3.6	(0.5)	11.7	9.5
Greece	MSCI Greece	8.4	(2.5)	5.3	22.0
Ireland	MSCI Ireland	35.3	(3.2)	1.7	8.9
Italy	MSCI Italy	9.8	(0.4)	2.0	4.3
Netherlands	AEX	(1.9)	0.8	13.2	11.0
Norway	MSCI Norway	(40.0)	4.9	5.2	2.2
Portugal	MSCI Portugal	33.4	3.4	6.0	7.9
Spain	IBEX 35	6.2	2.2	4.5	5.4
Sweden	OMX	31.9	0.5	8.1	7.1
Switzerland	SMI	(3.2)	9.4	13.2	9.5
United Kingdom	FTSE 100	(12.1)	3.1	7.7	10.1
EMU	MSCI EMU	4.3	2.8	9.8	8.5
Europe ex UK	MSCI Europe ex UK	0.9	4.0	10.6	8.9
Europe	MSCI Europe	(3.4)	3.7	9.7	9.3
United States	S&P 500	2.2	9.6	13.5	11.5
Japan	Topix	3.0	14.4	8.5	8.9
Emerging Market	MSCI EM	(4.0)	16.2	15.3	12.2
Global	MSCI AC World	0.3	8.8	12.6	10.8

Source: IBES, MSCI, Datastream. As at COB 22nd Feb, 2024** Japan refers to the period from March in the year stated to March in the following year – EPS post-goodwill

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Valuations

Table 20: IBES Consensus European Sector Valuations

	P/E			Dividend Yield			EV/EBITDA			Price to Book		
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Europe	**13.8**	**12.5**	**11.5**	**3.5%**	**3.7%**	**4.6%**	**7.9**	**7.3**	**6.9**	**1.9**	**1.8**	**1.7**
Energy	**7.2**	**7.0**	**6.3**	**5.7%**	**5.7%**	**5.8%**	**3.2**	**3.2**	**3.1**	**1.1**	**1.0**	**1.0**
Materials	**14.7**	**13.4**	**12.3**	**3.4%**	**3.7%**	**3.9%**	**7.2**	**6.5**	**5.9**	**1.6**	**1.5**	**1.4**
Chemicals	22.7	19.3	17.1	2.8%	3.0%	3.2%	11.1	10.0	9.1	2.3	2.2	2.1
Construction Materials	13.2	12.1	12.1	3.0%	3.1%	3.2%	6.8	6.3	4.3	1.5	1.4	0.8
Metals & Mining	9.1	8.9	8.1	4.6%	4.9%	5.3%	4.5	4.1	3.6	1.1	1.0	1.0
Industrials	**19.3**	**17.0**	**15.3**	**2.4%**	**2.6%**	**7.9%**	**9.8**	**8.9**	**8.0**	**3.2**	**3.0**	**2.8**
Capital Goods	19.0	16.8	15.1	2.3%	2.6%	9.3%	10.1	9.0	8.1	3.3	3.1	2.9
Transport	17.8	15.0	13.1	3.2%	3.4%	3.4%	7.2	6.8	5.8	1.7	1.7	1.6
Business Svs	22.4	20.2	18.2	2.3%	2.5%	2.7%	13.0	11.8	10.8	6.2	5.6	4.9
Discretionary	**13.8**	**12.5**	**11.4**	**2.7%**	**3.0%**	**3.1%**	**5.3**	**4.7**	**4.8**	**1.9**	**1.8**	**1.8**
Automobile	6.4	6.1	5.8	5.0%	5.3%	5.3%	1.8	1.3	2.0	0.8	0.7	0.7
Consumer Durables	24.7	21.7	19.3	1.7%	2.0%	2.1%	13.8	12.5	11.4	4.4	4.0	3.6
Media & Entertainment	16.8	15.4	13.4	2.3%	2.5%	2.6%	11.6	9.6	8.6	1.9	1.8	4.0
Retailing	14.4	12.3	11.8	2.5%	2.8%	3.1%	9.8	8.7	7.1	2.7	2.6	2.1
Hotels,Restaurants&Leisure	23.8	19.7	16.5	2.1%	2.4%	2.8%	12.1	10.4	9.5	4.0	3.6	3.5
Staples	**17.2**	**15.8**	**14.6**	**3.1%**	**3.3%**	**3.6%**	**10.8**	**10.1**	**9.4**	**2.9**	**2.7**	**2.6**
Food & Drug Retailing	12.0	10.7	10.0	3.9%	4.3%	4.7%	6.1	5.7	5.8	1.6	1.5	1.3
Food Beverage & Tobacco	16.7	15.4	14.2	3.5%	3.7%	4.0%	10.7	10.0	9.0	2.6	2.5	2.3
Household Products	20.5	19.0	17.7	2.3%	2.5%	2.7%	14.0	13.0	12.5	4.2	3.9	3.9
Healthcare	**17.5**	**15.3**	**13.8**	**2.5%**	**2.7%**	**2.8%**	**12.2**	**10.8**	**9.9**	**3.4**	**3.1**	**3.0**
Financials	**8.6**	**8.0**	**7.4**	**5.8%**	**6.0%**	**6.5%**	**-**	**-**	**-**	**1.0**	**1.0**	**0.9**
Banks	6.5	6.2	6.0	8.0%	8.0%	8.5%	-	-	-	0.7	0.7	0.6
Diversified Financials	14.3	11.7	9.7	2.5%	2.8%	3.1%	-	-	-	1.3	1.4	1.3
Insurance	10.5	9.7	9.2	5.5%	5.8%	6.1%	-	-	-	1.6	1.5	1.4
Real Estate	**14.0**	**13.4**	**12.9**	**4.4%**	**4.6%**	**4.9%**	**-**	**-**	**-**	**0.8**	**0.8**	**0.8**
IT	**30.0**	**23.5**	**20.3**	**1.2%**	**1.3%**	**1.4%**	**17.7**	**14.1**	**12.1**	**5.1**	**4.6**	**4.0**
Software and Services	30.2	25.1	22.2	1.3%	1.4%	1.5%	19.0	15.5	13.4	4.5	4.2	3.7
Technology Hardware	15.5	14.3	13.1	2.7%	2.7%	2.9%	8.8	8.0	6.8	1.9	1.7	1.6
Semicon & Semicon Equip	35.4	25.2	21.3	0.8%	1.0%	1.1%	20.8	15.4	13.1	8.4	7.1	5.9
Communication Services	**14.2**	**12.9**	**11.7**	**4.3%**	**4.4%**	**4.6%**	**6.6**	**6.1**	**5.7**	**1.4**	**1.3**	**1.4**
Utilities	**11.8**	**11.7**	**11.5**	**5.4%**	**5.6%**	**5.6%**	**7.9**	**7.9**	**8.2**	**1.5**	**1.4**	**1.4**

Source: IBES, MSCI, Datastream. As at COB 22nd Feb, 2024.

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Table 21: IBES Consensus P/E and 12-Month Forward Dividend Yields — Country Forecasts

		P/E				Dividend Yield
Country	**Index**	**12mth Fwd**	**2024E**	**2025E**	**2026E**	**12mth Fwd**
Austria	ATX	7.5	7.5	7.3	7.1	6.1%
Belgium	BEL 20	15.4	15.7	14.1	12.3	3.1%
Denmark	Denmark KFX	27.7	28.6	23.7	20.4	1.7%
Finland	MSCI Finland	14.5	14.8	13.3	12.2	4.6%
France	CAC 40	13.1	13.3	12.2	11.2	3.3%
Germany	DAX	11.8	12.1	10.8	9.9	3.5%
Greece	MSCI Greece	30.9	31.2	29.6	20.6	1.7%
Ireland	MSCI Ireland	10.6	10.7	10.5	9.6	3.7%
Italy	MSCI Italy	8.7	8.8	8.6	8.2	5.7%
Netherlands	AEX	15.0	15.3	13.5	12.4	2.5%
Norway	MSCI Norway	10.1	10.2	9.7	9.5	6.8%
Portugal	MSCI Portugal	13.8	14.0	13.2	12.2	4.1%
Spain	IBEX 35	10.5	10.6	10.2	9.6	5.1%
Sweden	OMX	15.0	15.2	14.1	13.3	3.8%
Switzerland	SMI	16.9	17.3	15.3	13.9	3.4%
United Kingdom	FTSE 100	10.8	11.0	10.2	9.2	4.3%
EMU	MSCI EMU	13.0	13.2	12.0	11.1	3.5%
Europe ex UK	MSCI Europe ex UK	14.5	14.8	13.4	12.3	3.3%
Europe	**MSCI Europe**	**13.5**	13.8	12.5	11.5	**3.6%**
United States	S&P 500	20.7	21.4	18.8	16.8	1.5%
Japan	Topix	15.0	16.2	14.9	13.7	2.3%
Emerging Market	MSCI EM	11.6	11.9	10.6	9.3	3.1%
Global	MSCI AC World	17.1	17.5	16.0	14.3	2.1%

Source: IBES, MSCI, Datastream. As at COB 22nd Feb, 2024; ** Japan refers to the period from March in the year stated to March in the following year – P/E post goodwill.

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Economic, Interest Rate and Exchange Rate Outlook

Table 22: Economic Outlook in Summary

	Real GDP % oya			Real GDP % over previous period, saar						Consumer prices % oya			
	2023E	2024E	2025E	3Q23	4Q23	1Q24E	2Q24E	3Q24E	4Q24E	3Q23	1Q24E	3Q24E	1Q25E
United States	2.5	2.0	1.5	4.9	3.3	1.7	0.5	0.5	0.7	3.6	3.0	2.8	2.5
Eurozone	0.5	0.4	1.0	-0.5	0.2	0.5	0.7	0.7	0.7	5.0	2.6	2.1	1.9
United Kingdom	0.1	0.0	0.1	-0.5	-1.4	1.0	0.8	0.0	-0.5	6.7	3.6	1.7	2.3
Japan	1.9	0.5	0.7	-3.3	-0.4	1.3	1.6	0.7	0.7	3.1	2.6	2.3	2.1
Emerging markets	4.1	3.8	3.6	5.7	3.6	4.0	3.6	3.7	3.6	3.8	3.8	3.5	3.5
Global	2.7	2.3	2.2	3.5	2.5	2.4	1.9	1.9	2.0	4.0	3.3	2.9	2.8

Source: J.P. Morgan economic research J.P. Morgan estimates, as of COB 16th Feb, 2024

Table 23: Official Rates Outlook

					Forecast for			
	Official interest rate	Current	Last change (bp)	Forecast next change (bp)	Mar 24	Jun 24	Sep 24	Dec 24
United States	Federal funds rate	5.50	26 Jul 23 (+25bp)	Jun 24 (-25bp)	5.50	5.25	4.75	4.25
Eurozone	Depo rate	4.00	14 Sep 23 (+25bp)	Jun 24 (-25bp)	4.00	3.75	3.50	3.00
United Kingdom	Bank Rate	5.25	03 Aug 23 (+25bp)	Aug 24 (-25bp)	5.25	5.25	5.00	4.50
Japan	Pol rate IOER	-0.10	Jan 16 (-20bp)	3Q24 (+10bp)	-0.10	-0.10	0.00	0.00

Source: J.P. Morgan estimates, Datastream, as of COB 16th Feb, 2024

Table 24: 10-Year Government Bond Yield Forecasts

10 Yr Govt BY		Forecast for end of			
	23-Feb-24	Mar 24	Jun 24	Sep 24	Dec 24
US	4.33	3.95	3.80	3.75	3.65
Euro Area	2.45	2.15	2.00	1.85	1.75
United Kingdom	4.11	3.80	3.65	3.55	3.45
Japan	0.72	0.60	0.65	0.80	0.80

Source: J.P. Morgan estimates, Datastream, forecasts as of COB 9th Feb, 2024

Table 25: Exchange Rate Forecasts vs. US Dollar

Exchange rates vs US$		Forecast for end of			
	22-Feb-24	Mar 24	Jun 24	Sep 24	Dec 24
EUR	1.08	1.03	1.05	1.10	1.13
GBP	1.26	1.18	1.19	1.24	1.26
CHF	0.88	0.92	0.90	0.86	0.85
JPY	151	150	148	146	144
DXY	104.0	108.2	106.5	102.5	100.1

Source: J.P. Morgan estimates, Datastream, forecasts as of COB 9th Feb, 2024

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Sector, Regional and Asset Class Allocations

Table 26: J.P. Morgan Equity Strategy — European Sector Allocation

		MSCI Europe Weights	Allocation	Deviation	Recommendation
Energy		**6.1%**	8.0%	1.9%	**OW**
Materials		**7.1%**	6.0%	-1.1%	**N**
	Chemicals				UW
	Construction Materials				N
	Metals & Mining				N
Industrials		**15.3%**	14.0%	-1.3%	**N**
	Capital Goods ex Aerospace & Defence				UW
	Aerospace & Defence				OW
	Transport				N
	Business Services				N
Consumer Discretionary		**9.4%**	7.0%	-2.4%	**UW**
	Automobile				UW
	Consumer Durables				N
	Consumer Srvcs				UW
	Speciality Retail				UW
	Internet Retail				UW
Consumer Staples		**11.9%**	13.0%	1.1%	**OW**
	Food & Drug Retailing				UW
	Beverages				OW
	Food & Tobacco				OW
	Household Products				OW
Healthcare		**15.5%**	18.0%	2.5%	**OW**
Financials		**17.9%**	14.0%	-3.9%	**UW**
	Banks				UW
	Insurance				N
Real Estate		**0.8%**	2.0%	1.2%	**OW**
Information Technology		**7.2%**	7.0%	-0.2%	**N**
	Software and Services				N
	Technology Hardware				N
	Semicon & Semicon Equip				UW
Communication Services		**4.5%**	5.0%	0.5%	**OW**
	Telecommunication Services				OW
	Media				N
Utilities		**4.3%**	6.0%	1.7%	**OW**
		100.0%	**100.0%**	**0.0%**	**Balanced**

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

Table 27: J.P. Morgan Equity Strategy — Global Regional Allocation

	MSCI Weight	Allocation	Deviation	Recommendation
EM	10.6%	10.0%	-0.6%	Neutral
DM	89.4%	90.0%	0.6%	Neutral
US	70.1%	68.0%	-2.1%	Neutral
Japan	6.1%	8.0%	1.9%	Overweight
Eurozone	5.4%	6.0%	0.6%	Underweight
UK	2.4%	6.0%	3.6%	Overweight
Others*	16.0%	12.0%	-4.0%	Overweight
	100.0%	**100.0%**	**0.0%**	**Balanced**

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

Table 28: J.P. Morgan Equity Strategy — 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**

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

Table 29: J.P. Morgan Equity Strategy — Asset Class 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

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	Overweight (buy)	Neutral (hold)	Underweight (sell)
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