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## Global Equity Strategy

### 2024 Global Equity Outlook

Since the start of the rate hike cycle in 2022, regional business cycles have weakened, earnings growth has stagnated (S&P 500 2021-2024E EPS: \$208-\$225, ~2.5% CAGR), and the market has moved sideways averaging near our price target of 4,200 (2022 avg: ~4,100; 2023 avg: ~4,250). Equity concentration reached levels not seen since 1970s with a very narrow leadership, which is typical ahead of a slowdown. Most active investors and diversified portfolios underperformed in this environment with S&P 500 performance led by a small number of mega-cap stocks (Magnificent 7 +101% vs. S&P 500 equal weight +3.5%, Russell 2000 +2.3%, Defensive sectors -11%, 46% of S&P 1500 stocks down YTD). Many argue the next leg up for global equities will be supported by laggards. However, we see this as a tall order given that underperformers are more economically sensitive with lower and vulnerable margins. After a period of record pricing power, the recent disinflationary trend should become a major headwind for corporate margins amidst sticky and lagging wage trends. In fact, pricing power could outright turn negative / deflationary in some industries. Absent rapid Fed easing, we expect a more challenging macro backdrop for stocks next year with softening consumer trends at a time when investor positioning and sentiment have mostly reversed. Equities are now richly valued with volatility near the historical low, while geopolitical and political risks remain elevated. We expect lackluster global earnings growth with downside for equities from current levels. For S&P 500, we estimate earnings growth of 2-3% next year with EPS of \$225 and Price Target of 4,200 with a downside bias. At the style and sector levels, we recommend investors overweight Bond Proxies and Quality at a Reasonable Price with Utilities sector at a sweet spot of this mix. While it is difficult to pin down the start date and depth of a recession ahead of time, we think it is a live risk for next year even though investors are not pricing in this uncertainty consistently across geographies, styles, and sectors yet.

- **Decelerating Global Growth and Shrinking Liquidity.** Our Quant Macro Indicators (QMIs) imply further deceleration in global business cycle. JPM Economists expect US growth to slow to 0.7% YoY by 4Q24 from 2.8% 4Q23 and global growth to moderate to 2.0% YoY by 4Q24 from 2.7% 4Q23. At the same time, liquidity continues to contract as G5 Central Banks shrink balance sheets at an unprecedented pace of ~\$5.2T over the last six quarters and borrow rates remain restrictive across consumer and corporate segments, see [Higher for Longer](#). Yield curves of major liquid developed bond markets (Germany, France, UK, Australia, Canada, US) have inverted in unison for the first time since the GFC. Japan is the sole exception as BoJ is cautious about raising the short-term policy rate too quickly even as JGB yield comes under pressure in spite of YCC.
- Excess US household liquidity (cash-equivalent assets) has fallen from a peak of \$3.4T to \$1.0T and should largely be exhausted by 2Q24 based on our estimates. Importantly, nearly all the inflation-adjusted **excess cash sits with**

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**the relatively affluent (top 20%) while the middle class (top 20%-60%) real liquidity is back to pre-Covid level and the bottom 40% are worse off.**

- **Geopolitical and political risks remain high**, with an ongoing shift to a multipolar world order, two major wars, and 40 countries holding national elections (including the US) that could add policy volatility, see [Geopolitical tectonic shifts](#). As such, we expect equity volatility to generally trade higher in 2024 than in 2023, and the extent of the increase depends on the timing and severity of an eventual recession.
- **Consensus estimates and equity valuation imply growth acceleration consistent with an intra-cycle / early-cycle recovery**. The market is assuming a near perfect landing with inflation cooling without a significant impact to demand and pricing power — not likely in our view. Consensus forward EPS growth of 11% for US and 9% for AC MSCI ex-US is in harmony with this Goldilocks outlook, which does not consider Higher for Longer or a recession outcome depending on course of policy actions and geopolitical developments. In contrast to this robust outlook, we expect lower sequential revenue growth, no margin expansion, and lower buyback executions.
- **Current valuation is rich, especially in light of the aging business cycle, restrictive monetary policy, and geopolitical risks**. S&P 500 multiple relative to real rates is overvalued by ~3x (or ~4x if post-Covid stimulus and TMT bubble episodes are excluded), Equity Risk Premia (ERP) is at 96<sup>th</sup>ile since 2010, i.e. very low reward for the risk (Figure 20). Traditional valuation metrics are similarly in the richest deciles with EV/EBITDA of 14x (90<sup>th</sup>ile), EV/ Sales of 2.7x (88<sup>th</sup>ile), and P/B of 4.3x (89<sup>th</sup>ile). At this valuation and VIX near historical low, the market is far from appreciating the known risks (e.g. CRE, rising bankruptcies, credit delinquencies) and unknown unknowns (i.e. unwinding of carry trades implemented during ~15 years of ZIRP).
- **There are increasing signs of caution emerging**. Credit card delinquencies continue to rise. Office CRE trends continue to weaken with a wall of maturities looming in '24. Syndicated leveraged loan defaults are well above '19 levels and rising. All of this adds up and suggests a credit cycle that is running a little long in the tooth. Also, venture-backed companies are facing sharp tightening with 3Q23 LTM investments activity down -33% y/y and -53% from the peak.

**Cross-Regional Equity Strategy.** US continues to command a quality premium over other markets given its sector composition and cash rich mega-cap stocks. If the economic growth momentum of this year continues into 2024, it is likely that the US will underperform given the wide valuations gap of the US vs other regions, and its rich investor positioning. However, if the expected Goldilocks environment does not materialize, a risk we believe is underappreciated, the US will likely outperform in an otherwise disappointing global equity performance in 2024.

- Outside the US and within **international developed markets**, we are relatively more optimistic on **UK** equities given significant valuation support and favorable sector compositions. Despite cheap valuation, we expect European equities to have a v-shaped path (weak 1H and then some recovery on Fed rate cuts) ending the year relatively flat (this assumes no recession in 2024). On the other hand, **Japan** remains attractive with a potential pick-up in retail participation, strong balance sheets, improving shareholder focus, better consumer real income growth and still supportive policy backdrop.
- We expect a bumpy start to the year for **Emerging Markets** given high rates, geopolitical developments, lasting USD strength and poor historical EM Sharpe ratio versus DM. However, EM should become more attractive through 2024 on EM-DM growth divergence, demand for diversification away from the US, low investor positioning, steep discount to DM and USD weakness. For **China**, which has lagged meaningfully this year, there is a prospect of better performance if the growth momentum delivers on the upside, and the geopolitical risks stay contained. We see a more positive setup for **Latam** equities

with upside of ~10% helped mostly by lower inflation, lower financing costs and easy comps. Lastly, we have been cautious on EM vs DM in 2023, and think that certain parts of EM – China/LATAM – could surprise on the upside in 2024.

- **At the style and sector levels, we recommend investors overweight Bond Proxies and Quality at a Reasonable Price. Utilities are in a sweet spot of this mix, especially after the rapid 9.8x turn de-rating in PE NTM.** Defensive Sectors and Industries (Utilities / Staples / Non-Real Estate REITs, Aerospace Defense) were market darlings not too long ago (see [Low Vol Bubble](#)) similar to mega-caps today (see [Market Concentration](#)). We believe it is still early for investors to bottom-fish in beaten down Consumer stocks, Financials, Real Estate, and unprofitable companies. Instead we see plenty of room for Defensive stocks to re-rate higher (Defensives trade at only ~1x premium to Cyclical).

**Global Macro and Business Cycle Outlook.** JPM Regional Business Cycle Indicators (QMIs), which lead the business cycle by 3 to 6 months, **suggest a slowing global economy into mid-2024 at least.** For the last 19 consecutive months the US QMI has been below average, an extended pause typically associated with a recession. Meanwhile the European QMI has moved deeper into the 'Contraction' phase suggesting an increasingly challenging macro-drop. Economies of Japan, China, and India are also expected to meaningfully decelerate in 2024. In addition, geopolitical risks (e.g. Ukraine war, Middle East tension, US-China relations) remain a source of volatility for commodity prices and growth. Since QMIs' visibility extends to 1H2024 at best, a US recession next year remains a live risk contingent on policy actions and geopolitical developments. In particular, **the US QMI leads S&P 500 EPS year-on-year change by 9 months and foresees stagnant EPS till mid-2024 (Figure 9).** The massive fiscal transfer and monetary injection that have supported households and businesses since 2020 are a diminishing counterbalance against rising real interest rate, declining household liquidity, and tightening financial conditions. Historically, earnings growth expectations rarely deviate from changes in economic growth (Figure 11). During 2023, we believe global consensus EPS revisions outpaced macro data (JPM's regional Quant Macro Indices) for two reasons: 1) high inflation, and 2) consumer strength. Unless corporates can continue to both control their supply chains and raise prices, the risk is that the 'sweet spot' is over. We believe both drivers (price inflation and the consumer demand) are now in the process of reversing, and very likely to lead to a significant downtrend in EPS expectations. Indeed, the latest revisions already appear to be moving in that direction. Moreover, the risk of this continuing is exceptionally high when interest rates are at their peak, and when bond yields are falling. **Bottom line, we expect profits to deteriorate more than the declining QMI macro trends as we progress into 2024.**

- **Yield Curve and Central Bank Pivot.** The growth/inflation dynamics in 2024 seems to be a trimodal distribution: (a) **higher for longer rates**, elevated inflation, resilient corporate margin due to stronger pricing power and steady employment growth, i.e., a continuation of the 2023 backdrop with services inflation stickier than expected currently. We find this less likely mode given the increasingly negative effect of higher rates on consumers and corporates; (b) **a Goldilocks scenario**, i.e., slow growth but recession averted, inflation glide path within the Fed's comfort zone, policy rate reduced gradually, and real rates stays below 2%. In the past 40 years such a feat has been difficult to achieve. With full employment and inverted yield curve, slow growth usually stalls and sinks into negative territory. Of course, this time could be different; and (c) **Fed is irrevocably behind the curve** and growth slows faster than anticipated, declining liquidity causes consumers to retrench, disinflation erodes corporate pricing power and earnings in 2024. Recession remains a live risk in this case. Historically, as is the case **since Nov'22, if both yield spreads are inverted**, i.e. 10Y-3M (triggered by high short rates) and 10Y-2Y (due to expected higher for longer, Figure 10), **recession has been the norm.** In the three recent hiking cycle in which a soft landing was achieved, i.e., 2019, 1994 and 1983, both the spreads did not invert and the Fed *aggressively* reversed course.

**In sum, Goldilocks becomes increasingly untenable unless the Fed cuts rates more aggressively than what the market is pricing.**

- **Volatility Outlook.** Volatility was unusually low this year relative to high interest rates, slowing macro data, and elevated geopolitical risks. This disconnect was driven by a combination of longer than normal lags in the transmission of monetary policy and technical factors (e.g. persistent short-dated option selling flows). While the lags are longer than usual, much of the impact of monetary policy is likely still ahead, and elevated rates along with further slowing in economic growth should boost equity volatility over the course of next year. For 2024, we also expect a more challenging backdrop for stocks and believe risk-reward remains unattractive. Additionally, geopolitical and political risks remain high, with an ongoing shift to a multipolar world order, two major wars, and 40 countries holding national elections (including the US) that could add policy volatility. As such, we expect the VIX to generally trade higher in 2024 than in 2023, and the extent of the increase depends on the timing and severity of an eventual recession, and the timing of a potential volatility surge that could alleviate the structural short-dated volatility selling flows. If markets remain relatively calm and we see an economic soft landing, we would expect the VIX to average in the mid-to-high teens next year, while if a moderate recession were to start in the 2nd half of next year, the VIX is likely to average in the low 20s for the full year. The VIX could of course realize even higher levels in case of a severe recession or geopolitical tail event.

**Global Earnings and Valuation. Growth Expectations, A Goldilocks Revival?** In some respects the projected macro backdrop for 2024 resembles a less pessimistic rendering of the low expectations for 2023 a year ago. Blue Chip Consensus expected a US recession in 4Q23 – it did not happen; and S&P 500 forward consensus EPS growth was projected at 2%ile relative to history since 1985 (+4% y/y) – actual is at 27%ile (~0%) i.e. better than expected when adjusted for analysts' historical upward bias. In this light, YTD ~18% gain in S&P 500 is restitution for the excess pessimism in 2022 (market down -19%) and growing optimism around AI. Outside the US, AC MSCI ex-US projected forward EPS growth at 2%ile relative to history since 2001 (1.6%) was again upended by optimism-adjusted actual growth at 32%ile (-3.0%). Current consensus S&P 500 forward EPS growth at 30%ile (+11%) and AC MSCI ex-US at 27%ile (+9.0%) is in harmony with a Goldilocks outlook for growth and inflation. Financial markets' monetary policy expectations have also transitioned with the changing macro backdrop. A year ago Fed Funds futures implied an inverted-U path for policy rates, peaking at 5% in June and ~4.5% by YE2023. With the Fed raising rates higher than expected due to stickier inflation and resilient growth, and on hold since July, policy rate is expected to fall off the plateau beginning March or May next year and reach 4.5% or a little lower by year-end. In effect, consensus is poised for 2024 EPS growth to match this year's, setting aside the negative effects of higher borrow rates and ongoing stress on the balance sheets of households and corporates, and the pressure to reduce government deficit.

- **Revenue Growth, Margins, Growth Drivers. Expecting another year of flat to low-single-digit earnings growth in developed markets with sharp revisions to unrealistic consensus growth estimates.** In contrast to resilient global economic growth this year with robust earnings growth estimates at the start of the year, MSCI World and S&P 500 companies are on track to deliver flat 2023 earnings growth as demand continued to normalize with price disinflation and margin pressure. With an expected stepdown in economic growth next year, tighter credit, and higher borrow costs, we once again see 2024 global growth of ~10% inconsistent with the macro backdrop. For example, S&P 500 EPS growth rate of 11% implies robust demand with revenue growth reaccelerating to ~5% and net income margin expanding by ~60bp to mid-2022 level. This type of rebound is typically seen in early-cycle or intra-cycle recoveries, not when household savings are eroding, borrow costs have reached multi-decade highs, and global demand is cooling with price disinflation. For this reason, we are assuming another year of below-trend earnings growth with revenue growth rate sequentially lower, no margin



expansion, and lower shareholder payouts. This flat growth rate is in line with our macro QMI that implies little or no earnings growth in coming quarters. Our earnings view is further supported by our AL/NLP engine that continues to suggest less constructive corporate sentiment given high cost of capital, deteriorating health of consumers, diminishing pricing power, and negative outlook for taxes.

- **Equity Valuation. The current level of real rate (~2%) implies S&P 500 multiple is overvalued by ~3x (or ~3.9x if post-Covid stimulus and TMT bubble episodes are excluded, Figure 19).** Equity Risk Premia (ERP) is at 96th%ile relative to post-GFC history (Figure 20). Even though the US market looks expensive, below the surface it is bifurcated with large/mega caps possessing record premium relative to mid and small cap stocks. S&P 400 and S&P 600 are trading at forward P/E ratio of 14.2x (13%ile since 2004) and 13.9x (9%ile), respectively, compared to 19.0x for S&P 500 (89%ile). JPM Economics expects US growth to slow to 0.7% YoY by 4Q24 from 2.8% 4Q23, core PCE inflation to cool to 2.4% from 3.4% and policy rate to slide to 4.5% from 5.5%. Forward P/E ratios of MSCI Europe (12.6x, 30%ile since 1999), China (9.4x, 19%ile) and Japan (14.3x, 40%ile) are below their historical median while that of MSCI US (19.3x, 78%ile since 1999) and EM Asia (12.1x, 56%ile) are above median (Figure 20). The corporate debt market seems even less perturbed about any significant looming risks in 2024. The option-adjusted spread of AAA corporate bonds vs treasury is at the narrowest level since 2000 (40bps, Figure 12); BBB IG OAS (153bps, 22%ile) and high yield spread (394 bps, 41%ile) are less extreme in underappreciating the risks ahead. The narrow spreads could partly reflect cash rich mega caps, a dysfunctional Congress and higher deficit but clearly investors are leaning more towards a gentle soft landing or Goldilocks currently.

**Style/Sector Outlook. We favor a more Defensive positioning within styles/sectors** given a combination of softening GDP growth, elevated rates versus history and downside risks to corporate profits, at a time when Defensive-to-Cyclicals valuation spread stands at only ~50th %tile (see Figure 23). We favor high Quality and within that style specifically areas with more favorable valuation (i.e. bond proxy Utilities, defensive Healthcare). Within Cyclicals, we only recommend Energy for its favorable idiosyncratic setup (e.g. cheap valuation, geopolitical hedge, etc.) and are less optimistic about Cyclical Growth sectors such as Discretionary and Industrials ex-Aerospace/Defense. While we are not outright calling for a recession as our base case, our concern remains around the relative resilience of the current goldilocks backdrop, the narrow margin of error for a soft landing and reassertion of late cycle dynamics (e.g. further crowding into Quality, etc.). Key catalysts to watch include softening corporate pricing power/sentiment (e.g. cost of capital), diminishing consumer savings/liquidity and Fed cuts/pace of disinflation.

- **Energy** offers an attractive risk/reward opportunity given cheap valuation, inherent operating leverage and potential hedge to rising geopolitical tensions. Going into 2024, we prefer US/Europe/EM/China Energy over other regions (Neutral).
- We are underweight **Industrials** in the US/Europe/LatAm given slowing global business cycle, higher rates, sensitivity to USD, and slowing end-market unit demand ex-Aerospace. However, we expect US/Europe Aerospace/Defense to be more resilient despite broader trends in the sector given its relative immunity to macro, strong fundamentals, and more favored treatment versus Defensives/Staples through a business cycle.
- We prefer **Staples** over **Discretionary** given multiple headwinds for Discretionary around shrinking consumer excess savings/liquid assets, margin pressure (e.g. slowing demand, higher labor costs, etc.) and rising cost of capital. We expect Staples in most regions ex-China/LatAm (neutral) to outperform and Japan/China/EM/Asia Discretionary to outperform US/European Discretionary.
- We are overweight **Healthcare** in US/Europe/CEEMEA for its defensive growth properties, peaking rates, high screening across key characteristics (i.e. growth, value and

quality) and reasonable valuation. However, we are more cautious on the sector within EM.

- **Technology/Communications** delivered remarkable outperformance this year with S&P 500 Tech sector making all-time highs and both sectors a major driving force behind the broader market rally. Going forward, we expect the narrow leadership of Tech/Communications ex-Telecom to normalize in the US driven by softer growth, rich valuations and relative attractiveness of Defensives. We recommend investor caution for Japan/Asia Ex-Japan/LatAm Technology and are more constructive on European Communications, specifically Telecom.
- We prefer **Utilities** over **Real Estate** in the US given Real Estate's mismatch between cap rates and high borrowing rates for longer, business cycle sensitivity and slowdown in new investment. We expect Utilities to outperform across US/Europe though less so in LatAm where broad based rate cuts are expected by 1Q24. We expect a better setup for Real Estate within Europe/CEEMEA/LatAm.
- Given the fallout from the regional bank crisis, **Financials** have been relatively range bound versus the index given weak sentiment, slowing growth, rising delinquencies/charge-offs, further restrictions on payouts, yield curve inversion and ongoing investor scrutiny of balance sheet health. While valuation is increasingly attractive, we remain neutral the sector in the US. For investors looking to gain exposure to the space, we recommend Japan on potential lifting of negative interest rates along with Asia/CEEMEA/LatAm.

**Regional Themes.** (1) **Still elevated rates** could be a source of downside risk especially when it comes to corporate leverage/refinancings and corporate growth tied to the availability of cheap financing. We expect this risk to be most acute in the US, Europe and Asia though EM could be more constructive (see Figure 8 for list of baskets/screens). (2) **Consumer health** is likely to be mixed geographically as companies exposed to the low-end consumer come under increasing pressure in the US and corporates that offer value-for-money products likely benefit in China with consumers trading down. Japan's consumer backdrop should be more favorable given expanding middle class consumption driven by real wage growth along with Saudi Arabia given its long term structural consumer growth story. We expect Asia to be positive as well on ramping government spending in/around election cycles (e.g. Thailand, India, Indonesia). (3) **Secular regional themes** such as higher defense spending in Europe, reshoring in Japan and the widening energy transition in Asia should be well supported through next year.

Figure 1: 2024 Equity Index Price Targets and EPS Forecasts

	US	Eurozone	UK	JP	EM	China	Asia ex-JP	ASEAN	CEEMEA	LatAm	
Analyst	Lakos	Matejka	Matejka	Nishihara	Martins	Liu	Batra	Batra	Aserkoff	Shayo	
Index	S&P 500	MSCI Eurozone	FTSE100	TOPIX	MSCI EM	MSCI China	MSCI AXJ	MSCI AC ASEAN	MSCI EMEA	MSCI LATAM	
2024 Price Target	\$4,200	€ 256	£7,700	¥2,500	\$1,070	HK\$66	\$675	\$640	\$210	\$2,700	
	% upside	~8%	~3%	~3%	~5%	~9%	~14%	~9%	~6%	~10%	
2023	JPM EPS	\$215	€ 20.9	£688	¥163.0	\$73	HK\$5.25	\$42	\$43	\$17.0	\$264
	Consensus EPS	\$220	€ 20.9	£688	¥163.4	\$73	HK\$5.33	\$42	\$44	\$17.0	\$264
2024	JPM EPS	\$225	€ 20.9	£702	¥171.1	\$81	HK\$5.85	\$48	\$46	\$18.2	\$280
	YoY Growth	~2%	~0%	~2%	~5%	~11%	~10%	~14%	~5%	~7%	~6%
	Consensus EPS	\$245	€ 22.1	£727	¥175.1	\$84	HK\$6.13	\$51	\$47	\$18.5	\$281
	YoY Growth	~11%	~6%	~6%	~7%	~15%	~15%	~21%	~7%	~9%	~6%

Source: J.P. Morgan Global Equity Macro Research

Figure 2: 2024 Regional Sector Views

Sct Views	US	Europe	Japan	EM	China	Asia ex-JP	CEEMEA	LatAm
EN	OW	OW	N	OW	OW	N	N	N
MT	N	N	UW	UW	UW	UW	UW	OW
ID	UW	UW	N	N	OW	N	N	UW
CD	UW	UW	OW	OW	OW	OW	N	OW
CS	OW	OW	OW	OW	N	OW	OW	N
HC	OW	OW	N	UW	N	N	OW	N
FN	N	UW	OW	N	UW	OW	OW	OW
IT	N	N	UW	N	N	UW	OW	UW
TS	N	OW	N	N	N	N	N	N
UT	OW	OW	N	N	N	N	N	UW
RE	UW	OW	N	N	N	N	OW	OW

Source: J.P. Morgan Global Equity Macro Research

Figure 3: 2024 Regional Style Views

Style Views	Value	Growth	Quality	Size (Small vs Lrg)
US	N	N	OW	N
Europe	UW	OW	OW	UW
Japan	OW	N	N	UW
EM	N	N	OW	UW
China	UW	OW	OW	UW
Asia xJP	OW	N	OW	UW
CEEMEA	UW	OW	N	N
LatAm	OW	N	UW	OW

Source: J.P. Morgan Global Equity Macro Research

Figure 4: Equity Themes for 2024

Region	Basket Name	Ticker	Description	Publication
US	Sensitive to High/Rising Financing Costs	JPAMHFIN	Our JPM Stock Analysts identified US companies with a high proportion of revenue growth tied to the availability of cheap financing. Companies are heavily tilted towards Industrials, Discretionary and Financials.	<a href="#">Link</a>
US	Sensitive to Low-End Consumer	JPAMLOCO	Our JPM Stock Analysts identified US companies with material exposure to low-end consumers. Companies are heavily tilted towards Financials and Retail.	<a href="#">Link</a>
Europe	Stretched margins with deteriorating pricing	JPDEEUUP	We look to avoid stocks with elevated margins vs pre Covid, especially where pricing could come under pressure on the back of rising inventory, normalizing supply and weaker end demand.	<a href="#">Link</a>
Europe	Refinancing losers	JPDEHFCL	Companies with elevated leverage ratios, which could come under pressure as they need to refinance at higher interest rates	<a href="#">Link</a>
Europe	High defence spending winners	-	We believe European Defence spending is likely to run at elevated levels for the foreseeable future and stocks exposed to the theme will outperform the broader market.	<a href="#">Link</a>
Japan	Expanding middle class consumption beneficiaries	JPBJMCCR	Long basket. Company list that benefits from expanding middle class individual consumption with positive real wage growth. This basket has defensiveness to address slow-down of global economy.	<a href="#">Link</a>
Japan	Restoring investment beneficiaries	-	Long basket. Company list that may benefit from an increase in domestic and reshoring investment under rate rising environment.	-
Japan	Cross-share unwinding beneficiaries	-	Long basket. Company list that may benefit from cross-share unwinding, which is a new key theme in 2024.	-
Japan	Weak yen beneficiaries	-	Short basket. Yen appreciation will begin to be priced in the market in 2024 and the company list shows the potential underperformer.	-
China	Value-for-money Brands/Exporters	JPCHWVBE	Brands that offer value-for-money products, and can gain market shares globally as consumers trade down.	-
China	Niche Market Leaders	JPCHWNML	Niche market leaders with business models built on innovation, solid pricing power and relatively strong margins	-
China	Home Market Leaders	JPCHWHML	Home market leaders that can gain market share via volume growth, optimization of existing assets, and achieve better than sector average growth in a disinflationary environment.	-
China	China's Financials Survivors	JPCHFNVS	This basket includes financials and real estate sector players that are best positioned to survive the ongoing property asset deflation and likely supply side reforms for financials.	-
China	China's funding basket for short	JPCHSHRT	This short basket includes 7 JPM covered names that are likely to underperform in their respective industries with fundamental incompetency.	-
EM	EM Dividend Nobels	JPFEFDIVA	EM stocks that have delivered consistent increases in their dividends per share (DPS).	<a href="#">Link</a>
EM	EM Value Creators	JPFEFVACR	Stock basket based on two characteristics to identify good equity investments: (1) Quality: screened in this report via Return on Equity (ROE) minus Cost of Equity (COE); and (2) Value: we identify undervalued EM Value Creators using a regression between ROE minus COE and P/BV.	<a href="#">Link</a>
EM	EM Lower Rates	-	EM that would benefit the strongest from lower interest rates.	<a href="#">Link</a>
Asia	Defensive Value	JPJIDEVA	Long basket: In an environment where equity markets may face downside pressure from higher cost of capital and bond yields remain high or move higher, a defensive Value mix should work best in preserving capital while providing exposure to potentially higher bond yields.	<a href="#">Link</a>
Asia	Widening Energy Transition	JPJAENTR	Long basket: While China and Korea have made significant strides in advancing the energy transition across renewables and EV+supply chain, other markets in ASEAN and India are now catching up.	-
Asia	Domestic consumption in India/ASEAN	JPJIELCS	Long basket: In several South Asian countries, general elections were just concluded (Thailand in mid-2023) or coming soon (India & Indonesia in early 1H24). We expect a ramp up of government spending in late 2023 and early 2024 that related to election cycles in those countries, particularly focused on supporting consumption.	<a href="#">Link</a>
Asia	Refinancing needs	JPJAREFI	Short basket: As rates stay elevated, we believe companies that need to refinance a lot of short-term debt at higher interest costs will see the most significant impacts to earnings.	<a href="#">Link</a>
CEEMEA	MENA Real estate	JPMERREAL	Investors are still undervaluing the sector as returns remain high. Improving dividends could be a catalyst.	-
CEEMEA	MENA Cons. Discretionary	JPMECDSC	Saudi consumers a strong long-term structural growth story.	-
CEEMEA	CE3 Financials	JPCE3FIN	CE3 banks could rally more with better regulatory backdrop and better NIMs from less rate cuts than priced into yield curves.	-
SMid	Balance Sheet Strength	JPSMCRWE/US	This hiking cycle is the biggest ever in percentage terms. Some cos will see interest expense double and triple. The most exposed quintile could see a 40% impact on profits.	<a href="#">Link</a>
SMid	Pricing Power	JPSMHFWE/US	Higher costs and a slowing top line = margin pressure, which means pricing power is key.	<a href="#">Link</a>
SMid	Achievable Expectations	JPSMLDWE/US	Consensus EPS ests for 2024 are way too rich and will experience historical record downward revisions, so focus on achievable expectations.	<a href="#">Link</a>

Source: J.P. Morgan Global Equity Macro Research.

J.P. Morgan Research does not provide research coverage of these baskets and investors should not expect continuous analysis or additional reports relating to them.

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## Index Price Targets, EPS Forecasts, Style/Sector Views

Figure 5: 2024 Equity Index Price Targets and EPS Forecasts

Upside as of 24-Nov

	US	Eurozone	UK	JP	EM	China	Asia ex-JP	ASEAN	CEEMEA	LatAm	
Analyst	Lakos	Matejka	Matejka	Nishihara	Martins	Liu	Batra	Batra	Aserkoff	Shayo	
Index	S&P 500	MSCI Eurozone	FTSE100	TOPIX	MSCI EM	MSCI China	MSCI AXJ	MSCI AC ASEAN	MSCI EMEA	MSCI LATAM	
2024 Price Target	\$4,200	€ 256	£7,700	¥2,500	\$1,070	HK\$66	\$675	\$640	\$210	\$2,700	
% upside	~8%	~3%	~3%	~5%	~9%	~14%	~9%	~6%	~10%	~10%	
2023	JPM EPS	\$215	€ 20.9	£688	¥163.0	\$73	HK\$5.25	\$42	\$43	\$17.0	\$264
	Consensus EPS	\$220	€ 20.9	£688	¥163.4	\$73	HK\$5.33	\$42	\$44	\$17.0	\$264
	JPM EPS	\$225	€ 20.9	£702	¥171.1	\$81	HK\$5.85	\$48	\$46	\$18.2	\$280
2024	YoY Growth	~2%	~0%	~2%	~5%	~11%	~10%	~14%	~5%	~7%	~6%
	Consensus EPS	\$245	€ 22.1	£727	¥175.1	\$84	HK\$6.13	\$51	\$47	\$18.5	\$281
	YoY Growth	~11%	~6%	~6%	~7%	~15%	~15%	~21%	~7%	~9%	~6%

Source: J.P. Morgan Global Equity Macro Research

Figure 6: 2024 Regional Style Views

Style Views	US	Europe	JP	EM	China	Asia ex-JP	SE Asia	CEEMEA	LatAm
<b>Strategist</b>	Lakos	Matejka	Nishihara	Martins	Liu	Batra	Batra	Aserkoff	Shayo
<b>Value</b>	N	UW	OW	N	N: UW Bank and property related Materials, offset by OWs in Energy (Oil & Gas), non-Bank financials, and Industrials (Capital Goods)	OW: Value is a useful exposure to have in an environment of structurally higher rates, inflation and fundamental convergence.	OW	UW - don't see catalysts for big cap commodity value	OW
<b>Growth</b>	N - UW low Quality Growth, OW High Quality Growth	OW	N	N	OW Growth as multiple compression vs Value likely bottomed with cyclical upside in earnings	N: While Growth stocks may occasionally outperform, neither higher rates nor a resulting recession will be positive for Growth performance.	N	OW -growth via MENA domestics	N
<b>Quality</b>	OW	OW	N	OW	OW - Prefer leading players with solid pricing, margins and balance sheets.	OW: As we head into late-cycle conditions globally, Quality and Low Vol offer defensive exposure.	OW	N	UW
<b>Size (Small vs Large)</b>	N	UW	UW	UW	UW Large cap likely outperforms on greater Valuation repair and continued economic adjustments.	UW: Small-caps are likely to struggle in recessionary conditions or in an environment where rates remain elevated.	UW	N - Saudi small cap correction likely over.	OW

Source: J.P. Morgan Global Equity Macro Research

Figure 7: 2024 Regional Sector Views

Sct/Ind Views	US	Europe	Japan	EM	China	Asia ex-JP	SE Asia	CEEMEA	LatAm
<b>Analyst</b>	Lakos	Matejka	Nishihara	Martins	Liu	Batra	Batra	Aserkoff	Shayo
<b>Energy</b>	OW	OW	N	OW	OW	N	N	N	N
<b>Materials</b>	N	N (N - Mining, UW - Chemicals)	UW	UW	UW	UW	UW	UW	OW
<b>Industrials</b>	UW	UW	N	N	OW	N	N	N	UW
- Capital Goods		UW (OW - Aero&Def)			OW				
- Comm/Prof Srv		N			N				
- Transportation		N			UW				
<b>Consumer Discretionary</b>	UW	UW	OW	OW	OW	OW	OW	N	OW
- Automobiles & Components		UW			UW				
- Consumer Durables & Apparel		N			OW				
- Consumer Services		N			OW				
- Retailing		UW			N				
<b>Consumer Staples</b>	OW	OW	OW	OW	N	OW	OW	OW	N
- Food & Staples Retailing		UW			N				
- Food, Beverage & Tobacco		OW			N				
- Household & Personal Products		OW			N				
<b>Health Care</b>	OW	OW	N	UW	N	N	OW	OW	N
- HC Equipment & Services		N			N				
- Pharma / Biotech, Life Sciences		OW			OW				
<b>Financials</b>	N	UW	OW	N	UW	OW	OW	OW	OW
- Banks		UW			UW				
- Diversified Financials		N			OW				
- Insurance		N			N				
<b>Information Technology</b>	N	N	UW	N	N	UW	UW	OW	UW
- Software & Services		N	-		UW				
- Technology Hardware & Equipment		N			OW				
- Semiconductors & S. Equipment		UW			OW				
<b>Communication Services</b>	N	OW	N	N	N	N	N	N	N
- Telecommunication Services		OW			UW				
- Media & Entertainment		N			OW				
<b>Utilities</b>	OW	OW	N	N	N	N	OW	N	UW
<b>Real Estate</b>	UW	OW	N	N	N	N	N	OW	OW

Source: J.P. Morgan Global Equity Macro Research

## Key Equity Themes for 2024

Figure 8: 2024 Regional Equity Themes

Region	Basket Name	Ticker	Description	Publication
US	Sensitive to High/Rising Financing Costs	JPAMHFIN	Our JPM Stock Analysts identified US companies with a high proportion of revenue growth tied to the availability of cheap financing. Companies are heavily tilted towards Industrials, Discretionary and Financials.	<a href="#">Link</a>
US	Sensitive to Low-End Consumer	JPAMLOCO	Our JPM Stock Analysts identified US companies with material exposure to low-end consumers. Companies are heavily tilted towards Financials and Retail.	<a href="#">Link</a>
Europe	Stretched margins with deteriorating pricing	JPDEEUPP	We look to avoid stocks with elevated margins vs pre Covid, especially where pricing could come under pressure on the back of rising inventory, normalizing supply and weaker end demand.	<a href="#">Link</a>
Europe	Refinancing losers	JPDEHFCL	Companies with elevated leverage ratios, which could come under pressure as they need to refinance at higher interest rates	<a href="#">Link</a>
Europe	High defence spending winners	-	We believe European Defence spending is likely to run at elevated levels for the foreseeable future and stocks exposed to the theme will outperform the broader market.	<a href="#">Link</a>
Japan	Expanding middle class consumption beneficiaries	JPJBMCCR	Long basket. Company list that benefits from expanding middle class individual consumption with positive real wage growth. This basket has defensiveness to address slow-down of global economy.	<a href="#">Link</a>
Japan	Reshoring investment beneficiaries	-	Long basket. Company list that may benefit from an increase in domestic and reshoring investment under rate rising environment.	-
Japan	Cross-share unwinding beneficiaries	-	Long basket. Company list that may benefit from cross-share unwinding, which is a new key theme in 2024.	-
Japan	Weak yen beneficiaries	-	Short basket. Yen appreciation will begin to be priced in the market in 2024 and the company list shows the potential underperformer.	-
China	Value-for-money Brands/Exporters	JPCHWVBE	Brands that offer value-for-money products, and can gain market shares globally as consumers trade down.	-
China	Niche Market Leaders	JPCHWNML	Niche market leaders with business models built on innovation, solid pricing power and relatively strong margins	-
China	Home Market Leaders	JPCHWHML	Home market leaders that can gain market share via volume growth, optimization of existing assets, and achieve better than sector average growth in a disinflationary environment.	-
China	China's Financials Survivors	JPCHFNSV	This basket includes financials and real estate sector players that are best positioned to survive the ongoing property asset deflation and likely supply side reforms for financials.	-
China	China's funding basket for short	JPCHSHRT	This short basket includes 7 JPM covered names that are likely to underperform in their respective industries with fundamental incompetency.	-
EM	EM Dividend Nobels	JPEFDIVA	EM stocks that have delivered consistent increases in their dividends per share (DPS).	<a href="#">Link</a>
EM	EM Value Creators	JPEFVACR	Stock basket based on two characteristics to identify good equity investments: (1) Quality: screened in this report via Return on Equity (ROE) minus Cost of Equity (COE); and (2) Value: we identify undervalued EM Value Creators using a regression between ROE minus COE and P/BV.	<a href="#">Link</a>
EM	EM Lower Rates	-	EM that would benefit the strongest from lower interest rates.	<a href="#">Link</a>
Asia	Defensive Value	JPAJDEVA	Long basket: In an environment where equity markets may face downside pressure from higher cost of capital and bond yields remain high or move higher, a defensive Value mix should work best in preserving capital while providing exposure to potentially higher bond yields.	<a href="#">Link</a>
Asia	Widening Energy Transition	JPAJENTR	Long basket: While China and Korea have made significant strides in advancing the energy transition across renewables and EV+supply chain, other markets in ASEAN and India are now catching up.	-
Asia	Domestic consumption in India/ASEAN	JPAJELCS	Long basket: In several South Asian countries, general elections were just concluded (Thailand in mid-2023) or coming soon (India & Indonesia in early 1H24). We expect a ramp up of government spending in late 2023 and early 2024 that related to election cycles in those countries, particularly focused on supporting consumption	<a href="#">Link</a>
Asia	Refinancing needs	JPAJREFI	Short basket: As rates stay elevated, we believe companies that need to refinance a lot of short-term debt at higher interest costs will see the most significant impacts to earnings.	<a href="#">Link</a>
CEEMEA	MENA Real estate	JPMERREAL	Investors are still undervaluing the sector as returns remain high. Improving dividends could be a catalyst.	-
CEEMEA	MENA Cons. Discretionary	JPMECDSC	Saudi consumers a strong long-term structural growth story.	-
CEEMEA	CE3 Financials	JPCE3FIN	CE3 banks could rally more with better regulatory backdrop and better NIMs from less rate cuts than priced into yield curves.	-
SMid	Balance Sheet Strength	JPSMCRWE/US	This hiking cycle is the biggest ever in percentage terms. Some cos will see interest expense double and triple. The most exposed quintile could see a 40% impact on profits.	<a href="#">Link</a>
SMid	Pricing Power	JPSMHFWE/US	Higher costs and a slowing top line = margin pressure, which means pricing power is key.	<a href="#">Link</a>
SMid	Achievable Expectations	JPSMLDWE/US	Consensus EPS ests for 2024 are way too rich and will experience historical record downward revisions, so focus on achievable expectations.	<a href="#">Link</a>

Source: J.P. Morgan Global Equity Macro Research.

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## Regional Equity Outlooks

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### US Equity Strategy

**US Earnings Outlook — expecting another year of low-single-digit earnings growth with sharp revisions to consensus growth estimates.** Despite resilient global growth in 2023, S&P 500 is on track to deliver zero earnings growth (exclusively due to the 10 largest stocks) as demand continues to normalize with growing margin pressure. With a stepdown in economic growth next year (US growth to slow to 0.7% YoY by 4Q24 from 2.8% 4Q23), eroding household excess savings and liquidity, and tightening credit (see [Higher for Longer](#)), we see 2024 consensus hockey-stick EPS growth of 11% as unrealistic. In fact, this earnings growth rate implies robust demand with revenue growth reaccelerating to ~5% and net income margin expanding by ~60bp to mid-2022 level. These bottom-up assumptions are more consistent with intra-cycle recovery with reflationary tailwinds and policy supports. In contrast and in-line with the macro backdrop, **we are assuming another year of below trend earnings growth with further demand normalization and price disinflation pushing revenue growth rate sequentially lower next year** (2% vs. 3% in 2023, 11% in 2022, 17% in 2021), **no margin expansion** (~12% vs. peak 13.4% in 2021), **and another year of lower buybacks with higher cost of debt and equity multiples** (\$750b executions for 2024 vs. \$800b in 2023 and peak \$950b in 2022). **Given these assumptions, we are reducing our below consensus 2024 EPS by another \$5 to \$225 (vs. current consensus estimate of \$245) with downside if the economic contraction starts in 1H24.** This flat growth rate is in-line with our macro QMI indicator that implies little or no earnings growth as well, see Figure 9. Given widely divergent views on the business cycle, we believe our flat growth outlook is more reasonable and sits between the two potential tail outcomes: (1) consensus soft-landing / intra-cycle recovery scenario that would drive double-digit earnings growth in line with current bottom-up expectations; and (2) non-consensus hard-landing / recession scenario that would push EPS growth lower by double-digit.

**Negative corporate sentiment should be a catalyst for sharply lower estimates early next year.** In the recent reporting season, we have seen a pickup in corporates raising concern for consumers while maintaining their near-record caution on high cost of capital, see Figure 22. Like 2023, we expect the Street to recalibrate forward earnings estimates sharply in coming months followed by smaller waves of revisions over the rest of the year. The key difference between our 2024 EPS of \$225 and consensus EPS of \$245 is largely due to diverging views on demand and pricing power. The expected ramp in revenue growth to ~5% (vs. our assumption of 2%) and expansion of ~60bp implied by consensus estimates (vs. our flat margin assumption) is inconsistent with the softening economic backdrop with sticky wage growth, rising interest expense, and higher effective tax rate. While we expect some top-line revisions, earnings will remain more levered to change in margins. Every -1% revenue revision is -\$2.25 EPS headwind for S&P 500, while 25bp of margin compression is -\$4.5 hit to EPS. If our view of flat margin for next year turns into contraction, corporates will not only aggressively pull back on capital investment and discretionary spending but also look to rationalize labor expenses (especially small businesses and SMid companies where margins are already low with a higher percentage with companies running operating losses).

**Corporate guidance trends inconsistent with double digit growth outlook for next year.** JPM Quant Sentiment Indicators based on our proprietary AI/NLP engine measure management sentiment for key macro and fundamental drivers based on corporate earnings calls and press releases. Aggregate corporate sentiment remains challenged largely due to restrictive high cost of capital and tightening credit conditions (see Figure 22). **Importantly, latest corporate commentary and guidance suggest the outlook for Consumer is also turning (see Figure 21).** Though the sentiment for supply chains and inflation is improving, we see this as a negative for most large-caps given it is indicative of potentially diminishing pricing power. Corporate sentiment on Taxes is near lows, which is consistent with rising effective tax rate last two years to 20% (vs. post Tax-Act avg of 18% during 2018-2021). Given ballooning government deficits across geographies, the prospect for lower effective tax for multi-nationals is poor. The steady tailwinds of lower interest expense and taxes for earnings since 1990s have decisively reversed over the last two years and should remain negative for the foreseeable period. Lastly, corporate sentiment on buybacks continues to fade, which is not completely surprising given lower margins and earnings growth, richer equity valuation, and rising cost of debt.

- **S&P 500 revenue growth should continue to decelerate with price disinflation likely the next major catalyst for below trend growth rate of 2%.** S&P 500 top-line continues to normalize from a post-Covid high of 17% (ex-Energy 14%) in 2021 to 11% in 2022 and 3% in 2023. For next year, we expect S&P 500 revenue growth rate to decline further to 2% as higher rates and tighter credit conditions push away marginal buyers. Not only are consumer spot rates sharply higher at 9% (vs. effective rate of ~5%), it also seems the consumer credit binge is likely coming to an end with lenders tightening standards at the same time as debt service ratio is lifting quickly from a record low ~8% in 1Q21 to ~10% recently (every 1% increase in this metric is ~\$200b of incremental interest expense burden for US households). Simply, higher debt service cost leaves most households with lower discretionary liquidity. Additionally, the sunset of government stimulus and relief programs (e.g., student loans, childcare funding, rent and utility relief) and diminishing savings should continue to weigh on demand especially for higher ticket items in consumer durables and capital goods. Thus, we expect demand and prices received to remain challenged next year for corporates in contrast to a reacceleration in revenue growth to ~5% assumed by the Street. During 2023, 34% of S&P 500 companies are on track to deliver flat to negative revenue growth rate compared to expected improvement in this metric to 14% even though demand is slowing, and price pressures are rising. Absent significant monetary or fiscal policy supports, we see consensus growth assumptions at this point more hope than realistic.
- **Margins have fallen for six quarters** from a record 13.3% in 1Q22 to 11.8% as of 3Q22. Our main assumption for our below consensus EPS growth in 2023 was the expectation of ongoing margin normalization to pre-Covid level of ~12% from unsustainable levels seen post-Covid ~13%. While S&P 500 margins have already reversed to pre-Covid level, consensus is expecting significant margin expansion across sectors to 13% by 2H23 even though recent macro data suggest price disinflation is setting in (deflation for some industries). If anything, the current macro backdrop with falling demand, price disinflation, resilient wages, higher interest expense and effective taxes suggest lower margins. If there is an economic slowdown, we can see a much greater pressure on margin due to operating and financial leverage. With margins still in the higher end of the range vs. pre-Covid and wage expectations remaining resilient, margin compression could be more severe than 100-150bp compression seen during slowdowns.



- **Impact of higher interest expense.** The direct impact of higher rates on interest expense is gradual compared to the impact of higher rates on demand destruction and pricing power. The easy monetary policy was a meaningful driver of margin expansion for S&P 500 companies (ex-financials) with the effective interest rate for S&P 500 companies (ex-financials) falling from a pre-GFC high of 6.2% in 1Q07 to trough of 3.1% by 2Q22. Even though S&P 500 companies (ex-Financials) increased balance sheet leverage by ~150% over this period, interest expense increased by only 35%. Access to cheap debt incentivized companies across sectors to increase leverage to fund buybacks and acquisitions, which was a driver of earnings growth during ZIRP. With cost of debt sharply higher, the interest expense is rising gradually. Based on our estimates, ~\$800B of S&P 500 debt (ex-Financial) is expected to mature through 2025 and rolled. At current rates, we estimate the higher interest expense could shave ~\$3 off EPS. This estimate does not include the larger and more significant headwind of demand destruction given debt facilitates purchase of large (home and auto lending rates are at multi-decade high) and smaller ticket items (credit card rates are at a record high based on 50+ years of history). The implication of higher cost of debt is discussed in length in our [Higher for Longer](#) report published last month.

**Corporate risk aversion rising with increasing cash balances and falling outlays for investment activity and capital return.** Even though corporate risk aversion operates with a significant lag to Fed policy, we are already seeing a meaningful reversal in investment and shareholder activity. Extrapolating trends seen in 2023 into next year, we estimate total shareholder payouts could decline further to ~\$1.35T (-4% y/y) with buyback executions falling another \$50b (-6% y/y) while expecting dividends to hold near \$0.6T. This implies a shareholder yield of ~3.5%, which not compelling relative to risk-free rate of ~5%. Higher rates and a more challenging earnings backdrop are pushing corporates into capital preservation mode with cash hoarding increasing double-digit (+13% y/y as of 3Q) while outlays are down double-digit YTD for M&A (-22%) and gross buybacks (-18%). Even capital expenditures, which has grown at a double-digit rate since the passage of TCJA in 2017 and then further fiscal stimulus during Covid, has seen a steady deceleration since last year. In the past two quarters, S&P 500 capex has fallen from a double-digit growth rate to near flat and should turn negative in coming quarters.

- **Buyback executions peaked in 2022 and corporates continue to recalibrate payouts given elevated economic uncertainty, shrinking margins, higher cost of debt, and tight capital requirements for Financials.** In-line with our expectation from last year, we believe buyback 10YR CAGR should continue to fall sharply to low-single-digit rate compared to a more robust 8% CAGR seen since late 1990s. For next year, we expect gross buybacks should fall another ~5% to ~\$750b (-\$50b from ~\$800b in 2023 and sharply lower from peak activity of \$950b in 2022). The three most significant drivers for the reduced activity over the next year are: (1) lower incentive for debt funded buybacks and positive real return on balance sheet cash; (2) declining profit margin; and (3) rich equity valuation vs history (especially relative to 1yr ago). In our view, it makes more sense right now for corporates to use excess cash to retire long duration debt issued during ZIRP-era than buy back stocks trading at PEs of 20-30x. Over the past year, net income margins have corrected from post-Covid record margin of 13.3% (1Q22 LTM) to ~12% while cost of debt has risen to 5.8% for high-grade issuers. In fact, higher debt yields are already weighing on buybacks with debt funded programs declining to only ~10% YTD of total buybacks vs. long-term trend rate of ~20%. However, we have yet to see a

downshift in announcement activity with YTD announcements running at \$745b (vs. \$675b same period last year), which implies a corporate buildup of dry powder (i.e. buybacks programs approved but yet to be executed has risen to \$1T). For now, lower gross buybacks and rich valuation are much less impactful for reducing share count and increasing EPS. Gross buyback yield has fallen to 2% over the past year vs. pre-Covid of 3%. At current market cap (~\$40T), for buyback yield to reach pre-Covid level with similar EPS impact, executions would need to increase by ~\$300B to ~\$1.1T (vs. 2022 peak activity of ~\$950B and LTM of ~\$810B). This increase will be difficult given economic uncertainty and our outlook for earnings growth, high debt cost, and IRA buyback tax.

- **Dividends to remain stable but little urgency to raise.** With stocks moving sideways for the last two years, there is little rush for S&P 500 companies to increase dividends with dividend yield of 1.6% near 5yr average of 1.7%. Assuming flat to low-single-digit earnings growth next year, we expect aggregate S&P 500 dividend income to remain relatively stable on the back of annual increases from dividend aristocrats, rising profitability of commodity sectors, and payout substitution from buybacks to dividends post IRA legislation. While we did not agree with dividend futures implying a small cut for 2023 one year ago, we are generally in agreement with [Dividend Futures](#) currently implying flattish growth for 2024 with potential cuts in 2025. Some argue that dividends have been resilient with mild or no retrenchment in payouts during recent recessions and the playbook should be similar in the next slowdown. However, economic recoveries in recent decades were supported with almost immediate central bank policy response with even lower rates that resulted in higher margins and profitability. This will be more difficult without a sharp reversal in monetary policy and lower corporate tax rates given elevated inflation and fiscal debt burden.

**Recessions and earnings.** Earnings growth has come to a standstill in the past year and it should turn negative if the business cycle inflects from slowdown to outright contraction. However, the extent of revenue decline and margin compression next year (if any) will depend on the start, length and depth of the slowdown. If the peak to trough earnings decline is similar to recessions since 1990, EPS could fall by 20-30%, which put EPS trough somewhere around \$175. Given the lack of clarity on the cycle, for now we are maintaining our below consensus view on EPS (\$225 EPS vs. IBES estimate of \$245). Since WWII, S&P 500 companies have seen average earnings decline of ~20% during recessions. Typically, margin compression is a larger driver of earnings shortfall given corporates are willing to take lower pricing (aggressive promotions to unwind inventories) relative to fixed operating and financial costs (operating leverage). Covid-slowdown was unique since it was a no-fault recession that prompted unprecedented monetary and fiscal policy response to offset the shock — even then, revenues declined by -6% (1H20 y/y), margins compressed by -250bp, and EPS collapsed by -24% from peak to trough. During GFC, the severe credit tightening led to a revenue decline of -11% and margin compression of 370bp, which resulted in earnings decline of -45%. During the Dot.com bust, revenues fell by -10% while margins compressed by 200bp, which resulted in EPS decline of -29%. A noticeable trend since 1990s is that recessions are now much more destructive for earnings (avg EPS decline of 30%) compared to recessions prior to 1990s (avg EPS decline of ~15%). One reason that might explain this disparity is that business cycles are generally longer at least in part due to more active Central Banks. This allows excesses to build for longer before they are eventually corrected in a recession. Therefore, it is reasonable to assume the next slowdown will likely result in EPS falling in-line with recent recessions rather than recessions prior to 1990s. When a slowdown is accompanied by a credit or banking shock, the earnings

decline would be even more asymmetric.

**Figure 9: US QMI Leads EPS Growth by 9 Months**

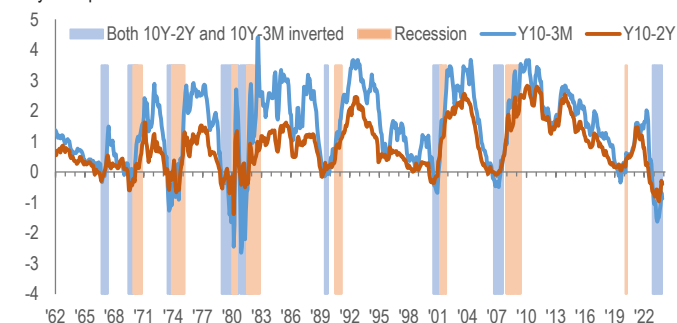
S&P 500 trailing EPS year-on-year growth



Source: J.P. Morgan Global Equity Macro Research

**Figure 10: Historically Inversion of Yield Curves Presages Recession**

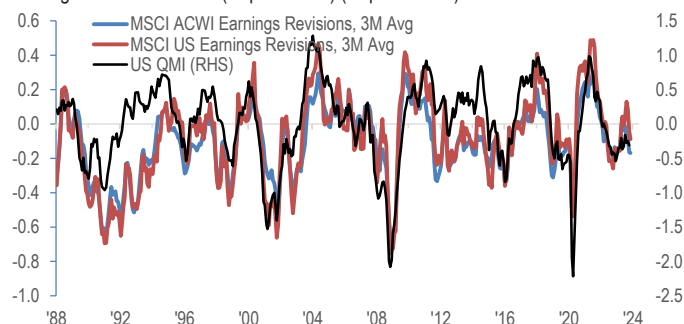
Only exception is in 1967



Source: J.P. Morgan Global Equity Macro Research

**Figure 11: Profits Likely to Catch Up with Declining QMI**

Earnings Revisions = EPS (#Up - #Down)/(#Up + #Down)



Source: J.P. Morgan Global Equity Macro Research

**Figure 12: Corporate Debt Market Unperturbed by Recession Risk**

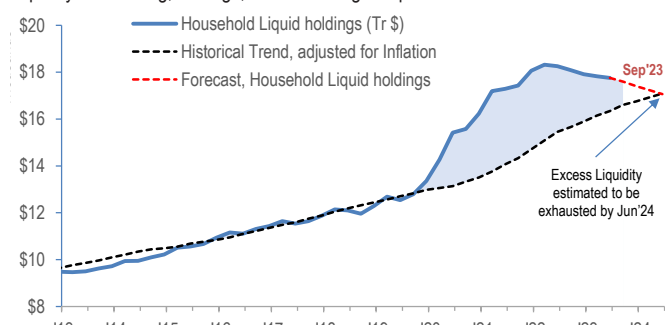
Option Adjusted Spreads for J.P. Morgan US Liquid Indexes



Source: J.P. Morgan Global Equity Macro Research

**Figure 13: Household Excess Liquidity Declining**

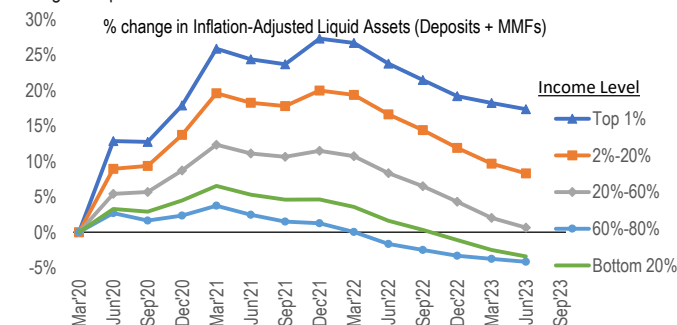
Liquidity = Checking, Savings, Time & Foreign Deposits + MM Funds



Source: J.P. Morgan Global Equity Macro Research

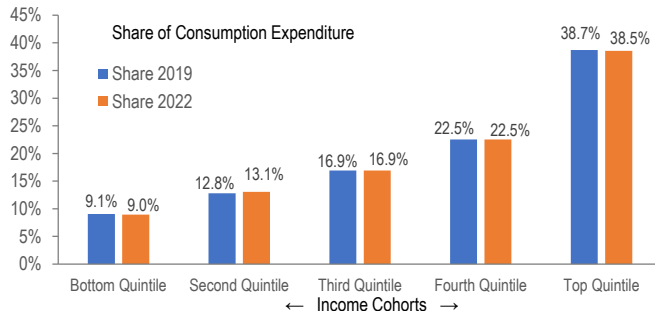
**Figure 14: Inflation-adj Excess Household Liquidity**

Change in liquid assets relative to 1Q2020



Source: J.P. Morgan Global Equity Macro Research

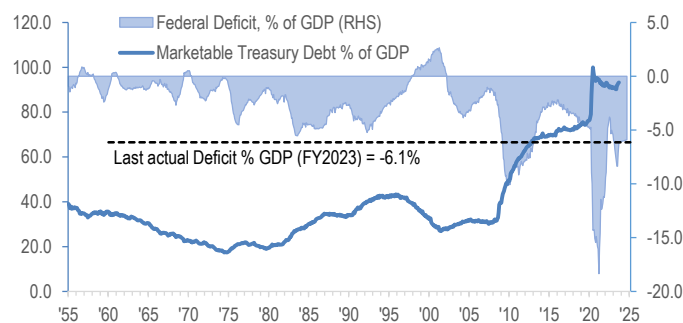
**Figure 15: Bottom 80% of Households by Income Account for 61.5% of Consumption**



Source: J.P. Morgan Global Equity Macro Research

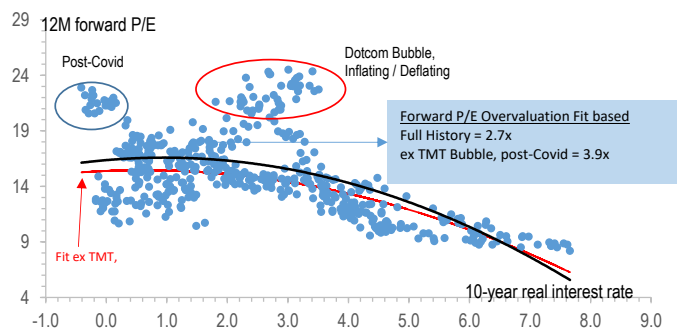
**Figure 17: Unusually Large Debt and Deficit**

More pressure on bond yield when monetary policy is tightening



Source: J.P. Morgan Global Equity Macro Research

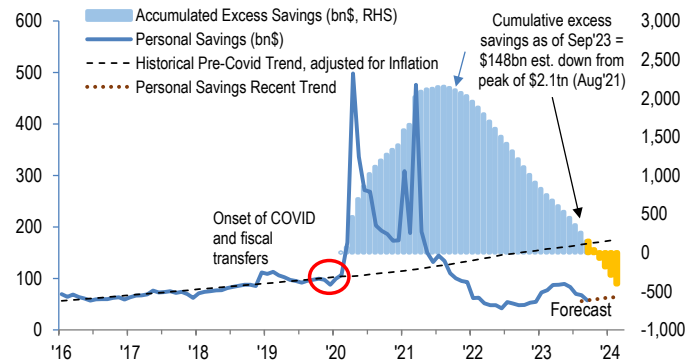
**Figure 19: S&P 500 Valuation Sensitivity to Real Rates**



Source: J.P. Morgan Global Equity Macro Research

**Figure 16: Household "Excess Savings" Almost Gone**

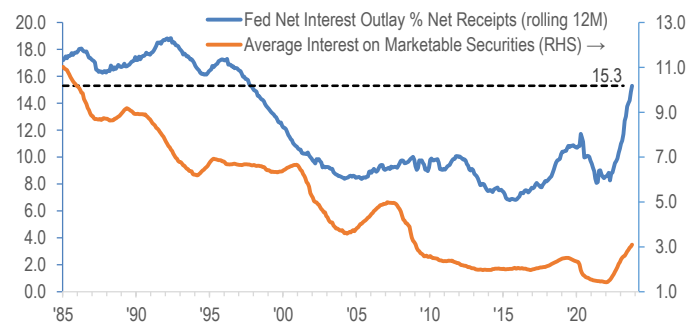
Excess Savings = Cumulative relative to pre-Covid trend



Source: J.P. Morgan Global Equity Macro Research

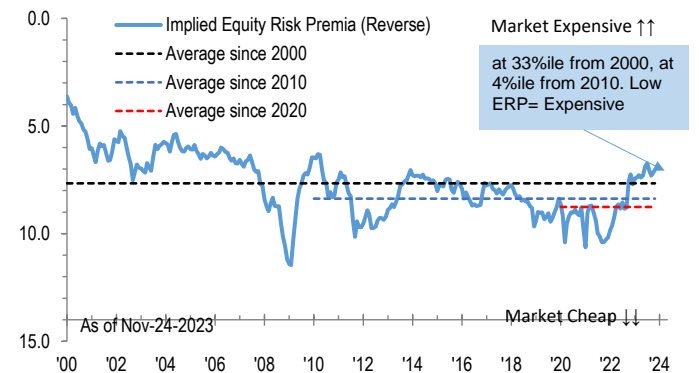
**Figure 18: Federal Interest Burden Rising Sharply**

Average interest rate rising as debt is refinanced



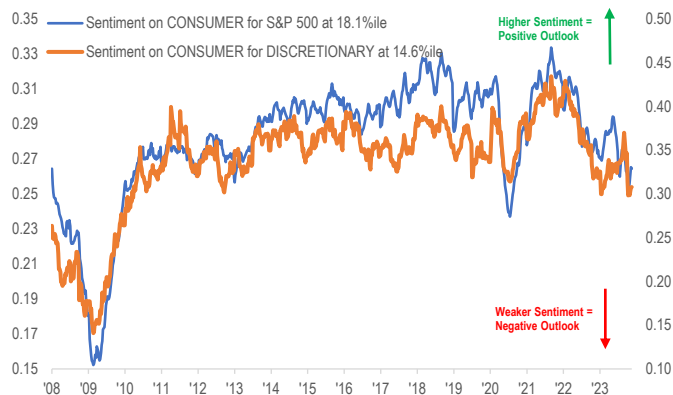
Source: J.P. Morgan Global Equity Macro Research

**Figure 20: Implied Equity Risk Premia**



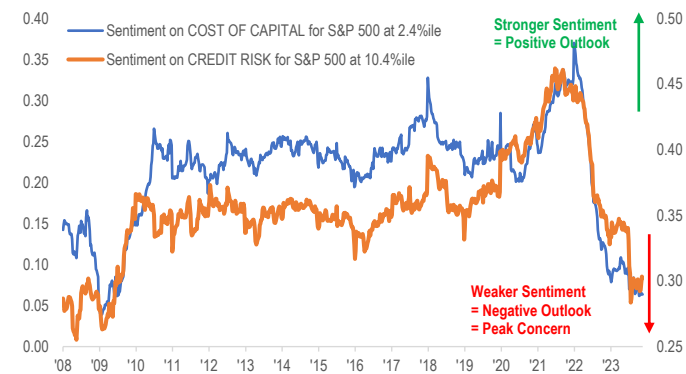
Source: J.P. Morgan Global Equity Macro Research

Figure 21: Corporate Sentiment on Consumers Deteriorating



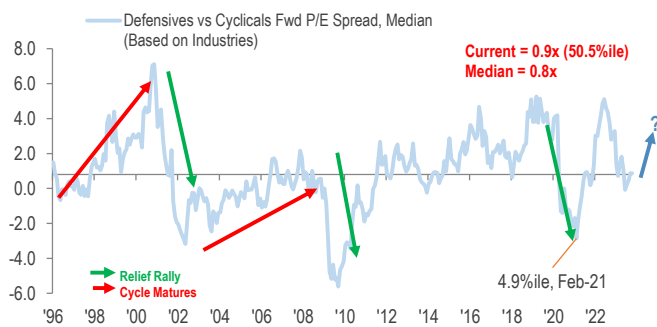
Source: J.P. Morgan Global Equity Macro Research

Figure 22: Sentiment on Credit at Recession Levels



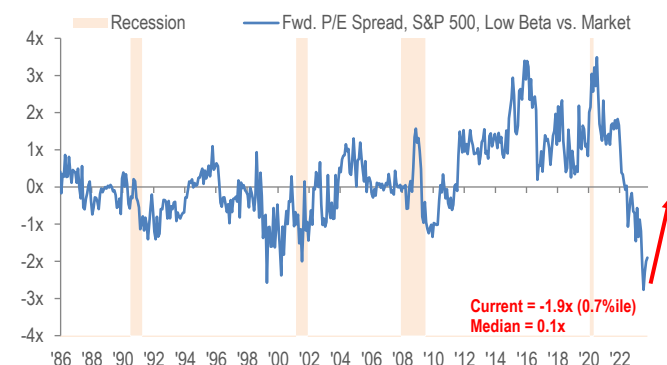
Source: J.P. Morgan Global Equity Macro Research

Figure 23: Defensives Not Yet Pricing in a Matured Cycle



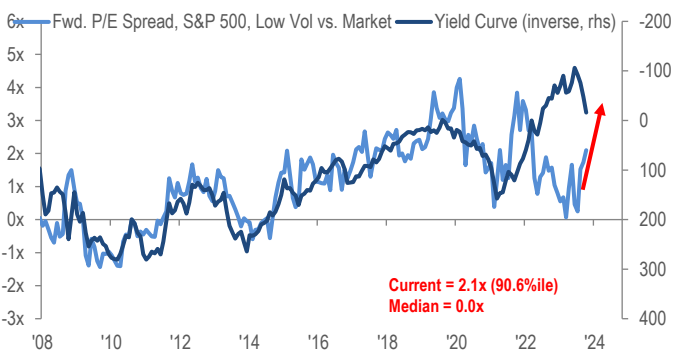
Source: J.P. Morgan Global Equity Macro Research

Figure 24: Low Beta vs Market PE Spread Extreme



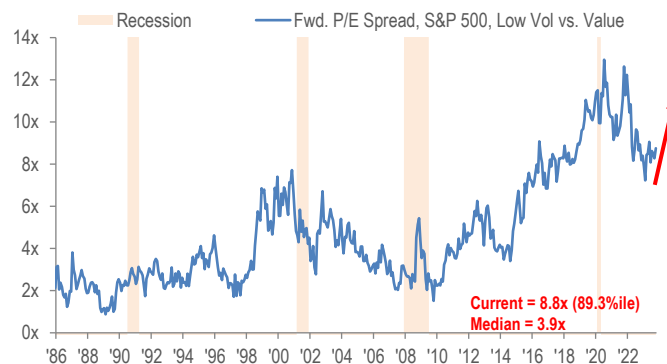
Source: J.P. Morgan Global Equity Macro Research

Figure 25: Low Vol Disconnect with Yield Curve - Pricing Goldilocks (not too hot, not too cold)



Source: J.P. Morgan Global Equity Macro Research

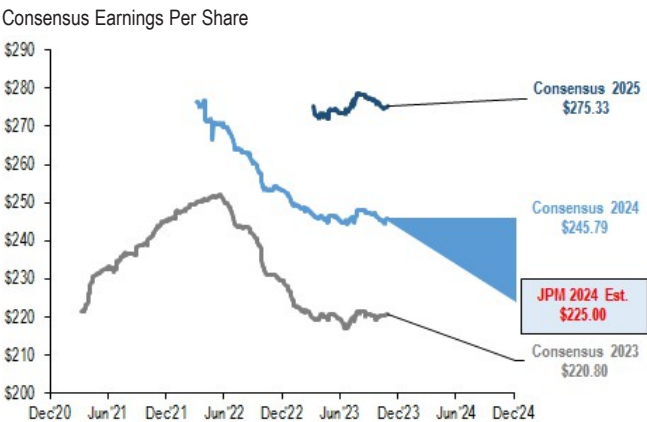
Figure 26: Low Vol vs Value - Room to Run



Source: J.P. Morgan Global Equity Macro Research



Figure 27: JPM S&P 500 EPS Target vs. Consensus



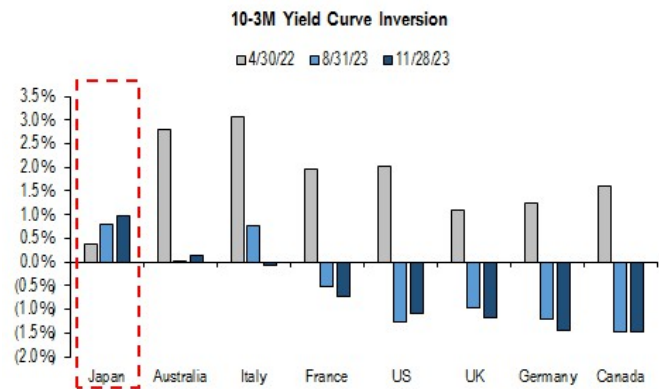
Source: J.P. Morgan Global Equity Macro Research, Factset, I/B/E/S

Figure 28: S&P 500 NTM P/E Multiple Elevated vs. History



Source: J.P. Morgan Global Equity Macro Research, Factset, I/B/E/S

Figure 29: Yield Curves of Liquid Developed Markets ex-Japan Have Inverted



Source: J.P. Morgan Global Equity Macro Research

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## Cross-Regional / Europe Strategy

For 2024, we look at the following equity drivers: lower bond yields, softening GDP growth vs this year - nearing stall speed in the US, and some downside risks to corporate profit expectations.

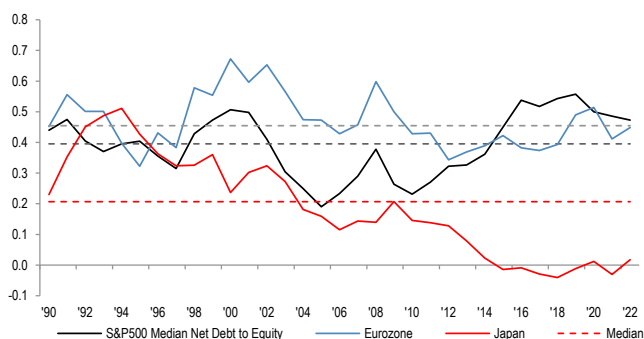
After 3 years of an upmove in bond yields, where US long bonds lost almost 50% of their value, and with central banks in DM largely done, yields are set to move lower - we called last month to enter long duration trade. This should optically offer support to equity valuations, but earnings momentum from here is at risk, in our view. In terms of activity, JPM base case is for US real GDP growth to soften in 2024, to 0-1% run rate for 3 quarters in a row. Recession is not our base case, but the margin for error is very slim at such low levels of activity. Eurozone GDP growth is expected to be 0.4% in '24, yoy, offering no acceleration vs 0.5% run rate for this year.

Crucially, we see signs of a rollover in corporate pricing, a trend that is likely to accelerate as we move through next year, and goes against the consensus call that has projections of earnings and margins expansion in 2024.

Put together, we expect flat Eurozone EPS growth in 2024 and 2% in 2025, vs consensus at 6% and 9%, respectively. Even though European P/E's are undemanding, we look for similar multiples to current next year, given earnings deceleration. In terms of trajectory, we believe Eurozone equities could have a weak first half and then some recovery as the Fed starts cutting rates, to end the year around current levels. Our end 2024 target for EuroStoxx50 is 4,250. We are relatively more optimistic on UK equities, where we see a some valuation support and more favourable sector composition. Our target for FTSE100 is 7,700 for end of next year, about 3% higher from the current levels.

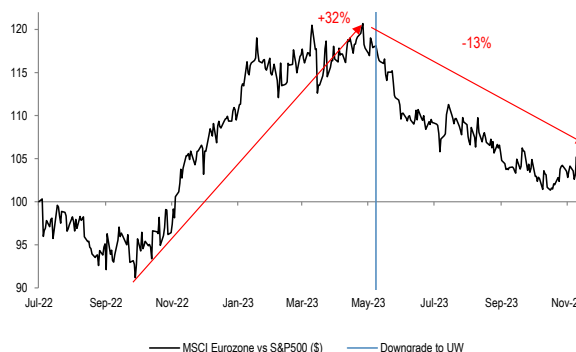
In a regional context, we have been OW Japan all through 2023 and believe that it remains attractive. Further, one would potentially not need to hedge the FX anymore. Among other factors, Japanese equities stand to benefit from increasing retail participation, strong balance sheets, improving shareholder focus, better consumer real income growth and still relatively supportive policy backdrop. We also like the UK market for 2024 (OW) and within it keep our longstanding preference for FTSE100 over FTSE250.

Figure 30: Key regions median Net Debt to Equity



Source: Datastream

Figure 31: MSCI Eurozone vs US relative performance

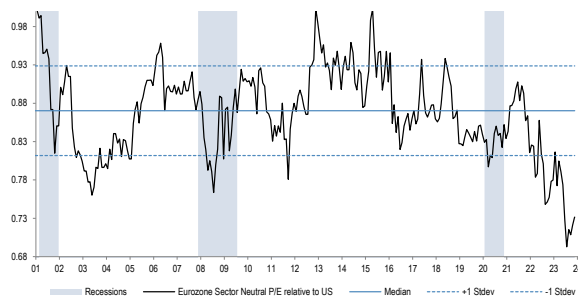


Source: Datastream

After favouring Eurozone entering this year, we have taken profits in early May, cutting it to UW, benefitting from the spell of strong outperformance, and stay cautious on the region for now. We note that Eurozone equities screen cheap at present, at 12x Fwd P/E, so there could be an opportunity as we move through 1H to add back to the region.

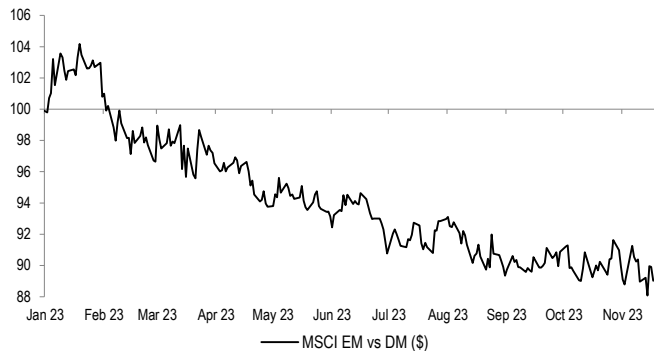
In the interim, we would wait for the bottoming out in Eurozone activity momentum and the potential resetting of earnings for 2024. We note that European profit margins are elevated, and at risk of mean reverting, given a rollover in pricing.

Figure 32: MSCI Eurozone sector neutral P/E vs MSCI US



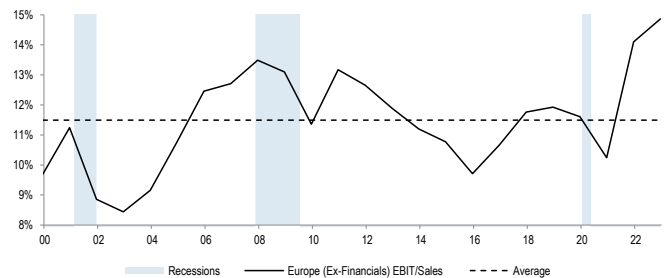
Source: IBES

Figure 34: MSCI EM vs DM



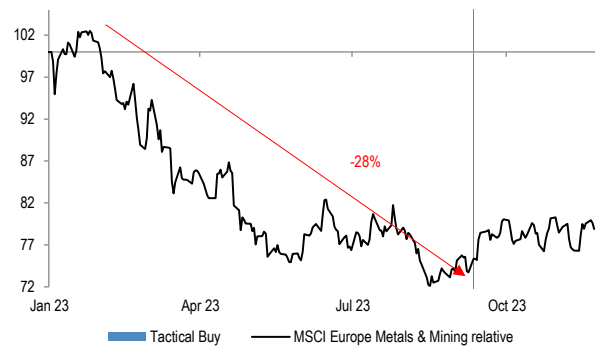
Source: Datastream

Figure 33: MSCI Europe - ex Financials EBIT margin



Source: Datastream

Figure 35: MSCI Europe Mining relative



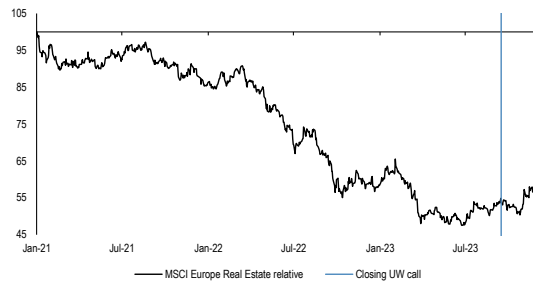
Source: Datastream

We have been cautious on EM vs DM in 2023, but believe that EM could deliver better returns in 2024 as Fed starts cutting rates. Tactically, we have a few weeks back advised to close shorts on Chinese equities, and on Miners, given an already poor performance, and some stimulus coming through.

In terms of themes for next year, we believe stocks that saw outsized margin expansion will be at risk. We also think companies with imminent refinancing needs and weak balance sheets could trade weaker if interest rates remain elevated.

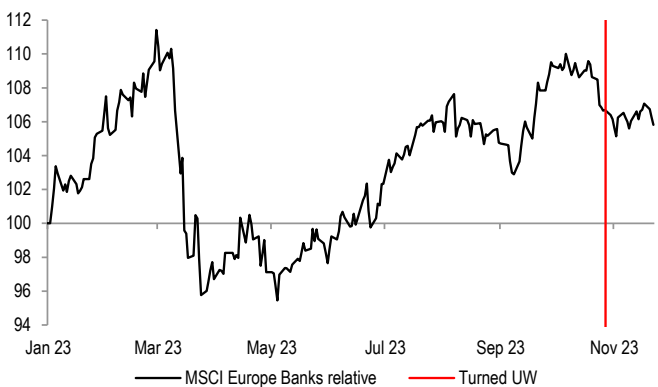
**Highlights at a sector level:** we believe long duration / bond proxies, such as Utilities and Healthcare, could trade better, on peaking yields. We have recently upgraded Real Estate sector, from UW, taking advantage of the dismal performance over the last two years. We keep our OW on Aerospace Defense groups. On the cautious side, we have recently downgraded Banks to UW, after a strong spell of performance, and stay UW Autos and Consumer Cyclical more broadly.

Figure 36: MSCI Europe Real Estate relative



Source: Datastream

Figure 37: MSCI Europe Banks relative



Source: Datastream

## Japan Equity Strategy

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### **Maintain bullish stance given structural changes; forecast TOPIX of 2,500pt, Nikkei of ¥35,000 at end-2024**

Japanese equities reached post-bubble highs in 2023 thanks to two key structural changes—wage hikes to end deflation and TSE-led corporate governance reforms—as well as cyclical tailwinds in the form of economic reopening and a weaker yen. A comparison with global equities shows TOPIX as one of the year's best-performing assets worldwide, with value stocks (autos, financials, etc.) leading the way.

We expect 2024 to be a year of "domestic vs. overseas" (endogenous vs. exogenous), with the global economy slowing and domestic demand expanding as Japan exits deflation. Our main scenario has Japanese stocks seeing a net positive impact, with pressure on external-demand sectors from a slowing U.S. economy and a stronger yen outweighed by positives including (1) gradual expansion of domestic demand, (2) expansion of domestic capital investment (include re-shoring investment), (3) improvement in corporate balance sheets, (4) capital flows (overseas, individual, and domestic corporate pension funds), (5) higher dollar-denominated returns due to a weaker yen, and (6) resilient valuation during global economy slowing as deflation winds down. We believe that structural changes surrounding Japanese equities will come increasingly to the fore amid the expected global economic slowdown and lead to relative outperformance of the Japanese market.

At the end of 2024, we forecast both TOPIX and the Nikkei 225 to be up 5% YoY, at 2,500 and 35,000 respectively. We expect investors to rerate Japanese stock prices owing to the major structural change in the form of deflation ending, but given the outlook for downward pressure on global markets caused by economic slowing during 2024, we forecast the end-2024 P/E to return to its current level after falling during the year. We expect upside after the economic cycle emerges from a rough patch. Owing to yen weakness correcting, we think dollar-denominated investment (unhedged) in 2024 will result in returns of up to 10% (Bloomberg forecast basis, 2–3% based on our estimates) in addition to the 2024 returns mentioned above, and thus expect total returns of 7–15% from dollar-denominated investment, so we think Japanese stocks will appeal. In 1H 2024 we expect Japanese stocks to come under downward pressure as investors pay attention to economic slowing in the US, but we then expect stock prices to start rising in 2H.

In 2024, we think the theme is "domestic vs overseas". By sector, we are Overweight on personal consumption-related sectors and remain Overweight on the financial sector in expectation of negative interest rates being lifted and cross-shareholdings reduced. We remain Neutral on autos (gradual slowdown following a strong 2023), machinery (emerging as an early-cyclical sector), semiconductors (nearing recovery in fundamentals), healthcare (rebound from difficult 2023), and communications. Chemicals and internet/gaming (positive for lower US interest rates, negative for higher Japanese rates) are Underweight.

In terms of style, we expect growth stocks to be possibly rerated near term as U.S. interest rates decline, but we also see value as strong for the time being and expect it to continue dominating at a gradual pace. We assume a switch from value to quality and defensive dominance toward midyear as the stock market weakens in tandem with the U.S. economic slowdown.



We estimate that foreign investors' positioning in Japanese equities is still 1.2% underweight (Figure 43), and we believe there is upside potential for foreign investors to buy Japanese equities on the back of structural changes in Japan.

Figure 38: Japanese equity indexed target price

	2023	2024		
	Current 11/27/2023	Estimate Dec-2024	Upside/ Downside	USD denominated
TOPIX (pt)	2,382	2,500	5%	14%
Nikkei 225 (JPY)	33,448	35,000	5%	14%

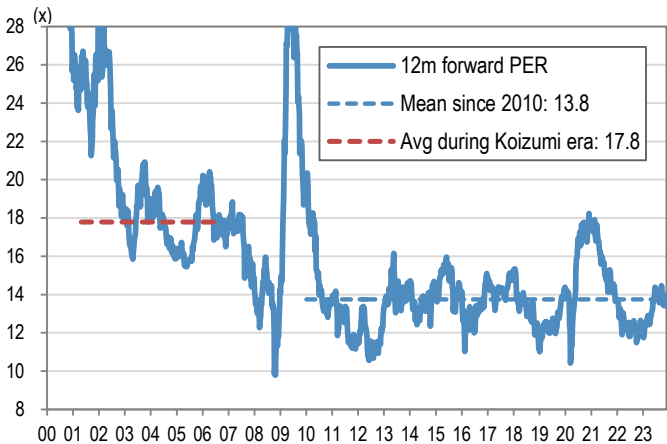
Source: Bloomberg Finance L.P., J.P. Morgan estimate

Figure 40: TOPIX EPS outlook by scenarios

EPS estimates	FY23 (Mar-2024)		FY24 (Mar-2025)	
Main scenario	163.2	+12.6%	171.4	+5.0%
Bull	-	-	179.5	+10.0%
Bear	-	-	167.3	+2.5%
Consensus	163.2	+12.6%	175.0	+7.2%

Source: Datastream, J.P. Morgan estimates  
Note: Consensus is I/B/E/S Consensus

Figure 42: TOPIX 12 month forward PER



Source: Datastream  
Note: 12 month forward PER is I/B/E/S Consensus

Figure 39: FX and rates outlook in 2024

		23-Nov (A)	24-Mar	24-Jun	24-Sep	24-Dec
FX (JPY)						
JPMc	USDJPY	149	153	151	148	146
Consensus		149	145	141	138	135
Corp guidance				FY 2024/3: 137.5		
Interest Rates (%)						
US	Fed funds	5.33	5.35	5.35	4.85	4.35
	2Y	4.91	4.60	4.40	3.90	3.50
	10Y	4.44	4.35	4.25	4.00	3.75
Japan	Policy rate	-0.10	-0.10	-0.10	0.00	0.00
	2Y	0.03	0.05	0.05	0.15	0.15
	10y	0.70	0.85	0.90	1.00	1.00

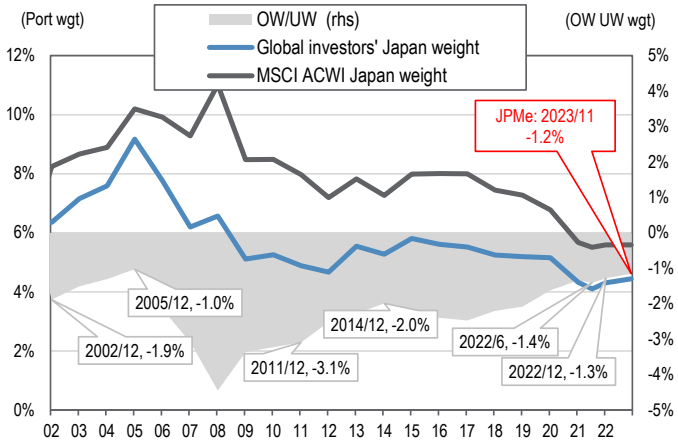
Source: J.P. Morgan Global FX Strategy 2024, Global Fixed Income Markets 2024 Outlook

Figure 41: Japanese equities sector allocation in 2024

GICS Sector	Sector Allocation
Consumer Discretionary	OW
Consumer Staples	OW
Financials	OW
Energy	N
Industrials	N
Health Care	N
Communication Services	N
Utilities	N
Real Estate	N
Materials	UW
Information Technology	UW

Source: J.P. Morgan

Figure 43: Global investors positioning in Japan equities - still underweight



Source: IMF, MSCI, QUICK, Bloomberg Finance L.P., J.P. Morgan  
Note: OW (overweight) and UW (underweight) relative to MSCI ACWI Index. 2023/11 data is JPM estimates

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## Emerging Markets Equity Strategy

**We estimate EM equities will return 9% next year (MSCI EM 1,070), driven primarily by earnings growth**, as lower US equity markets becomes a headwind for multiple expansion. Single-digit upside brings the question: why bother investing in EM equities when one can get +5% in US fixed income?

- **EM equities behave as an asset class requiring market timing skills for in and out – tactical rather than strategic allocation and next year looks to be no different.** We expect a volatile 2024, driven by a challenging global macro picture;
- **We use more conservative earnings than consensus EPS growth** assuming no margin expansion (Figure 5) and tempering risk of excessive growth in the Inf. Technology sector. Our EPS growth is c. 10% vs consensus EPS growth ranges of USD +13% to +18% for 2024 and USD +11% to +18% for 2025; and
- **Figure 44 contains a sensitivity analysis on how EM markets / sectors performed** historically versus economic growth cycles (proxied by PMI), USD cycles (strong / weak), their betas to MSCI EM, and if valuation offers a boost (excessive risk premium) or is a risk factor (de-rating risk).

### Headwinds Front Loaded; Tailwinds Back Loaded

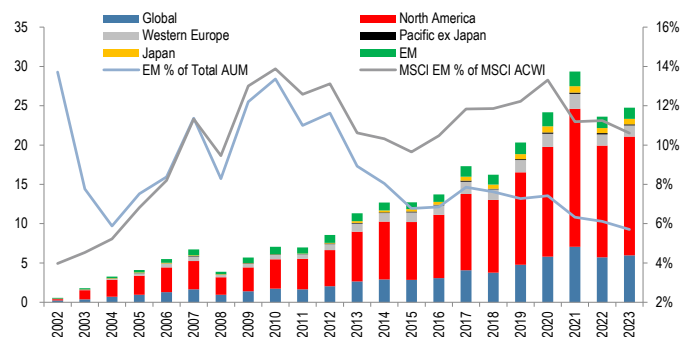
- **2024 might start bumpy for EM equities driven by a challenging global macro picture leading EM equities to trade between our Bear (MSCI EM 870, or -11%) and Base cases.** JPM asset allocation view is not positive on risky assets primarily because of high rates and geopolitical developments, supporting downside risk to EPS and inviting investors to explore downside risk for EM equities, such as lasting USD strength (Figure 49) and poor historical EM equities Sharpe ratio vs DM (Figure 46); and
- **Positive optionality might build throughout 2024 as conditions for US monetary easing materialize and we phase out from USD strength - Bull case (MSCI EM 1,180, or +21%).** Under such conditions, long-standing positives drivers might become appreciated in the global asset allocation chessboard: (1) favorable EM-DM growth differential; (2) diversification away from US equities; (3) low investor positioning (5.7% vs long-term average 8.4% - Figure 45); and (4) EM is trading at a deep discount to DM on both forward P/E and P/BV metrics (Figure 48); and (5) macro conditions challenging USD strength.

Figure 44: EM Markets – Bull and Bear Risk Biases vs. Macro Factors

	Base View			Bear (factors relative to Region / EM)					Bull (factors relative to Region / EM)				
	UW	Neutral	OW	Beta	PMI	FX	Valuation	BIAS	Beta	PMI	FX	Valuation	BIAS
China													
S. Korea													
Taiwan													
India													
Indonesia													
Malaysia													
Thailand													
Philippines													
Saudi													
Kuwait													
Qatar													
UAE													
S. Africa													
Poland													
Hungary													
Czech R.													
Greece													
Turkey													
Brazil													
Mexico													
Chile													
Colombia													
Peru													

Source: J.P. Morgan, based on the arguments and data offered in the sections Base, Bull and Bear cases.

Figure 45: Mutual fund AUM by mandate; EM AUM as % of Global

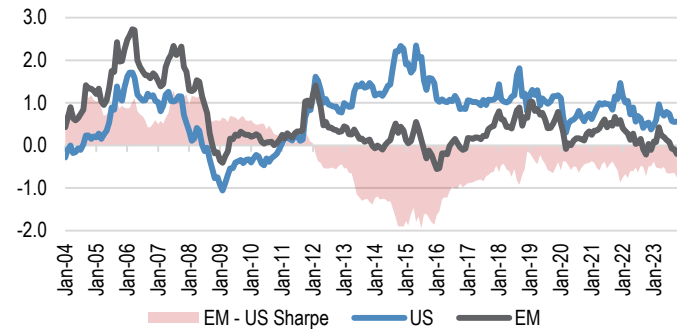


Source: EPFR, Bloomberg Finance L.P., J.P. Morgan. Note: Left axis: AUM in US\$tn; Right axis: EM share of total AUM/MSCI AC World. Data as of October 2023.

### Inside the EM Kitchen

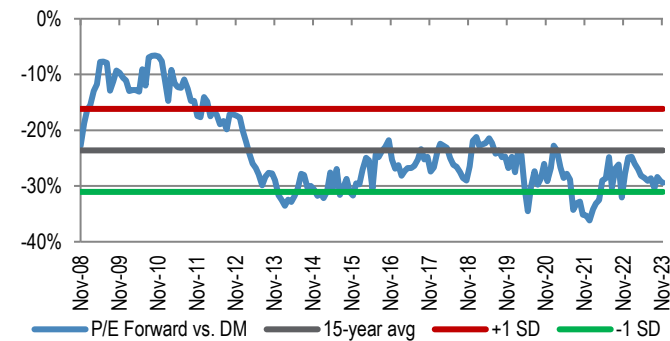
- **OW Markets.** We use our risk budget to focus on endogenous investment cases (**OW India, Saudi Arabia and Mexico**), gain indirect exposure to China GDP (**OW Brazil, Thailand and Indonesia**) and reinforce non-consensus call (**tactical OW China**).
- **Sector Changes.** We promote sector portfolio changes towards a more defensive positioning: **upgrade Cons. Staples** to OW from Neutral, **Utilities** to Neutral from UW and **downgrade Financials** to Neutral from OW and **Materials** to UW from Neutral.
- **Bottom Up Thematic.** (1) **Defensiveness** via EM Dividend Nobles (consistent dividend paying stocks) and EM Value Creators (consistent value creators); (2) **Market Neutral** via stocks that might benefit from energy transition and secular near shoring trends; (3) **Bull-Biased** via stocks that would benefit the strongest from lower interest rates, indirect China exposure and stocks for bull / bear swings in the Broad USD.
- **Factor / Style.** (1) **OW Quality and Low Vol** to mitigate anticipated market volatility from slowing global growth, credit tightening and geopolitical tectonic shifts; (2) **Neutral Growth:** stickier-than-anticipated US rates, growth outperformance in EM could also face headwinds from the US tech rally taking a breather; and (3) **Neutral on Value:** Global growth deceleration vs. tactical boost to Value from China growth acceleration.

Figure 46: Poor EM vs US Sharpe ratio (rolling 3-year windows)



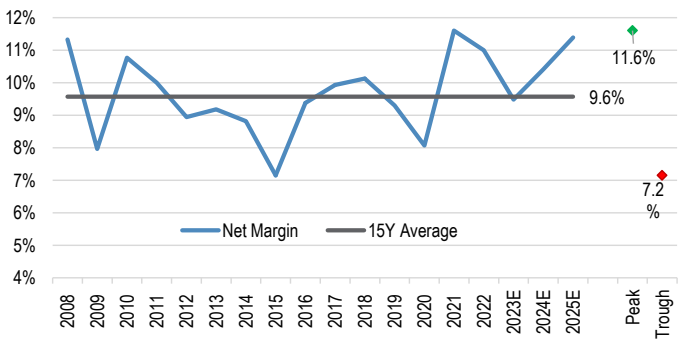
Source: Bloomberg Finance L.P., MSCI and J.P. Morgan

Figure 48: EM Fwd P/E Discount DM Wider than Historical



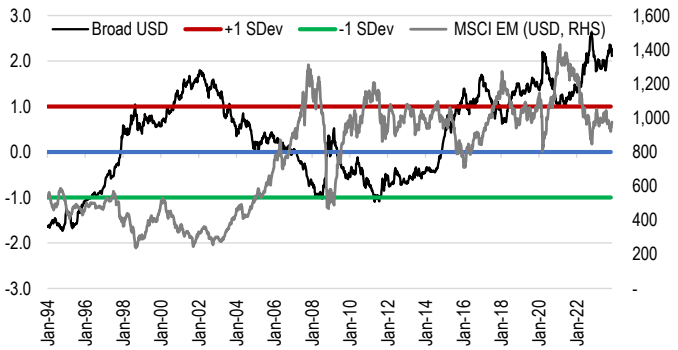
Source: Bloomberg Finance L.P., MSCI, and J.P. Morgan.

Figure 47: Optimistic Consensus forecasts EM net margin to expand from 9.4% in 2023E to 10.4% in 2024E



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

Figure 49: Broad USD in Perspective (z score) vs. EM Equities



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

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## Asia Equity Strategy

Price action in 2023 has seen multiple swings driven by either shifts in the US macro narrative or the China policy outlook. While Asian equities started strong in January on hopes of China reopening and disinflation in the US, such momentum faded over the rest of 1H23. Sustained poor confidence wore down China data, US disinflation paused in Feb and DM banking crises in March left markets jittery about a credit crunch. China equities then staged a tentative recovery in June and July as expectations built (and were then largely disappointed) about imminent large stimulus. The China stimulus did arrive piecemeal, though, and by 4Q started to add up. Our base case assumes returns will be front-ended in 2024 for MSCI Asia ex Japan taking into account YTD underperformance, investors downplaying near-term recession risks, normalization of sentiment/positioning, positive seasonality, inexpensive valuations and an apparent upturn in the memory cycle. Equities may oscillate between our base case and bull case (Goldilocks) in early 2024, with shifts in market participants' view on the US outlook. However, as we progress in 2024, a host of challenges will start to unlock – moderating growth, tight external financial conditions, strong dollar, restrictive/measured policy stance, domestic political & geopolitical uncertainty and structural issues in China. Thus, our current allocation in AxJ region walks the fine line between the tactical positive reality of today and the fact that high-for-long environment will gradually undermine the foundations of this resilience, making a recession a high probability event over the next 18 months. We recommend being OW India/China/Financials/Consumer Discretionary/Consumer Staples; and UW Taiwan/ASEAN/IT/Materials.

**Earnings to recover, but faces external risks:** The drags of the past two years on Asian earnings (China in 2022 and Tech in 2023) look set to reverse somewhat. China's earnings stabilized in 2023 and can improve into 2024 if consumption recovers. Tech earnings have also likely bottomed and are set to recover sharply in 2024. That said, Asia's GDP growth (in USD terms) remains closely tied with global export exposures, and Asia's EPS growth has historically tracked closely with Asia's GDP and export growth, as well as global PMIs. We might continue to see impact from DM downgrades to EPS estimates in Asia. Asia's EPS beta to DM is about 0.5x, with Korea, Taiwan and India historically showing the highest beta to DM EPS revisions, and by sector, Tech, Materials, Energy and Industrials. Overall, based on a combination of translations from regional GDP, global GDP forecasts and our regional business cycle monitor, we expect MXASJ 2024 EPS at US\$48 compared to current consensus estimates of US\$51, and 14% growth over US\$ 42 in 2023. But if we end up with a recession in the US, we may well have a triple-dip in Asian trailing earnings and continued sideways forward EPS.

**Heavy political calendar to navigate:** 2024 will see some important elections for Asian countries (apart from the US) which could all have an impact on macro and market conditions in the region. Starting with Taiwan on 13 Jan 2024, followed by Indonesia in Feb 2024 (with a possible run-off in Jun 2024), Korean legislative elections in April 2024 and India's national elections in May 2024. While in most cases elections can come with consumption- or sentiment-boosting policies (that help markets), they can also tend to be periods of heightened volatility heading into the event and falling risk premia on peaceful conclusion. In some cases, outcomes of these elections may also be critical for long-term investor perception.

**We reiterate our structural OW call on India.** The key driver here is the (well-known) high visibility of growth into multiple years ahead. Given favorable demographics, low starting point, political stability, already-implemented reforms (like



digitalization, tax rationalisation etc) that are percolating through the economy, and geopolitical advantages (in supply chain relocation and preferential treatment etc). In addition, we see in the financial market a virtuous cycle of investor participation, deepening and broadening liquidity, rising fundamental coverage and analysis, and capital issuance – supporting the strong (and unparalleled) track record of risk-adjusted returns. Besides structural promise, near term factors that will drive markets higher are robust activity data, impressive corporate earnings, easing oil prices, strong domestic flows and recently-light positioning by foreign investors. These developments should continue to support a combination of elevated valuations and low volatility.

#### UW the Tech complex:

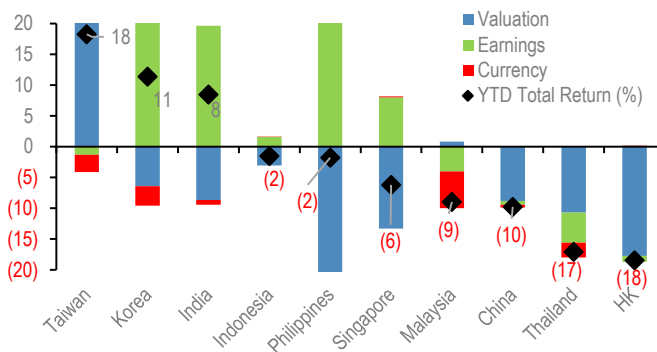
While the tech cycle does appear to have bottomed and 2024 should be a recovery year, this has somewhat been priced in by the rally in 2023. We see the risk-reward from here skewed less favorable: (1) Consensus estimates already build in a very robust recovery into 2024 and 2025 which may be at risk from both a potential global growth deterioration as well as a continued inventory overhang in the Korean and global semiconductor space. (2) Investor feedback suggests that investors are looking to take profit in the AI trade given lack of substantial application follow-through - this is likely to weigh on Tech valuations overall. (3) Valuations may also come under pressure if there is another shift in the US macro expectations. The current pricing-in of “goldilocks” has been helpful for Taiwan Tech in particular. (4) EM and AxJ LO investors also remain significantly OW in both Korea and Taiwan IT sectors.

Figure 50: MXASJ YTD performance



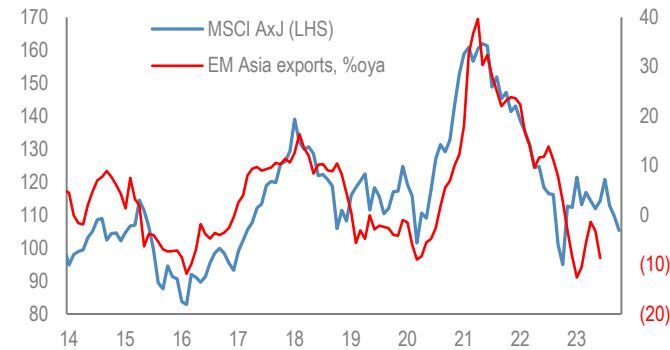
Source: Bloomberg Finance L.P., J.P. Morgan Equity Macro Research

Figure 51: Earnings remain key for region, while no room for valuation re-rating



Source: Refinitiv, MSCI, IBES, J.P. Morgan

Figure 52: Asia equities fortunes highly attuned to global trade



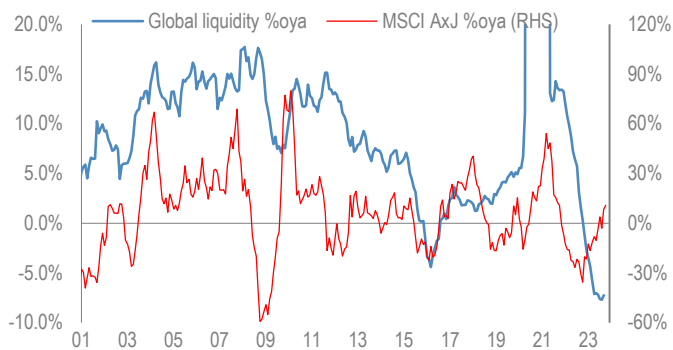
Source: MSCI, Refinitiv, CEIC, J.P. Morgan Economics

Figure 54: Looking at the ratio of annualized returns over its volatility, the Nifty is top ranked with a value of 0.57 since its inception



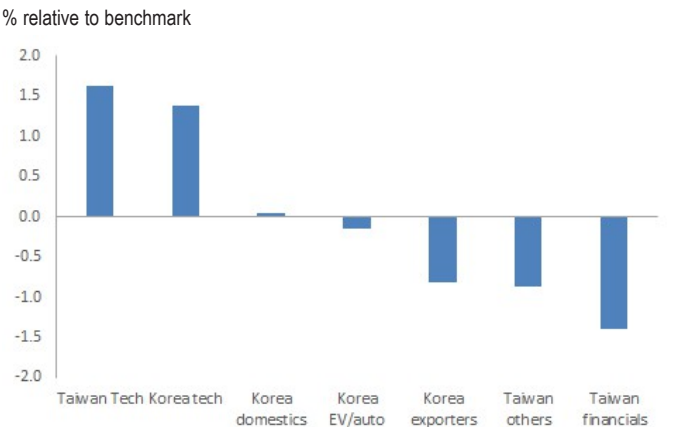
Source: J.P. Morgan Equity Derivatives Strategy, Bloomberg Finance L.P.

Figure 53: Asian equities no longer pricing in tightening global liquidity condition



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

Figure 55: LO investors already positioned for robust recovery in Korea and Taiwan tech



Source: Bloomberg Finance L.P., J.P. Morgan Equity Macro Research. Chart shows Long only EM and AxJ investors holdings in Korea and Taiwan.

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## China Equity Strategy

**The current relief rally may extend into 1Q 2024 as China enters its 4th year post equity and property price peaks.** China has been the worst performing market within MSCI APAC since end 2020 by USD total returns on weakest relative EPS growth and valuation de-rating. Weaker DXY since end Oct 2023 has helped absolute return (JPM cut cash in the [model portfolio](#) from 9% to 1% on Oct 29th). With positioning still light and sentiment still weak, stabilizing geopolitics yet to be priced in, we think this relief rally may extend into 1Q24 on expectations of nominal growth returning, opex and interest expenses cuts, and certain willingness to bet an around 5% GDP growth target for 2024.

**Index targets:** Our base/bull/bear-case targets of **66/70/56** on the MSCI-China for end-2024, implying 9.4x/10x/8x P/E's on consensus 2025 estimate (HK\$7 per share). Consensus is estimating EPS of HK\$5.3/6.1/7.0 in 2023/2024/2025E. JPM estimates are 1%/4%/8% below consensus (HK\$5.25/5.85/6.44). For 2023E, JPM sees higher revenue growth than consensus (JPM: 5.7% vs consensus: 5.1%) with non-financials poised to deliver faster growth. But we are a tad below consensus on net margin (JPM: 4.3% vs consensus 4.4%) on banks narrowing NIM. For 2024/25E, JPM sees slower revenue growth (JPM: 6.5%/5.4% vs consensus: 8.2%/6.1%) on moderate domestic consumption as home prices continue to weaken over 2024 before stabilizing by 2025. JPM is marginally less optimistic over net margin expansion (JPM: 4.5%/4.7% vs consensus: 4.7%/5.1%) as banks margins may further weaken while non-bank sectors improve. Among the likely offsets, we see cost cuts (for example, SOEs mandated to boost ROEs), lower interest expenses, and higher margin businesses and distribution channel.

- Base case (MSCI-China at 66) implies a 9.4x target P/E on consensus 2025 EPS, flat vs where the index is trading now on FTM P/E. This target P/E assumes 1) no bazooka-like stimulus (monetary or fiscal front), property adjustment continues, and kicking-the-can-down-the-road on LGFV debt, with limited write-up/off of NPLs; 2) stable US-China relationship; and 3) a largely stable USDCNY.
- Bull case (MSCI-China at 70) implies a 10x target P/E on consensus 2025 EPS, is at -0.4sd below the median since 2010. This target P/E multiple would reflect: 1) meaningful financial sector reform with domestic long-term capital buying China equities, and banks meaningfully write up NPLs; 2) a stable US-China relationship; and 3) A stable to appreciation bias of the Rmb vs. USD. JPM's Tiffany Wang notes CNY's rising use as a trade settlement currency ([CNY FX: More than just the macro](#), 14 Nov 2023).
- Bear case (MSCI-China at 56) at 8x target P/E on consensus 2025 EPS implies valuation at -1.4sd below the median since 2010. This would reflect 1) more credit events in property/LGFV sector; and 2) rising US-China tensions likely after mid-year 2024 and weaker Rmb vs USD.

**Sector:** OW Energy, Industrials (OW capital goods but UW transportation), and Consumer discretionary (consumer durables & apparels, and consumer services); and UW Materials (property related) and Financials (banks). **Style:** **OW** Growth as relative de-rating to Value has likely bottomed with cyclical upside in earnings. Prefer Quality, i.e. leading players with solid pricing, margin and balance sheet; **UW** small/mid-caps, as Large caps have more room for valuation normalization.

Figure 56: JPM 2024 year-end target for MSCI China

2024E MXCN Index Target (HK\$)	Base (F)	Bull (F)	Bear (F)
Index level	66	70	56
Consensus 2025F EPS integer	7.0	7.0	7.0
JPM 2025F EPS integer estimate	6.4	6.4	6.4
JPM vs consensus (2025F EPS integer estimate)	-8%	-8%	-8%
JPM 2025F EPS growth y-y	10%	10%	10%
Implied P/Es on JPM forecast	10.3	10.9	8.7
Standard deviation vs FTM P/E median since 2010	-0.3x sd	0x sd	-1.1x sd
Implied P/Es on consensus forecast	9.4	10.0	8.0
Standard deviation vs FTM P/E median since 2010	-0.7x sd	-0.4x sd	-1.4x sd

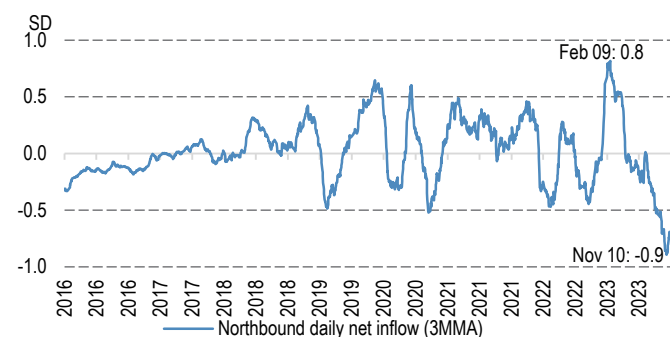
Source: IBES, Refinitiv Eikon, J.P. Morgan estimates

Figure 58: JPM's China growth reading: a moderate recovery



Source: Wind, J.P. Morgan

Figure 60: Stock connect: Northbound daily net inflow (3MMA)



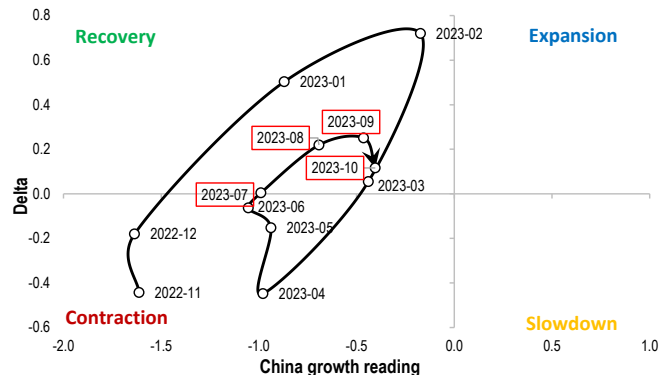
Source: Wind, J.P. Morgan

Figure 57: MXCN – changes in P/E and EPS in major rallies and corrections

Trough to peak	PX chg	FTM PE chg	FTM EPS chg
May 04 to Oct 07	445%	80%	116%
Mar 09 to Nov 10	107%	40%	43%
Mar 15 to Apr 15	50%	46%	-3%
Feb 16 to Jan 18	103%	59%	25%
Mar 20 to Feb 21	81%	70%	0%
Oct 22 to Jan 23	53%	32%	9%
<b>Average</b>	<b>140%</b>	<b>54%</b>	<b>32%</b>
Peak to trough	PX chg	FTM PE chg	FTM EPS chg
Oct 07 to Oct 08	-74%	-67%	14%
Nov 10 to Oct 11	-37%	-40%	19%
Apr 15 to Feb 16	-41%	-25%	-19%
Jan 18 to Oct 18	-32%	-32%	4%
Jan 20 to Mar 20	-21%	-15%	-3%
Feb 21 to Oct 22	-62%	-52%	-16%
<b>Average</b>	<b>-45%</b>	<b>-38%</b>	<b>0%</b>
Since late Jan 23	-20%	-15%	-5%

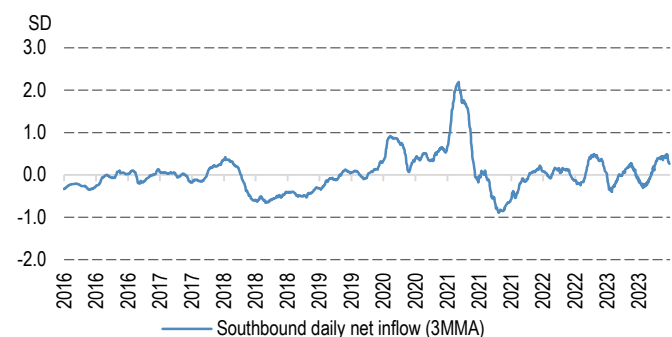
Source: IBES, Refinitiv Eikon, J.P. Morgan

Figure 59: Monthly business cycle based on the China growth reading



Source: Wind, J.P. Morgan

Figure 61: Stock connect: Southbound daily net inflow (3MMA)



Source: Wind, J.P. Morgan

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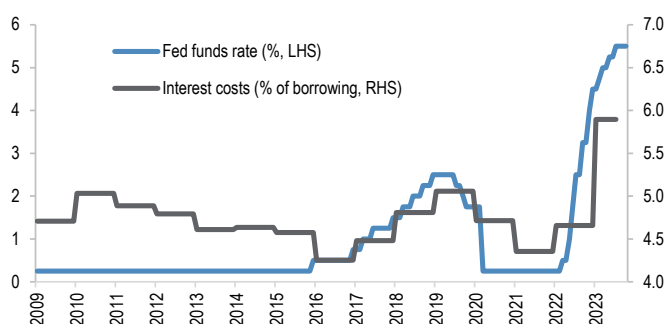
## South East Asia Equity Strategy

ASEAN equities have been in a [bungee-jumping](#) mode for the most part of this year. MSCI ASEAN topped out in late January 2023 at 697 and has been trading below that level to date, failing to break 670 despite July's sharp rally. Worries over exports slowdown, surging US long bond yields, a resurgent USD, weakening domestic demand and monetary tightening have made foreign investors continually withdraw funds from ASEAN (-US\$8bn YTD). The recent US bond yield reversion had provided some relief to ASEAN equities and currencies. That said, the stock rebound has not yet attracted flows back to ASEAN. With investors downplaying near-term recession risks, potential recovery of tech supply chain, spillover China's fiscal stimulus and positive Q4-Q1 seasonality could support selective sectors (tech, tourism, transportations, industrials) near term.

**Going into 2024, several headwinds still persist:** (1) restrictive domestic policy stance create further drag on growth, (2) tight global financial condition, (3) slowing DM growth with higher probability of US recession in 1H25 and China growth in 2H24, (4) significant slowdown in new investments (FDI), (5) risks of El Niño on agriculture output and prices and (6) Political or geopolitical uncertainties. **As earnings weaken and valuation multiple unlikely to rebound before decisive signal from fed, ASEAN equities would be prone for correction.** Possibility of further foreign outflows remain high, however, light positioning unlikely to turn into large outflows, in our view. We believe investors should focus on quality stocks and sectors with idiosyncratic drivers that could help offset global headwinds in the coming quarters. Such drivers include: (1) fiscal stimulus, (2) resilient domestic demand and (3) distressed valuation.

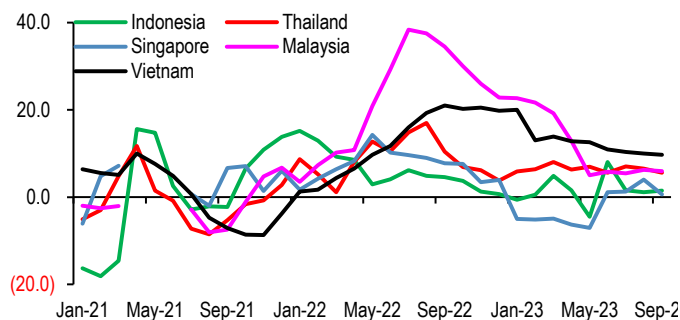
**Country allocation:** We Overweight Indonesia, Thailand and Vietnam and Underweight Singapore, Malaysia, and the Philippines.

**Figure 62: Monetary tightening is still materializing in ASEAN corporates balance sheets**



Source: Bloomberg Finance L.P. J.P. Morgan. Average interest costs of 200 largest ASEAN firms.

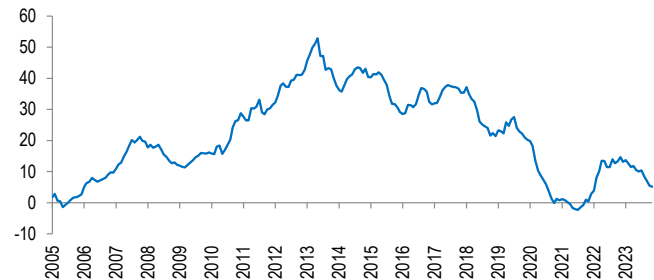
**Figure 63: Signs of domestic demand weakening in ASEAN**



Source: J.P. Morgan, CEIC, Bloomberg Finance L.P. Note, charts shows private consumption growth for Thailand and retail sales growth (%o) for rest

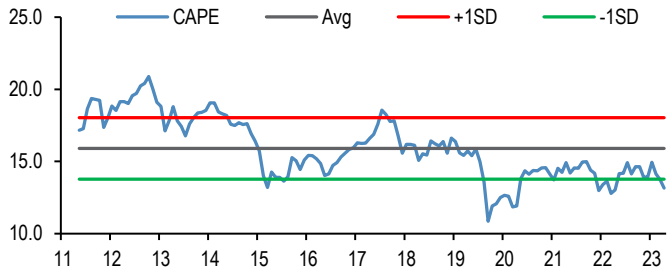
Figure 64: Foreign flows to ASEAN reversed to near low

Cummulative flows to ASEAN (US\$mn)



Source: Bloomberg Finance L.P. Stock exchanges data.

Figure 65: Post correction, ASEAN equities are now inexpensive on CAPE basis



Source: MSCI, Refinitiv.



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## Australia Equity Strategy

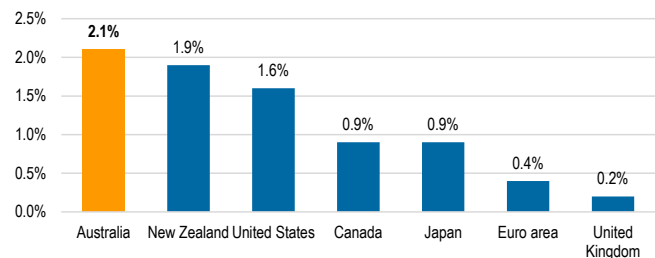
There's a hint of Australian exceptionalism permeating the economic landscape. Not only do our economists see the 'lucky country' generating near-potential GDP growth in 2024, they also foresee sufficient deceleration in inflation for the RBA to hold the cash rate at 4.35%. **Several positive forces are spurring the Australian economy**, including a near-record terms of trade, high immigration, and ongoing strength in employment. As the top left chart below shows, Australia stands out against a range of other economies in terms of growth projections for 2024.

While the macro backdrop remains supportive, it's important to bear in mind the composition of the Australian equity market. Materials accounts for over a quarter of the index and is dominated by BHP, FMG and RIO, which make up c.70% of the sector. As a result, a large proportion of the ASX 200 is influenced by the fortunes of China, in particular activity in that country's housing market. With policymakers in China increasing their focus on stimulating housing, steel demand looks set to be supported over the next 6-12 months. **We remain OW the bulk miners (BHP, RIO).**

**Banks are the other dominant sector, accounting for c.20% of the index.** The dominant factors in the sector's performance are the state of the consumer and the intensity in the mortgage market. While the former is challenged on a per capita basis, aggregate demand is robust. Record rates of immigration and low unemployment are the key drivers. While the consumer backdrop is supportive, the same cannot be said for the mortgage market, where the battle for market share remains intense. Competitive pressures are set to exert downward pressure on earnings, with our team **projecting EPS declines of 3-8% for the major banks** in FY24. Positioning, however, remains deeply UW, which should provide some support.

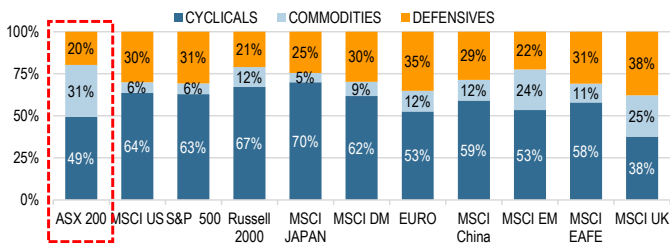
Defensives and Tech make up a relatively small proportion of the Australian index, with **Healthcare** the largest component of the former at c.9%. Looking ahead, with most cyclicals (Banks, Discretionary) approaching fair value, we look to some of the rate-sensitive sectors (**REITS**, Healthcare) for outperformance, as well as **Tech** where we are OW. In terms of '24 earnings, we expect growth of c.4%. Our Dec-24 ASX 200 index target is 7,500.

Figure 66: 2024 GDP Growth | AU in context



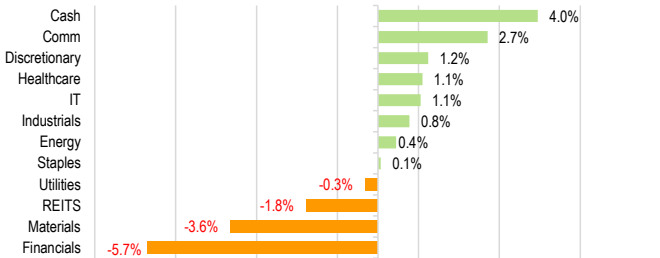
Source: J.P. Morgan estimates.

Figure 67: AU Market | Short on defensives, long on resources



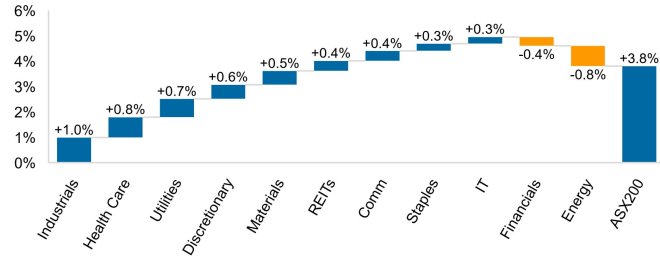
Source: J.P. Morgan estimates, Bloomberg Finance L.P.

Figure 68: Positioning | Still skewed away from Banks and Miners



Source: J.P. Morgan estimates, Company data.

Figure 69: CY24 EPS Growth | Energy drag



Source: J.P. Morgan estimates.

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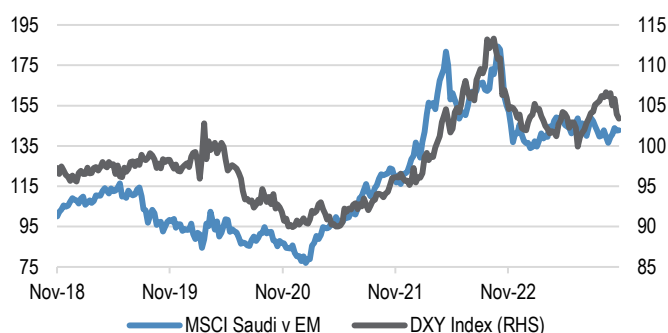
## CEEMEA Equity Strategy

We look into 2024 with trepidation. Our index target of 210 offers ~10% upside for MSCI EMEA, another year below the cost of equity. Our asset allocation remains cautious via **OW low-beta USD-linked Saudi and UAE**. The IMF is forecasting >4% CAGR non-oil GDP for Saudi past 2030 while Dubai continues to double its population every decade. **We are OW Greece** as well – an undervalued asset where earnings can easily hurdle low expectations. *South Africa remains our key UW* with its negative correlation to USD and structural headwinds (notably ports and rails deteriorate even as electricity improves a little). We doubt that SA's elections next year will lead to any policy change. For the Top 10, we add **Bank Pekao** (expect consensus upgrades should rates stay higher for longer as JPM forecasts) and **ELM** (Saudi government contract exposure) to the Top 10 and remove Capitec (downside risks to consensus EPS) and Alarabia. We have 5 MENA stocks plus Alpha Bank in Greece, BIM in Turkey and Bank Pekao in Poland and two in South Africa.

**The macro assumptions behind our Year Ahead asset allocation are more of the same:** a 4% stronger DXY in 1H24; a Fed that delivers a first cut only in 3Q24, later than is priced into the yield curve; weak US and DM equity performance. We forecast Brent to average \$83/bbl in '24, a little up from the YTD average of \$81 and flat OPEC production but Saudi moving up 250k bbl/day in 2Q.

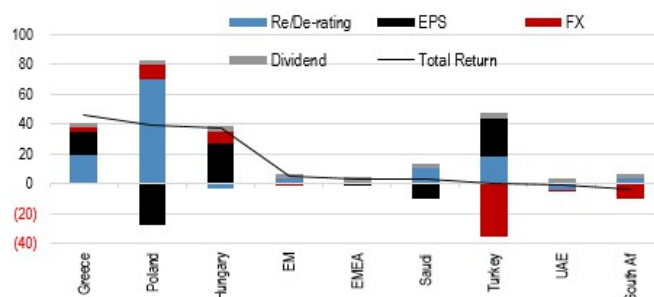
**But this is not the whole year ahead.** If our economists' forecast of the first Fed cut in 3Q24 is correct then 2H24 could look different. A weaker DXY hurts GCC relative performance v EM; weaker growth would bring down UST yields; sub-2% global GDP growth (which we forecast for each 2-4Q24) could also hit commodity prices, a clear negative for GCC (oil) and South Africa (PGM and iron ore). In CEEMEA strategy, we strongly agree with our economists who all year have been forecasting a Fed cutting later than bond markets price. We think our allocation works for the first half of the year - if our economics and FICC research teams are right then we will have to get more bullish and reverse some of our trades to get the second half right.

Figure 70: MSCI Saudi outperforms EM when DXY gets stronger



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

Figure 71: CEEMEA YTD Returns Decomposition



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

Table 1: CEEMEA Strategy - Top 10 Stock Picks

Name	Ticker	Country	Sector	Analyst	Curr	Price 24-Nov	Mkt Cap USD m	% Δ YTD USD	JPM Rating	JPM PT	EPS (LC)		P/E Ratio (x)	
											'23E	'24E	'23E	'24E
SNB	SNB AB	Saudi Arabia	Financials	Bilandani	SAR	34.0	54,394	-8.6	OW	43.0	3.17	3.36	10.8	10.2
Riyad Bank	RIBL AB	Saudi Arabia	Financials	Bilandani	SAR	27.0	21,598	-14.9	OW	34.0	2.54	2.61	10.6	10.3
Elm	ELM AB	Saudi Arabia	IT	Sleiman	SAR	752.4	16,041	119.8	OW	789.0	16.02	20.07	45.4	36.3
Aldar	ALDAR DH	UAE	Real Estate	Safieddine	AED	5.70	12,203	29.1	OW	6.46	0.38	0.43	15.1	13.3
Emaar Prop.	EMAAR DB	UAE	Real Estate	Safieddine	AED	7.08	17,039	20.8	OW	7.3	0.86	0.86	8.2	8.2
BIM	BIMAS TI	Turkey	Staples	Kilickiran	TRY	319.50	6,710	49.8	OW	436.00	18.15	33.06	17.4	9.6
Alpha Bank	ALPHA GA	Greece	Financials	Sevim	EUR	1.54	3,956	57.0	OW	2.20	0.28	0.30	5.5	5.1
Pekao	PEO PW	Poland	Financials	Goodacre	PLN	138	9,071	74.2	N	125	24.15	17.12	5.7	8.0
Bidvest	BVT SJ	South Africa	Industrials	Winckelmann	ZAR	27,337	4,939	16.1	OW	30,800	19.8	20.7	13.9	13.3
Naspers	NPN SJ	South Africa	Cons. Disc	Diebel	ZAR	344,148	33,871	10.3	OW	511,900	9.25	14.73	19.8	12.4

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

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## Latin America Equity Strategy

**We expect the MSCI LatAm to reach 2,700 in 2024, about a 10% increase from current levels.** Different than in 2023, when the market upside came mostly from re-rating, in 2024 we expect earnings to move to positive territory (about 7% rise), helped mostly by lower inflation, lower financing costs and easy comps. There are three top down factors that should lift up LatAm markets. **(1) Lower interest rates:** By 1Q24 all the countries in the region will be cutting interest rates. The process started early for Brazil and Chile, but Mexico is going to finally join the group. That in itself is a powerful catalyst for upside. **(2) Cheap valuations:** LatAm trades at around 9x 12 mo fwd PE, which is 1.3 SD below average and also 25% cheaper than EM. **(3) No politics nor geopolitics:** All in all, the region is relatively isolated from geopolitical risk, being well engaged with both China and the US. From a local standpoint, the election calendar is relatively light, with important elections concentrated in Mexico, where the likelihood for continuation of the Morena administration is high. Municipal elections in Brazil tend not to be a market moving event. **(4) Positive spillover from global conditions:** In 1H24, LatAm should continue to be helped by the stimulus and recovery coming from China, especially if these are guided more directly to properties, boosting commodity prices. In 2H24, Fed rate cuts (JPM expects 100bp) should lead to global market upside and, as an optionality, a weaker USD, which would further help LatAm, not only on the gains from the currency side, but also on the commodity one, considering that more than 30% of the index is materials and energy. From a sector standpoint we are **OW real estate, financials, discretionary and materials** and **UW staples, technology and industrials**.

Country views. **Brazil (OW)** is cheap, has earnings growth, benefits from lower rates and politics is on the backseat. We recommend a barbell with commodities on one hand and bond proxies on the other, but with a heavier weight on the latter as we think the optionality is for lower rates than consensus. **Chile (OW)** has the same tenets of Brazil: cheap, low rates, political de-leverage. SQM (22% of the index) dragged performance lower in 2023 but we are positive on the story. **Mexico (N)** has a great underlying story on nearshoring, but will face two headwinds next year: the US slowdown and elections. The first has immediate consequences considering the high level of remittances (~US \$60bi/ year) and trade relations (80% of Mexican exports go to the US). With elections come an expansion of the fiscal deficit (from 3% to 4.5% of GDP) and potential policy issues (as with the airports in Oct-23). **Peru and Colombia (UW)** lack attractiveness on both top down and bottom up. We prefer the former rather than the latter, considering the growth recovery. Colombia is on a more troublesome macro environment. Higher oil prices could help, but even its extremely cheap valuations don't make for a compelling story in our view.

Figure 72: MSCI LatAm versus Broad dollar



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



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J.P. Morgan India Private Limited

## SMid Equity Strategy

**2024 has shaped up to be a year in which SMid investors will have to differentiate between absolute returns and those relative to large-caps, with the math also being potentially quite different in different regions.** In short, since our Mar 1st, 2022 note (“[The Math Says Careful](#)”) we have held a bearish view on SMid-Caps which has played out within DMs ex-J where SMid indices are down close to 25% (down 16% vs their Large-Cap peer indices). As we head into 2024 and as we noted in our [SMid View report](#) published on Nov 3rd, **we remain cautious on SMid-Caps which could still fall double-digits from here, while we see enough merit to turn OW SMid ONLY vs large-Caps for those investors who need to be invested in equities within DMs ex-J.**

**SMid-Caps could rally short term but we believe will reach lower lows during 2024.** Our analysis continues to point to downside in ‘24, as SMid-Caps will have to face an economic downturn within an equation of significant margin pressure, and a mkt that is not accounting for this on expectations, positioning, or even valuations.

- **3 reasons why SMid-Caps in DM ex-J could keep rallying near term:** as highlighted in our Nov 3rd [SMid View report](#), SMid-Caps in DMs ex-J entered their seasonally strongest part of the year (Nov-Apr) having reached new yrlly lows, after a record underperformance vs Large-Caps; and a macro environment that suggests equity mkts should be peaking 5-12 months from here if history is to repeat itself (assuming Sep was the last Fed hike).
- **But 2024 should bring lower lows:** a) current SMid valuations are not yet discounting the current interest rate environment and likely earnings contraction that should take place next year; b) current consensus estimates are a mile away from reality, calling for record earnings growth instead; c) SMid PM positioning is not defensive yet (being OW some cyclical sectors while keeping cash as a % of AUM near historical lows).

Figure 73: Upside/Downside to Indices factoring in the spike in interest rates

Upside/Downside to Indices under different WACCs					
	Russell 2000	FTSE 250	MSCI Europe Ex UK Small Cap	Topix Small Cap	MSCI EM Small Cap
Cost of Equity	15.18%	18.91%	17.69%	17.72%	14.99%
- FCF Yld	2.85%	6.54%	5.39%	3.56%	3.70%
- SMid Cap Premium**	3.70%	3.70%	3.70%	3.70%	3.70%
- EPS CAGR***	8.63%	8.68%	8.60%	10.45%	7.59%
Cost of Debt pre Fed Funds Hike	6.30%	3.20%	2.70%	1.00%	4.72%
Debt/Equity Ratio	45.27%	37.71%	54.75%	35.93%	47.72%
Implied WACC	11.98%	14.44%	12.17%	13.22%	11.33%
2021-22 Index Peak	2,443	24,250	699	2,582	1,444
Current Index Level	1,783	18,509	551	2,744	1,301
- Current Return from 2021-22 Index Peak	-27.0%	-23.7%	-21.2%	6.3%	-9.9%
Implied Index Level factoring in rate hikes...	1,770	20,246	519	2,582	1,223
- Upsd/Dnsd from '21-22 Peak	-27.54%	-16.51%	-25.64%	0.00%	-15.32%
- <b>Upsd/Dnsd from Current Index Level</b>	<b>-0.74%</b>	<b>9.38%</b>	<b>-5.66%</b>	<b>-5.90%</b>	<b>-5.98%</b>
- Implied WACC	13.25%	15.58%	13.41%	13.22%	12.01%

Source: Bloomberg Finance L.P., Factset, and J.P. Morgan. Notes: \* Financials & Real Estate have been removed from MSCI Europe Index and Russell 2000 for all the calculations; \*\* We have taken a SMid risk premium of 3.70% from Fama-French model; \*\*\* We have taken the lowest EPS CAGR of recent cycles.

**Relative to Large-Caps, we stick to our Nov 3rd OW... ONLY in DMs ex-J: 1)**  
underperformance is already near highs (both when measured at the index level and on

an equal basis ex-outliers basis); 2) the current valuation discount is also near highs (when historically such a discount contracts as equities reach a recession-linked trough... i.e. SMid shouldn't underperform Large-Caps any more from here on even if equities keep falling); 3) The relative fundamental picture will improve significantly for SMid in 2024 (wage inflation which hurt SMid more than Large in 2023 due to its higher labour intensity, will be far less of a relative headwind next year as companies don't tend to increase costs when they are not growing EPS; while interest expense will also cease to be a relative headwind vs Large-Caps as the higher floating debt nature of SMid debt which hurt SMid in '23 becomes a relative tailwind in 2024 (offset by the shorter maturity of SMid debt)); and 4) because investors simply have no incentive to stay short anymore... given that, in our view, SMid could underperform by another 100-200 bps at most from here, but has historically outperformed Large-Caps by far more than that in the first 12 mths post a recession-linked equity mkt low.

Figure 74: Average Perf of SMid vs Large in First 12 mths post a Recession-linked Equity market low

	UK	Cont. Europe	US	Japan	EM
SMid Index	FTSE 250	MXEMSC	RTY	TOPIX 100	MXEFSC
Large Index	FTSE All Share	MXEMLC	SPX	TOPIX Small	MXEFLC
<b>Avg Rel. Perf (SMid less Large)</b>	<b>18.6%</b>	<b>39.2%</b>	<b>32.2%</b>	<b>10.6%</b>	<b>28.5%</b>

Source: Bloomberg Finance L.P. and J.P. Morgan Calculations.

**Stylewise... stick to quality value.** We reiterate our 2021 to date OW on value vs growth, with a preference for quality value in the remainder of this equity market downturn, and will be looking to turn OW on deep value as the market nears its trough. Value works best when valuation dispersion is greatest and the correction seen in SMid-Caps since the peak of 2021 has kept valuation dispersion near all-time highs excluding the 2000 and 2021 bubbles.

Figure 75: Percentage of deep value stocks in each region

Percentage of deep value stocks in each region								
	UK	Cont. Europe	US/Can	Japan	Aus/NZ	Asia ex-J	CEEMEA	LatAm
% of cos. down >40%*	36%	35%	42%	10%	40%	19%	14%	14%
% of cos. <10x P/E	25%	23%	27%	22%	19%	15%	34%	34%
% of cos. <1x P/B	39%	32%	31%	41%	26%	21%	25%	41%
80th less 20th percentile of P/E	14.1x	17.7x	18.6x	14.7x	22.2x	36.9x	18.4x	17.6x

Source: Bloomberg Finance L.P., Factset, Datastream and J.P. Morgan Calculations. \* Note: Performance Figures since 2021 Russell 2000 peak (8th Nov '21)

#### 4 themes to focus on until the market troughs and 1 theme to go after once it does.

Going into 2024, we stick to the 4 themes we have focused on during much of '22/'23 as they highlight those companies most/least exposed to the current key sources of pain: 1) Focus on labor light businesses (JPSMSSWE/US) vs labor-intensive ones (JPSMIPWE/US). 2) Focus on solid balance sheets (JPSMCRWE/US) vs debt burdened ones (JPSMDBWE/US). 3) Focus on achievable ests (JPSMLDWE/US) vs demanding ones (JPSMPSWE/US). 4) Focus on pricing power (JPSMHFWE/US vs JPSMBFWE/US). Once we are closer to the trough... it's all about deep value... our rebound candidates screen is made up of those stocks down >40% already (JPSMRCWE/US).

Figure 76: YTD and 1Mth Performance of the 5 Themes we have been recommending all year

Pair Trade Baskets	UK		Cont. Europe		US		Japan		EM	
	YTD	1 Mth	YTD	1 Mth	YTD	1 Mth	YTD	1 Mth	YTD	1 Mth
<b>Avoid Labor Intensity</b> (Salary Expense/ Sales)	3%	0%	0%	-2%	4%	-5%	1%	-2%	-5%	-1%
<b>Avoid Exposure to Rising Rates</b> (Net Debt/ EBITDA 22)	-5%	-3%	-1%	-4%	12%	1%	-7%	0%	1%	3%
<b>Avoid Rich Cons. Grw Ests</b> (EPS Grw 23E)	3%	3%	0%	3%	1%	5%	6%	-1%	4%	-3%
<b>Focus on Pricing Power</b> (EBITDA Margin 22E)	-10%	2%	4%	1%	10%	-4%	-11%	0%	-6%	-2%
<b>Rebound Candidates</b> (down >40% from '21 SMid Mkt High)	8%	4%	-3%	7%	-3%	4%	-6%	1%	-9%	2%

Source: Bloomberg Finance L.P., Factset, and J.P. Morgan Calculations.

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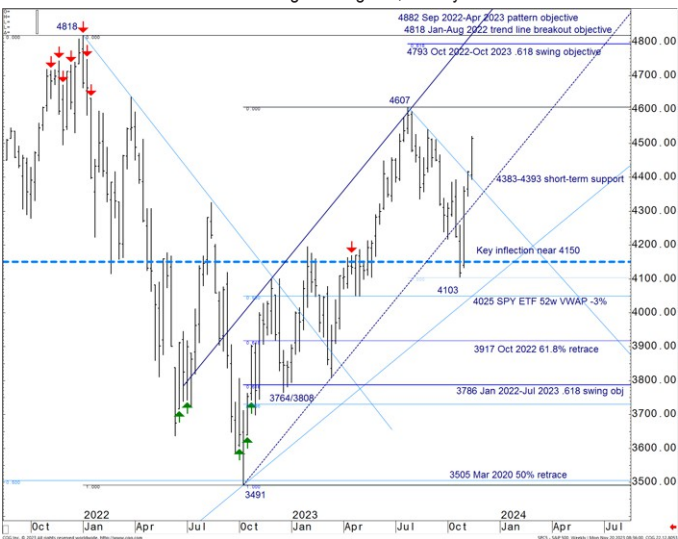
## Equity Index Technical Strategy

While the fourth quarter S&P 500 Index rebound from key support that sits just under 4200 put the market back into the upper end of the 2H23 trading range and derailed all of the bearish momentum associated the decline from the 4607 mid-summer peak, we still believe the medium-term setup is one of a late-cycle environment (Figure 77). We expect the fourth quarter seasonal rally to fade, trigger a set of our high-frequency sell signals, and tactically favor pressing a bearish view into the early months of 2024. The crowding into a thin and shrinking subset of quality earnings plays is consistent with past late-cycle behavior, Small cap indexes in the US and global markets that have historically been more cyclically sensitive remain in well-entrenched medium-term bear trends, and cross-market signaling from the shape of the yield curve also favors the S&P 500 entering a bear market soon. The yield curve first inverted over 20 months ago. In past cycles, the index entered a bear market that eventually became associated with a recession in the 19-27-month window after initial curve inversion.

Tactically, we will keep our eyes open for a short-term reversal pattern to build confidence in a bearish bias heading into 2024. On a medium-term basis, the area just below 4200 is not only pivotal from a pattern perspective, but also from a positioning perspective, in our view. The zone marked range support into 2022, range resistance in 2H22 and early 2023, and range support this fall. Beyond the psychological and potential technical importance associated with that area via positioning that was entered nearby, the SPDR S&P 500 ETF 52-VWAP also sits in the same area. We've found the +/-3% zone surrounding that volume weighted average price to have acted as a bifurcation for the index (Figure 78). The area not only has acted as a key support or resistance level, but when crossed, our work shows that it has roughly aligned with volatility regime changes associated with the VIX Index traversing the 15-20 area. We expect the S&P 500 Index to violate that support in early 2024, implied volatility to expand as the sell off accelerates, and ultimately lead to a likely cycle bottom before midyear. We think the index can approach key longer-term support near 3500 as that happens and effectively retest the 4Q22 trough. Our view surrounding a potential cycle bottom in that area would strengthen if the yield curve aggressively bull steepens as the market moves toward key support.

Figure 77: While the S&P 500 Index held the key chart inflection surrounding the 4150-4200 area and the subsequent fourth quarter rebound put tactical bears on the back foot, we expect the rally to fade and remain on the lookout for short-term bearish signals from our systematic framework...

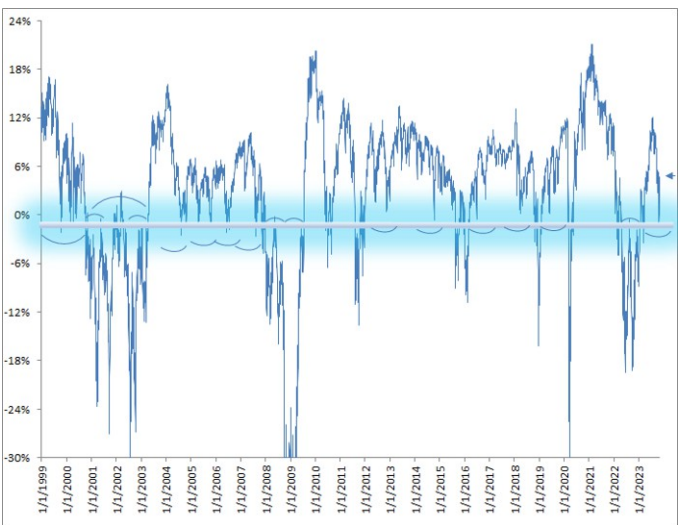
S&P 500 Index and momentum divergence signals, weekly bars



Source: J.P. Morgan, CQG

Figure 78: ...Given the growing month count since initial curve inversion and past cross-market lags that favors an equity bear market starting in the 19-27 month window, we think the index comes under pressure into the 1H24 and eventually breaks key pattern support. The move below that area will likely create a high-volatility regime

SPDR S&P 500 Index ETF relative to its 52-week VWAP



Source: J.P. Morgan

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