Equity Strategy

Q2 Preview: Consensus call for the EPS narrowing between the Mag-7 and rest might still be lacking

- Q2 reporting season is heating up. Activity was broadly better for the quarter, sequentially, pointing to an improvement in earnings delivery - top chart. This, though, is to a good extent reflected in consensus estimates, where **Q2 EPS projections have not been cut as much entering this earnings season, as is usually the case** - middle chart. Typical cuts to projections in the 3 months ahead of the results are 5%, vs current 1%.
- Broadly, the analysts' implied Q1 to Q4 EPS acceleration of 15% for S&P500 is much higher than what is seen historically. For Q2 specifically, S&P500 is expected by consensus to deliver 9% EPS yoy growth. At the same time, market is trading near highs, with full positioning and extreme concentration, suggesting that there is not much scope to absorb any disappointments.
- The recent weaker consumer dataflow, including a renewed rollover in consumer confidence, as well as continued weakness in China activity, are likely to result in companies having mixed guidance. There has been a **raft of profit warnings in consumer space in the past weeks**, with poor stock reaction, but also in other areas.
- At a regional level, while hurdle rate at face value appears much less challenging in Europe, with SXXP Q2 EPS growth projected at 0% yoy, the median expectations are in fact higher than for the US. **We remain unexcited about Eurozone equities**, in contrast to consensus, but on the positive side we note that they are not stretched, as SX5E has been consolidating already since March, and US PMI trends appear to be softening vs Europe.
- At a sector level, Mag-7 EPS growth projections remain punchy, but are set to decelerate somewhat. SPX ex Mag-7 earnings are projected to be positive at +5% y/y, for the first time in 5 quarters. However, **we note that the convergence in the earnings delivery was the expectation in each of the last 5 reporting seasons, but the end result was always a bigger positive surprise for Mag-7 than for the rest of the market** - bottom chart. This could be the case in the current reporting season, yet again. Within Tech, we reiterate the call from last month to move away from hardware/semis, and into software, on lower yields, on geopolitical uncertainty and given strong past outperformance of Semis.
- Defensives are projected to come in stronger than Cyclicals in both the US and in Europe. In the US, Q1 '24 was the first quarter since Q4 '20 that Cyclicals EPS growth was weaker vs Defensives. Added to our call for falling bond yields, the improving relative EPS trends for Defensives are helping the lower beta leadership, seen in the market in the past months.
- With respect to the small vs large caps angle, even though we think that broadening in earnings beyond Mag-7 could still underwhelm, there could be a change in the small vs large caps earnings trends. The potential earnings inflection should be an additional support to **our upgrade of UK and Eurozone small caps that we did last month – see June Chartbook**, after having a 2.5 year long preference for large vs small caps.

Equity Strategy

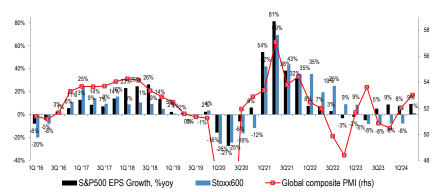
Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com
J.P. Morgan Securities plc

Prabhav Bhadani, CFA
(44-20) 7742-4404
prabhav.bhadani@jpmorgan.com
J.P. Morgan Securities plc

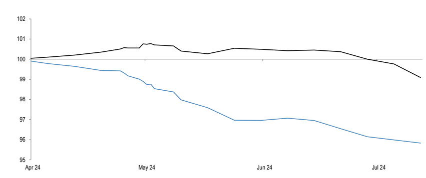
Nitya Saldanha, CFA
(44 20) 7742 9986
nitya.saldanha@jpmchase.com
J.P. Morgan Securities plc

Karishma Manpuria, CFA
(91-22) 6157-4115
karishma.manpuria@jpmchase.com
J.P. Morgan India Private Limited

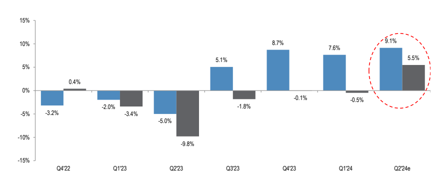
Activity momentum points to a pickup in earnings, suggesting some beats are likely...



...having said that, the tolerance for dissapointments is small, as downgrades into the results were lower than normal



The consensus is yet again betting on the convergence in earnings between Mag-7 and the rest, but that was disappointed on each of the past 5 occasions



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

See page 29 for analyst certification and important disclosures, including non-US analyst disclosures.

Mislav Matejka, CFA [AC]
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

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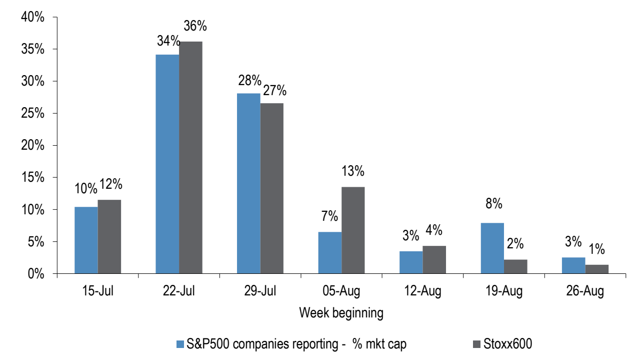
Mislav Matejka, CFA [AC]
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

Q2 Preview: Consensus call for the EPS narrowing between the Mag-7 and rest might still be lacking

Q2 earnings season has started

Figure 1: Q2' 24 Earnings calendar



Source: Bloomberg Finance L.P.

We are entering the busiest weeks of the Q2 reporting season. Over 60% of S&P500 and Stoxx600 market cap is scheduled to report in the coming two weeks.

Improving activity momentum in Q2 points to a sequential pickup in earnings growth...

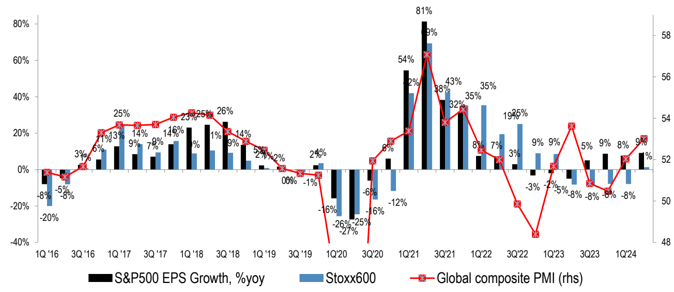
Table 1: The progression of key regional activity indicators

	1Q '23	2Q '23	3Q '23	4Q '23	1Q'24	2Q'24
Real GDP, % oya						
US	1.7%	2.4%	2.9%	3.1%	2.9%	2.9%
Euro Area	1.3%	0.6%	0.2%	0.2%	0.4%	0.6%
Japan	2.4%	2.2%	1.5%	1.2%	-0.3%	-0.9%
EM	3.5%	4.5%	4.3%	4.6%	4.4%	4.7%
IP, %oya						
US	-0.1%	-0.7%	-0.8%	-0.4%	-0.7%	-0.7%
Euro Area	0.8%	-1.2%	-4.6%	-3.5%	-4.7%	-2.8%
Japan	-1.8%	0.8%	-3.6%	-0.9%	-4.3%	-1.7%
PMI Composite						
US	49.7	53.6	50.8	50.8	52.2	53.5
Euro Area	52.0	52.3	47.5	47.2	49.1	51.6
Japan	51.6	53.1	52.3	50.0	51.3	51.5
EM	53.5	54.6	52.5	52.1	53.5	53.8
German IFO	92.8	91.5	86.1	85.6	85.3	88.8
CPI, %oya						
US	5.7%	4.0%	3.6%	3.2%	3.2%	3.2%
Euro Area	8.0%	6.2%	4.8%	2.7%	2.6%	2.5%
Japan	3.6%	3.3%	3.2%	2.9%	2.6%	2.7%
EM	5.4%	3.5%	3.8%	3.7%	3.7%	4.0%
Consumer Sentiment						
US	64.6	62.3	69.6	64.9	78.4	71.5
Euro Area	-19.6	-17.0	-16.3	-16.6	-15.5	-14.3
Japan	31.7	35.6	35.7	35.9	38.1	36.9
Unemployment rate, %						
US	3.5	3.6	3.7	3.8	3.8	4.0
Euro Area	6.6	6.5	6.6	6.5	6.5	6.4
Japan	2.6	2.6	2.6	2.5	2.5	2.6

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

Activity momentum broadly firmed up during the quarter, with PMIs in all regions seeing better prints vs Q1.

Figure 2: US and European quarterly EPS growth and PMI

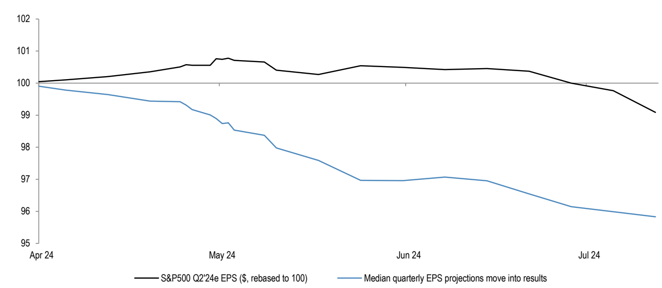


Source: Bloomberg Finance L.P., J.P.Morgan, S&PGlobal

This points to a sequential improvement in earnings growth. While consensus estimates for the US are in line with the uptick in activity momentum, projections for Q2 EPS growth in Europe are still lagging.

The hurdle rate appears to have been downgraded by less this time around, though...

Figure 3: The move in S&P500 Blended Q2'24 EPS projections over the last 3 months, and typical

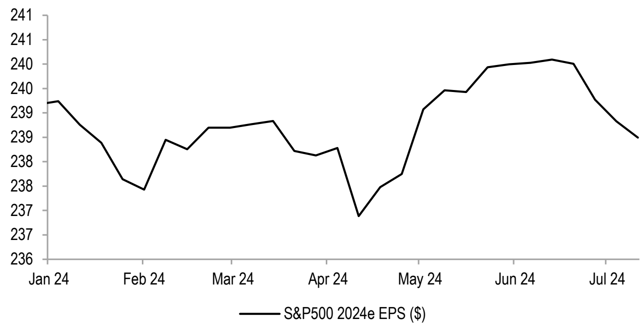


Source: Thomson Reuters

S&P500 Q2 '24 blended EPS has fallen by only 1% since April. This is fairly unusual, given that the average downgrades entering the past earnings seasons were 4.5%.

Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

Figure 4: S&P500 2024e EPS change ytd



Source: IBES

Earnings projections for 2024 are also flat on the year.

...the consensus expects earnings to accelerate this year, by much more than what is typically seen

Figure 5: S&P500 quarterly EPS levels for different quarters

Source: Thomson Reuters

For the rest of this year, earnings are projected to increase by 15% between Q1 to Q4. This is too aggressive in our view, particularly if growth indicators continue to falter.

Table 2: The change in S&P500 EPS between Q1 and Q4 in a year

	1Q	2Q	3Q	4Q	4Q vs 1Q
2010	19.7	21.5	21.8	22.6	14%
2011	23.5	24.1	25.7	24.6	4%
2012	25.6	25.8	26.0	26.3	3%
2013	26.7	27.4	27.6	28.6	7%
2014	28.2	30.1	30.0	30.5	8%
2015	28.6	30.1	30.0	29.5	3%
2016	27.0	29.6	31.2	31.3	16%
2017	30.9	32.6	33.5	36.0	17%
2018	38.1	41.0	42.7	41.2	8%
2019	39.2	41.3	42.1	42.0	7%
2020	33.1	28.0	38.7	42.6	29%
2021	49.1	52.6	53.7	54.0	10%
2022	54.8	57.6	56.0	53.2	-3%
2023	53.1	54.3	58.4	57.2	8%
2024e	56.6	58.7	63.0	65.2	15%
Average					10%
Median					8%

Source: Thomson Reuters

Indeed, the current 15% projection is well above the 8% median growth seen historically for Q4 EPS compared to Q1.

Table 3: Q2 '24e EPS Growth for key regions

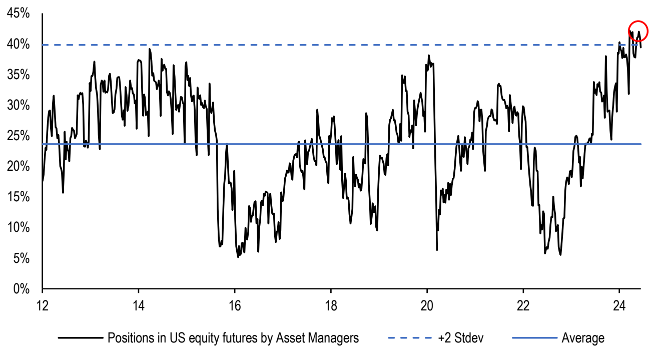
	Q2 '24e EPS growth, %y/y			
	US	**Europe**	**Eurozone**	**Japan**
Energy	0%	-10%	-6%	15%
Materials	-11%	12%	17%	-16%
Industrials	-5%	-2%	1%	8%
Discretionary	7%	10%	12%	4%
Staples	0%	-1%	-4%	-6%
Financials	12%	2%	11%	5%
Health Care	15%	1%	-8%	-7%
IT	17%	-1%	-7%	11%
Com. Services	20%	28%	31%	2%
Utilities	5%	9%	10%	-55%
Real Estate	-9%	5%	-4%	-4%
Market	**9%**	**1%**	**6%**	**-3%**
Market Ex-Financials	**9%**	**1%**	**2%**	**-4%**
Market Ex-Energy	**10%**	**3%**	**8%**	**-3%**
Cyclicals	**7%**	**2%**	**6%**	**4%**
Defensives	**12%**	**5%**	**5%**	**-19%**
Value	**9%**	**-1%**	**7%**	**7%**
Growth	**13%**	**1%**	**-8%**	**0%**

Source: : J.P.Morgan, Datastream

The Q2 '24 hurdle rate appears fairly high for the US, at +9% y/y, though it looks more manageable in Europe, at +1%y/y.

Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

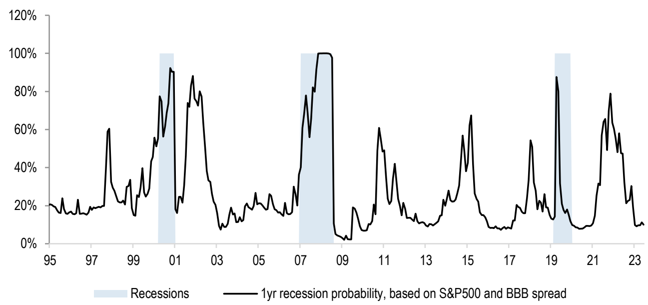
Figure 6: Positions in US Equity futures by Asset Managers



Source: J.P. Morgan Flows & Liquidity Team

At the same time, market is trading near highs, and positioning is stretched, leaving little room to absorb any disappointments.

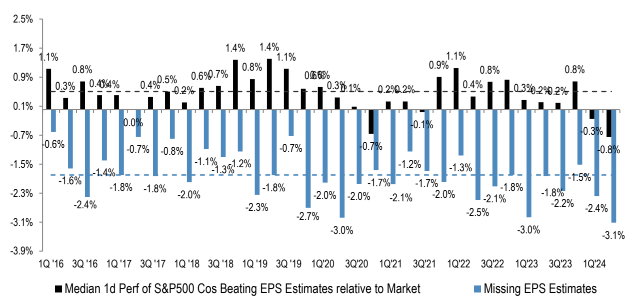
Figure 7: Recession probability indicator



Source: J.P. Morgan

There are clear signs of complacency with respect to the economic and market outlook, evident among forecasters and investors, where implied recession odds are at record lows.

Figure 8: Median 1 day performance of S&P500 companies beating and missing EPS estimates



Source: Bloomberg Finance L.P.

Notably, taking into consideration the 10% of S&P500 companies that have reported so far, stocks that are missing EPS estimates are being penalized more than usual.

Table 4: US 2Q '24 earnings so far

	SPX
% cos reported	10%
% cos beating EPS	82%
EPS %y/y	8%
% cos beating Sales	45%
Sales %y/y	9%

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

For the 10% of S&P500 companies that have reported, Q2 EPS growth is coming out at +8% y/y.

Table 5: Q2 '24e Sales Growth for key regions

	Q2 '24e Sales growth, %y/y			
	US	**Europe**	**Eurozone**	**Japan**
Energy	6%	4%	5%	3%
Materials	-2%	-2%	-3%	5%
Industrials	-1%	3%	2%	5%
Discretionary	4%	0%	-1%	7%
Staples	1%	2%	3%	6%
Financials	2%	5%	5%	-9%
Health Care	6%	0%	3%	5%
IT	10%	-2%	-2%	4%
Com. Services	7%	1%	0%	2%
Utilities	5%	6%	6%	-7%
Real Estate	7%	10%	9%	8%
Market	**4%**	**2%**	**2%**	**4%**
Market Ex-Financials	**5%**	**1%**	**1%**	**5%**
Market Ex-Energy	**4%**	**2%**	**1%**	**4%**
Cyclicals	**4%**	**0%**	**0%**	**6%**
Defensives	**5%**	**2%**	**3%**	**2%**
Value	**4%**	**5%**	**5%**	**-4%**
Growth	**6%**	**0%**	**2%**	**5%**

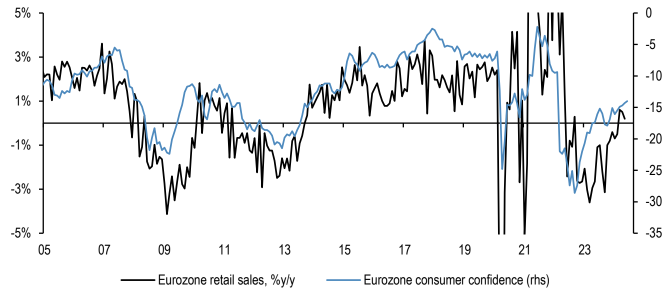
Source: J.P.Morgan , Datastream

Consensus sales expectations for the quarter stand at +4% y/y in the US, and +2% y/y in Europe.

Recent consumer weakness could weigh on guidance… there have been a number of profit warnings already

Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

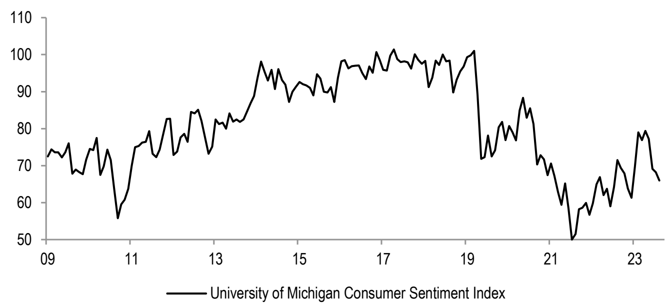
Figure 9: Eurozone retail sales and consumer confidence



Source: Bloomberg Finance L.P.

While we have some sympathy with the view that European consumer could do better this year, given the softness last year and given the improvement in real disposable incomes, our concern is that this should not be generalized.

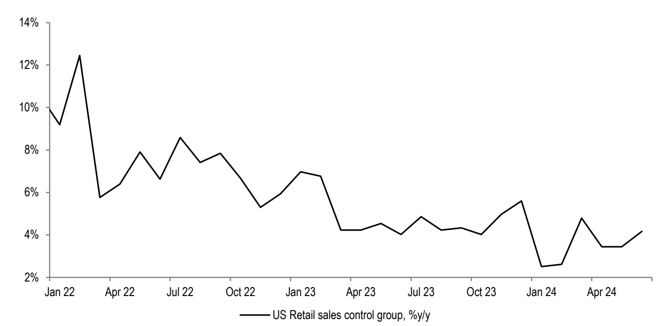
Figure 10: University of Michigan Consumer Sentiment Index



Source: Bloomberg Finance L.P.

For the US consumer, a number of indicators are starting to soften.

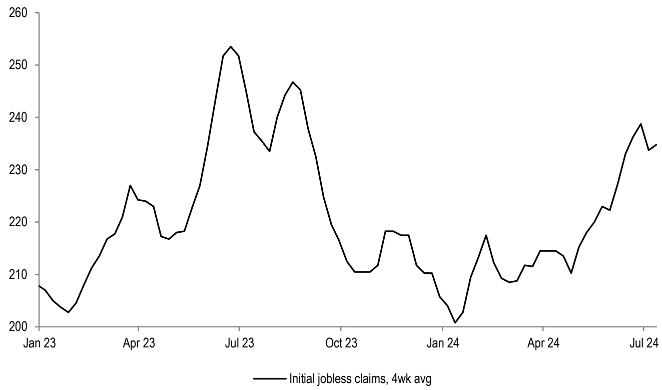
Figure 11: US Retail sales control group



Source: Bloomberg Finance L.P.

While the latest US retail sales print was better, consumer activity is still on a downtrend, post the strong reopening drive.

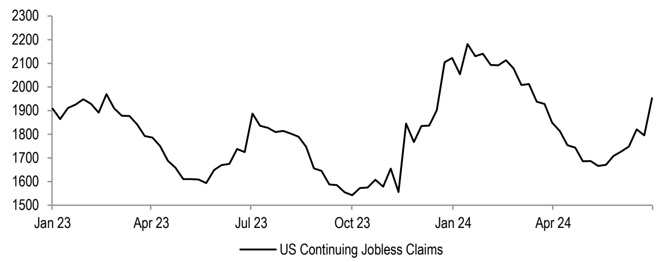
Figure 12: Initial jobless claims



Source: Bloomberg Finance L.P.

Initial jobless claims have been trending higher in the US.

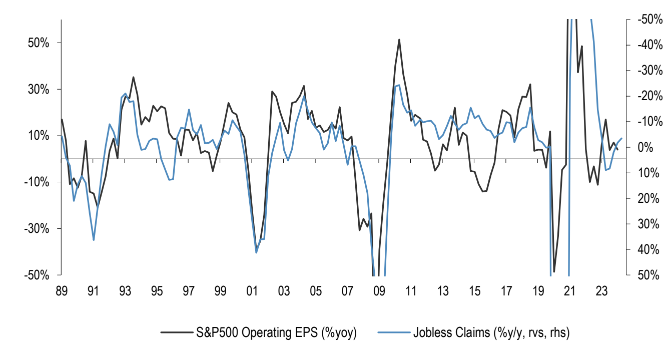
Figure 13: US Continuing Jobless claims



Source: Bloomberg Finance L.P.

Continuing claims have been moving up, too.

Figure 14: US jobless claims and S&P500 operating EPS

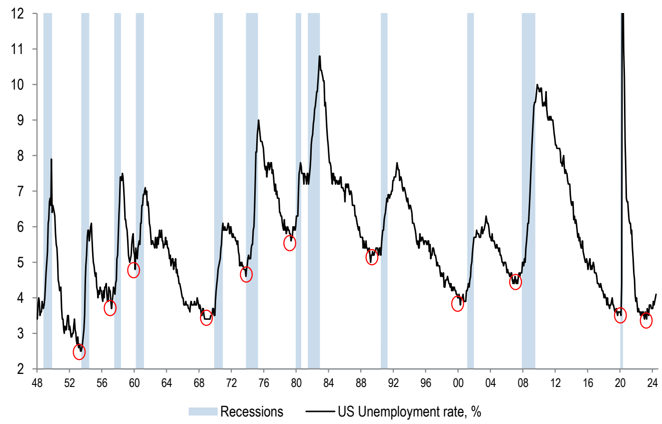


Source: Bloomberg Finance L.P., S&P500

Historically, rising jobless claims are associated with weakening earnings growth.

Mislav Matejka, CFA [AC]
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

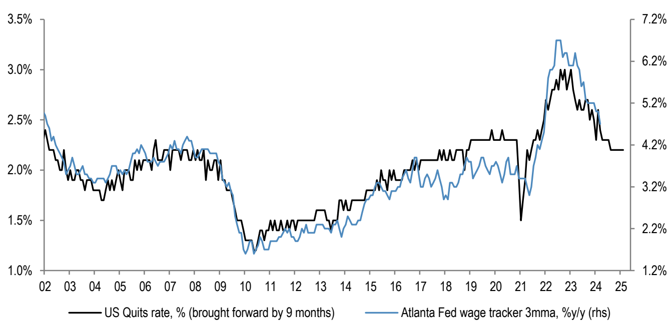
Figure 15: US unemployment rate



Source: Bloomberg Finance L.P.

Unemployment rate has been moving higher of late, which was typically a sign of a downturn.

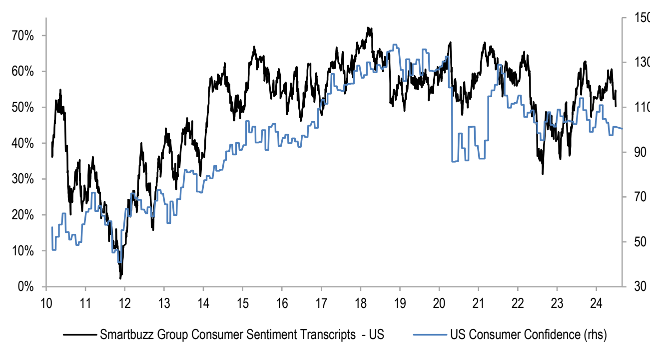
Figure 16: US Quits rate and Atlanta Fed wage tracker



Source: Bloomberg Finance L.P.

The downshift in number of employees quitting in the US is consistent with slower pace of wage growth going forward, and thereby slowing in consumer spend.

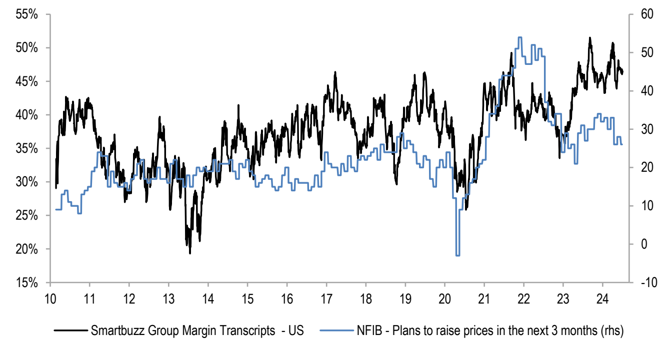
Figure 17: Smartbuzz Group Consumer Sentiment - US and US Consumer Confidence



Source: Bloomberg Finance L.P., Smartbuzz

The JPM Smartbuzz tool that uses an NLP framework to track market themes from earnings call transcripts shows US corporate sentiment on the consumer strength is starting to roll over, and is consistent with the weakening consumer confidence survey.

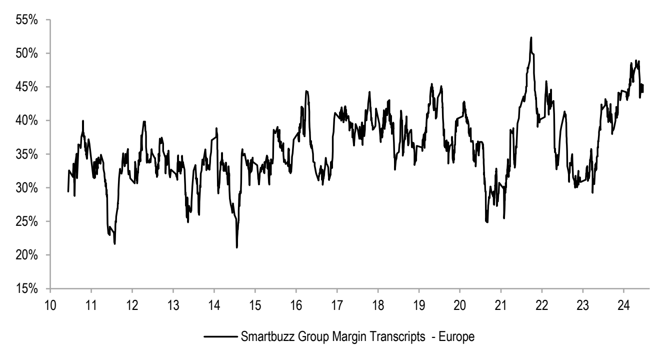
Figure 18: Smartbuzz Group Margin - US and NFIB - Plans to raise prices in next 3 months



Source: Bloomberg Finance L.P., Smartbuzz

US corporate sentiment on margins is also likely to move lower through the upcoming earnings season, in our view, driven by the combination of weaker consumer and the roll-over in pricing power.

Figure 19: Smartbuzz Group Margin - Europe

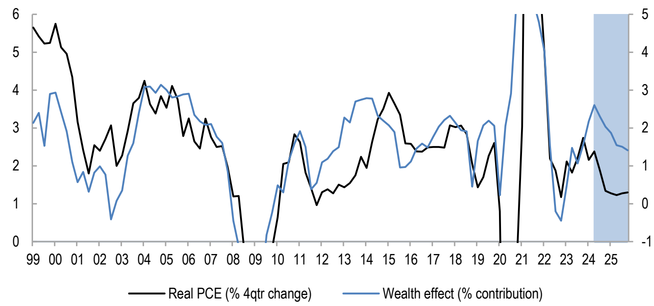


Source: J.P. Morgan, Smartbuzz

This is true for Europe, as well.

Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

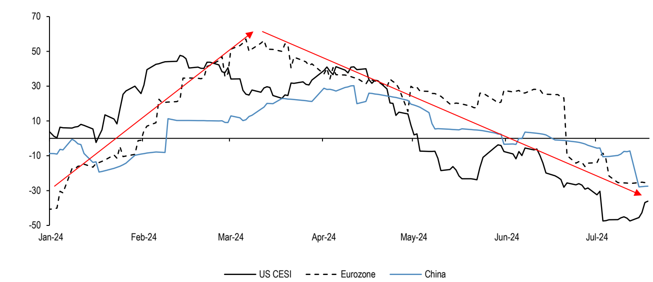
Figure 20: US real spending and wealth effects



Source: J.P. Morgan.

Notably, while our economists remain more positive on the consumer, they project support to spending from the improving 'wealth effect', which has been a major driver of consumer strength post-pandemic, to fade.

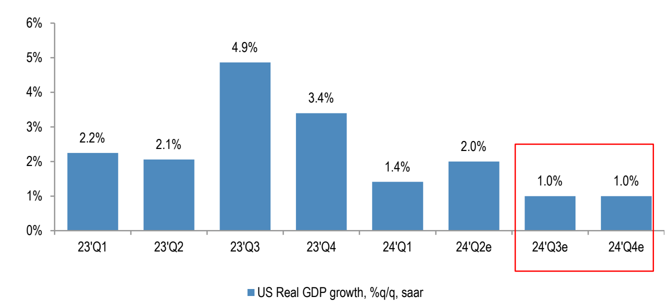
Figure 21: Key regions CESI



Source: Bloomberg Finance L.P.

In addition to the softening in labour market indicators, activity momentum is showing signs of cracking, too. Economic surprise indices have moved into negative territory across key regions in the past months.

Figure 22: JPM US Real GDP growth projections



Source: J.P. Morgan.

Our economists project a slowdown in growth momentum in the US in 2H of this year, which is also likely to put pressure on corporate profitability.

Table 6: Chinese data watch

	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Manufacturing PMI													
Caixan	50.5	49.2	51.0	50.6	49.5	50.7	50.8	50.8	50.9	51.1	51.4	51.7	51.8
NBS	49.0	49.3	49.7	50.2	49.5	49.4	49.0	49.2	49.1	50.8	50.4	49.5	49.5
Services PMI													
Caixan	53.9	54.1	51.8	50.2	50.4	51.5	52.9	52.7	52.5	52.7	52.5	54.0	51.2
NBS	53.2	51.5	51.0	51.7	50.6	50.2	50.4	50.7	51.4	53.0	51.2	51.1	50.5
Composite PMI - Caixan	52.5	51.9	51.7	50.9	50.0	51.6	52.6	52.5	52.5	52.7	52.8	54.1	52.8
Industry													
Electricity Production, %oya	2.8%	3.6%	1.1%	7.7%	5.2%	8.4%	8.0%	-	-	2.8%	3.1%	2.3%	2.3%
IP, %oya	4.4%	3.7%	4.5%	4.5%	4.6%	6.6%	6.8%	-	-	4.5%	6.7%	5.6%	5.3%
FAI, %oya	3.8%	3.4%	3.2%	3.1%	2.9%	2.9%	3.0%	-	4.2%	4.5%	4.2%	4.0%	3.9%
Consumer Activity													
Retail Sales, %oya	3.1%	2.5%	4.6%	5.5%	7.6%	10.1%	7.4%	-	-	3.1%	2.3%	3.7%	2.0%
Passenger Car Sales, %yoy	2.1%	-3.4%	6.9%	6.7%	11.5%	25.5%	23.3%	44.0%	-19.4%	10.9%	10.5%	1.2%	-2.3%
70-city house price index, %oya	-0.4%	-0.6%	-0.6%	-0.6%	-0.6%	-0.7%	-0.9%	-1.2%	-1.9%	-2.7%	-3.5%	-4.3%	
Liquidity & Monetary Conditions													
M2, %oya	11.3%	10.7%	10.6%	10.3%	10.3%	10.0%	9.7%	8.7%	8.7%	8.3%	7.2%	7.0%	6.2%
FX Reserves (bln yuan)	3193	3204	3160	3115	3101	3172	3238	3219	3226	3246	3201	3232	3222
New Loan Creation (bln yuan)	3050	346	1358	2312	738	1089	1171	4914	1456	3089	731	945	2126

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

Recent weakness in China activity is likely to impact European earnings, given their sizeable revenue exposure to the region.

Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

Table 7: Profit warnings this quarter

Company Name	Company Ticker	Commentary	Date	1Day Perf relative to market, %	Sector
YOUGOV PLC	YOU LN	YouGov shares plunge after polling and data analytics group warned that annual profits would fall short of forecasts	20 Jun	-47.2%	Communication Services
SIG PLC	SHI LN	SIG profit warns due to challenging market conditions	24 Jun	-5.8%	Industrials
AIRBUS SE	AIR FP	Airbus shares fall as plane maker cuts profit forecast as its supply chain disruptions worsened	25 Jun	-9.2%	Industrials
POOL CORP	POOL US	Pool shares slump after swimming pool supplies distributor slashes earnings forecast citing challenges in discretionary parts of its business amid cautious consumer spending	25 Jun	-8.4%	Discretionary
SOUTHWEST AIRLINES CO	LUV US	Southwest Air cuts revenue outlook as CEO fends off activist	26 Jun	-0.4%	Industrials
WALGREENS BOOTS ALLIANCE INC	WBA US	Walgreens shares plunge on outlook cut and more stores closings in continued challenging environment	27 Jun	-22.2%	Staples
HENNES & MAURITZ AB-B SHS	HMB SS	H&M profit warns due to a challenging macro environment that will influence purchasing costs and sales revenues	27 Jun	-12.5%	Discretionary
NIKE INC -CL B	NKE US	Nike tumbles after warning that it expects sales to drop 10% during its current quarter	28 Jun	-19.6%	Discretionary
AIR FRANCE-KLM	AF FP	Air France expects revenue and profit hit as fliers avoid Paris Olympics	01 Jul	-1.9%	Industrials
NANOCO GROUP PLC	NANO LN	Nanoco Group profit warns because of order delay	02 Jul	-24.3%	IT
NORWEGIAN AIR SHUTTLE AS	NAS NO	Norwegian Air shares slide after the carrier cut its EBIT outlook, citing highter costs, softer traffic demand and aircraft delivery delays from Boeing.	04 Jul	-17.0%	Industrials
DASSAULT SYSTEMES SE	DSY FP	Dassault profit warns as transaction delays hit second quarter	09 Jul	-4.2%	IT
INDIVIOR PLC	INDV LN	Indivor shares slump as the company cut its full year guidance blaming adverse market dynamics	09 Jul	-35.3%	Health Care
PAGEGROUP PLC	PAGE LN	Pagegroup profit warns due to tougher hiring market	09 Jul	-3.3%	Industrials
VOLKSWAGEN AG-PREF	VOW3 GY	Volkswagen shares slipped after an overnight profit warning triggered in part by the possible closure of an Audi plant and 3.8% drop in second quarter sales dented by China	10 Jul	-1.2%	Discretionary
DEUTSCHE LUFTHANSA-REG	LHA GY	Deutsche Lufthansa profit warns as it is becoming increasingly challenging for the airline as it contends with negative market trends and aircraft delivery delays	12 Jul	-0.1%	Discretionary
TOPDANMARK A/S	TOP DC	Topdanmark profit warns as its profit forecast for the year after booking one time costs related to IT seperation segment with Nordea	12 Jul	-0.6%	Consumer Discretionary
HUGO BOSS AG -ORD	BOSS GY	Hugo boss profit warns due to ongoing implications on global consumer sentiment, which are likely to weigh on industry growth	15 Jul	-1.9%	Discretionary
AUTONATION INC	AN US	AutoNation issues profit warning after disruptions from CDK cyberattack	15 Jul	1.7%	Discretionary
BURBERRY GROUP PLC	BRBY LN	Burberry profit warns due to luxury market proving to be more challenging led by weak demand from Chinese consumers	15 Jul	-15.2%	Discretionary
LINDEX GROUP OYJ	LINDEX FH	Lindex profit warns on fashion market volatility	15 Jul	-6.3%	Discretionary
SWATCH GROUP AG/THE-BR	UHR SW	Swatch profit warns due to decline in sales triggered by sharp drop in demand for luxury goods in China	15 Jul	-8.8%	Discretionary
SPIRIT AIRLINES INC	SAVE US	Spirit airlines drops after discount airline warning that its quarterly loss will be bigger than expected on weaker fee revenue	16 Jul	2.3%	Discretionary
SCOR SE	SCR FP	Scor shares tumble after the French reinsurer issued a profit warning for it life and health business	16 Jul	-24.3%	Discretionary
LESLIE'S INC	LESL US	Leslie outlook cut citing weak product market	17 Jul	1.1%	Discretionary
UNITED AIRLINES HOLDINGS INC	UAL US	United airlines forecast a lower than expected profit in current quarter and announced plans to cut capacity	18 Jul	0.0%	Industrials

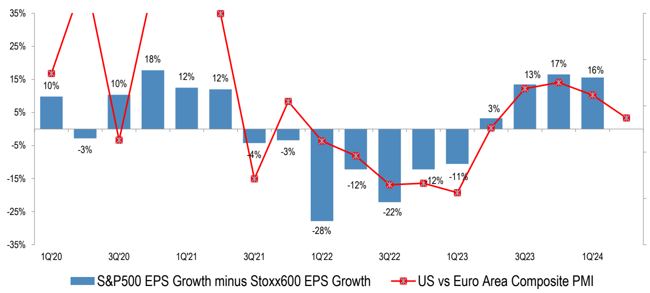
Source: Bloomberg Finance L.P.

The warnings are not limited to consumer, but other sectors have been warning too.

Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

At a regional level, at face value hurdle rate appears less challenging in Europe

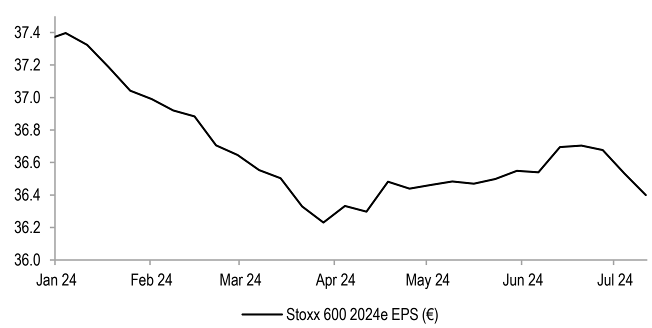
Figure 23: US vs Europe EPS Growth vs PMI



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

At a regional level, the rollover in relative activity momentum, combined with the easier hurdle rate for Europe, points to improving earnings delivery in Europe relative to the US.

Figure 24: Stoxx 600 2024e EPS change ytd



Source: IBES

European 2024 EPS projections have been downgraded by 3% so far this year.

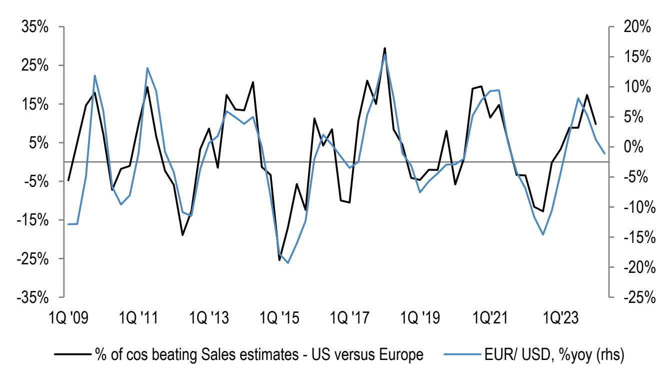
Table 8: Q2 '24e Median EPS growth for US and Europe, %y/y

Q2 '24e Median EPS growth, %y/y	US	Europe
Energy	7%	-6%
Materials	4%	0%
Industrials	6%	1%
Discretionary	0%	9%
Staples	-1%	1%
Financials	9%	5%
Health Care	1%	0%
IT	4%	1%
Com. Services	2%	15%
Utilities	12%	8%
Real Estate	-2%	5%
Market	**4%**	**5%**
Cyclicals	**4%**	**3%**
Defensives	**3%**	**7%**

Source: Datastream, J.P.Morgan

While at face value, European EPS is below the US, the median expectations for Q2 EPS growth is a little lower for Europe than for the US.

Figure 25: % of cos beating Sales estimates in US vs Europe and EUR/USD



Source: Bloomberg Finance L.P.

FX trends also point to favourable sales beats in Europe vs US.

Mislav Matejka, CFA [AC]
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

Figure 26: MSCI Eurozone vs US relative performance

Source: Datastream

In contrast to consensus, which turned bullish on Eurozone earlier in the year, and for now continue with this stance, we believe that Eurozone is unlikely to outperform the US. On a positive note, the region is much less stretched than the US entering the Q2 reporting season.

At a sector level, consensus expectations are for a convergence in earnings delivery between Mag-7 and rest of the market...

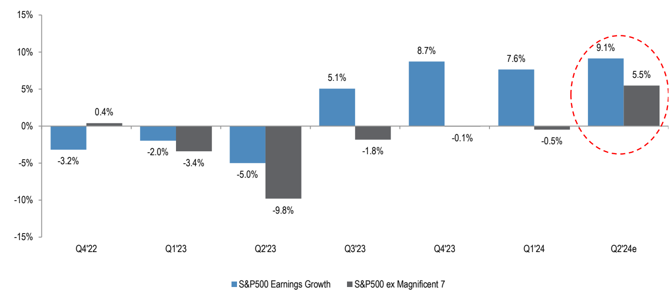
Table 9: Earnings growth for Magnificent 7 companies and S&P500 ex Magnificent 7

Earnings Growth	Q1' 24	Q2 '24e
Alphabet	57%	26%
Amazon	231%	59%
Apple	-2%	3%
Meta Platforms	111%	56%
Microsoft	20%	9%
Nvidia	468%	134%
Tesla	-47%	-31%
Magnificent 7	53%	29%
SPX	8%	9%
SPX ex Magnificent 7	0%	5%

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

Mag-7 stocks have been the main contributor to S&P500 earnings growth for a while, and are yet again expected to deliver elevated earnings growth for Q2 at +29% y/y. This is down from +53% y/y since last quarter.

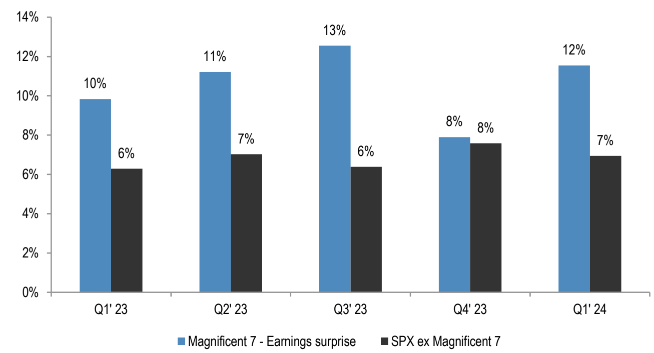
Figure 27: S&P500 and S&P500 ex Magnificent 7 earnings growth, %y/y



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

Excluding this group, S&P500 EPS growth was negative in each of the last 5 quarters. Consensus projections are for a broadening in earnings delivery this quarter, expecting S&P500 ex Mag-7 to come in positive for the first time since 2022.

Figure 28: Mag-7 and S&P500 ex Mag 7 Earnings surprise

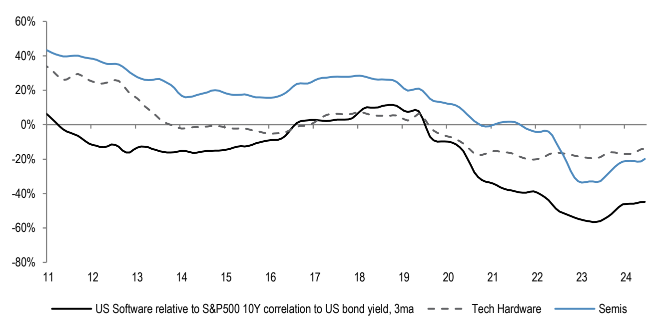


Source: Bloomberg Finance L.P., J.P. Morgan

In each of the past 5 quarters, Mag-7 stocks delivered bigger earnings surprises than the rest of the market.

...within Tech, we recommended last month to rotate from Hardware/Semis into Software

Figure 29: Tech subsectors correlation to US 10Y bond yield

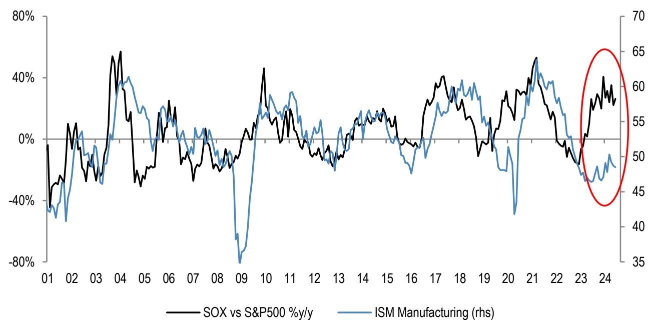


Source: Bloomberg Finance L.P., Datastream

Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

Within Tech, we recommended to move away from Hardware/Semis and into Software. Software sector is best placed to benefit from lower bond yields, in our view.

Figure 30: SOX relative and ISM

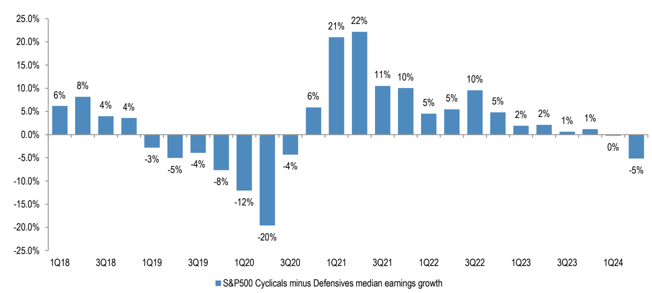


Source: Bloomberg Finance L.P., J.P. Morgan

SOX index is geared to activity momentum, but a substantial gap has opened up in the last quarters. On top of this, the latest ISM manufacturing print moved lower again pointing to downside risk for semis.

Defensives are projected to come in stronger than Cyclicals

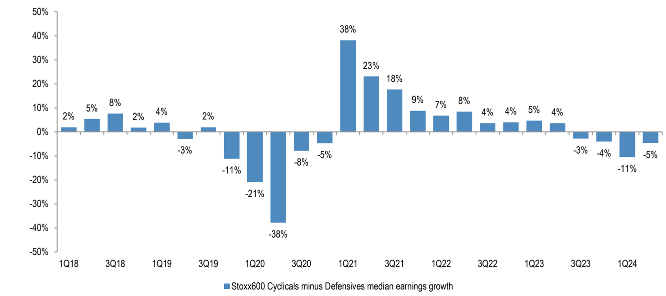
Figure 31: S&P500 Cyclicals vs Defensives median earnings growth



Source: J.P. Morgan, Bloomberg Finance L.P. *Includes Q2 projections

Q1 '24 marked the first quarter since 2020 that S&P500 median earnings growth for Cyclicals underwhelmed vs Defensives. This trend is likely to continue for Q2, in our view.

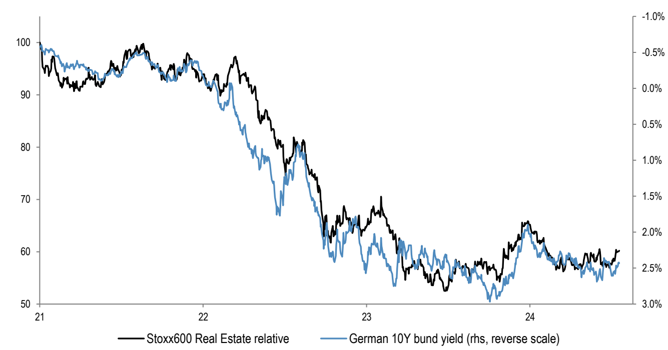
Figure 32: Stoxx600 Cyclicals vs Defensives median earnings growth



Source: J.P. Morgan, Bloomberg Finance L.P. * Includes Q2 projections

In Europe, Cyclicals have been weaker for some time now; Cyclicals vs Defensives median EPS growth projected to stay negative in Q2.

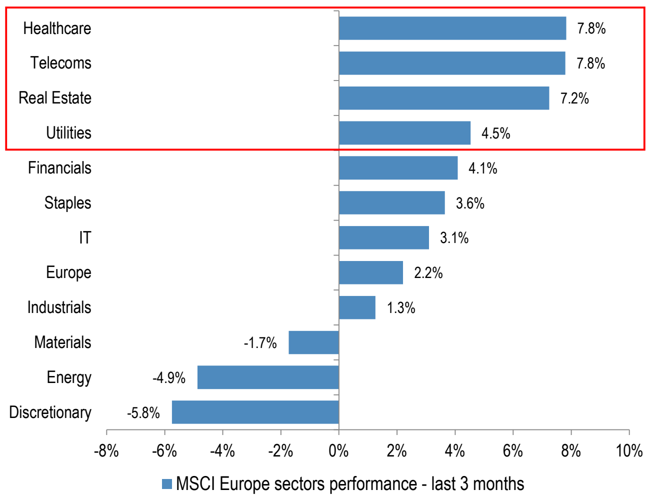
Figure 33: Stoxx 600 Real Estate relative and German 10Y bond yield



Source: Bloomberg Finance L.P.

In April, we argued to add to bond-proxy Defensive sectors like Utilities and Real Estate, on a likely move lower in bond yields.

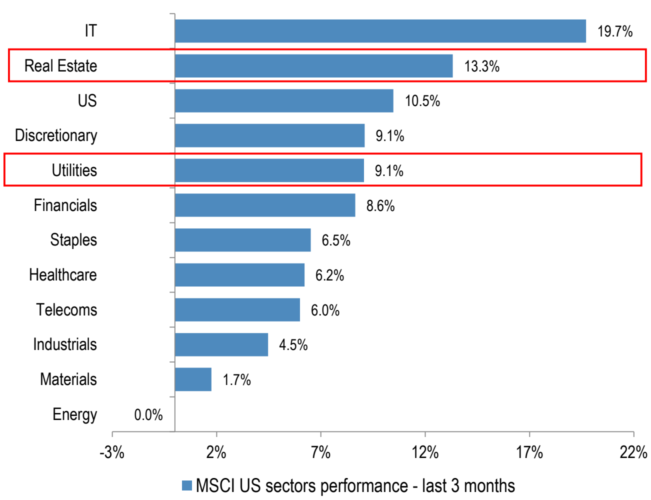
Figure 34: MSCI Europe sectors performance - last 3 months



Source: Datastream

Encouragingly, there has been a turn in performance in the last months, with Defensive sectors catching a bid.

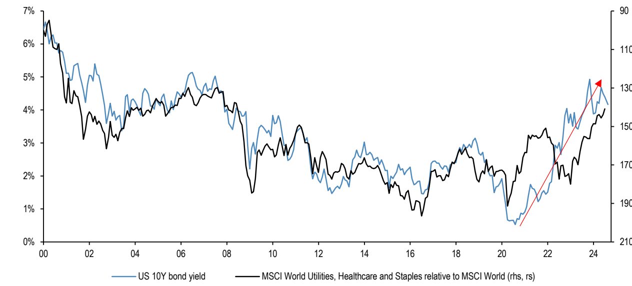
Figure 35: MSCI US sectors performance - last 3 months



Source: Datastream

In the US too, Real Estate and Utilities are up meaningfully in the last 3 months, seeing a big swing post being the worst performing sectors in Q1.

Figure 36: MSCI World Defensives relative and US10Y bond yields

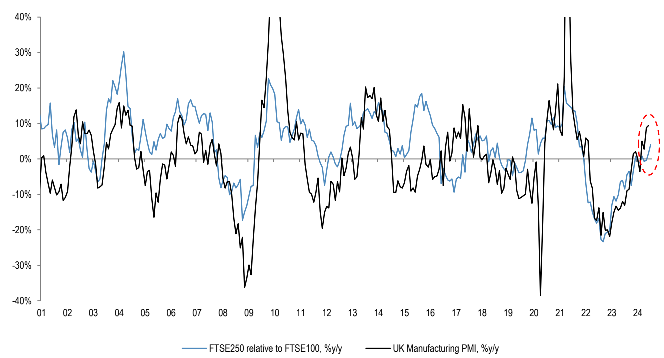


Source: Datastream

If bond yields give back some of their strong up move over the last few years, Defensive sectors are likely to fare better.

We called last month for Small caps to start trading better than Large caps in UK and Eurozone

Figure 37: FTSE250 relative to FTSE100 and UK Manufacturing PMI

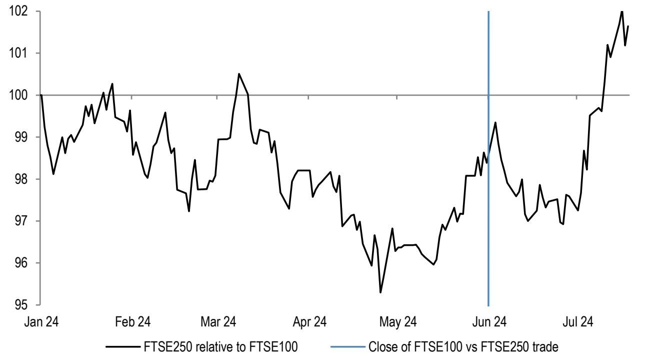


Source: Datastream, J.P. Morgan

We have been UW UK small caps for the last 2.5 years, and have recently reversed the trade. Domestic activity momentum is a key driver of small vs large cap performance. The recent improvement in UK manufacturing PMI should translate into better earnings and performance for FTSE250 relative to FTSE100.

Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

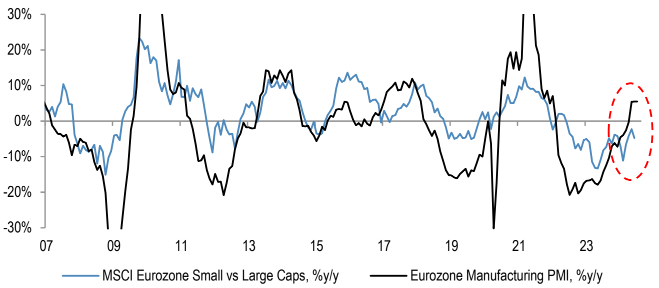
Figure 38: FTSE250 relative to FTSE100 ytd



Source: Datastream

Encouragingly, FTSE250 has started to move above FTSE100 in the last few weeks.

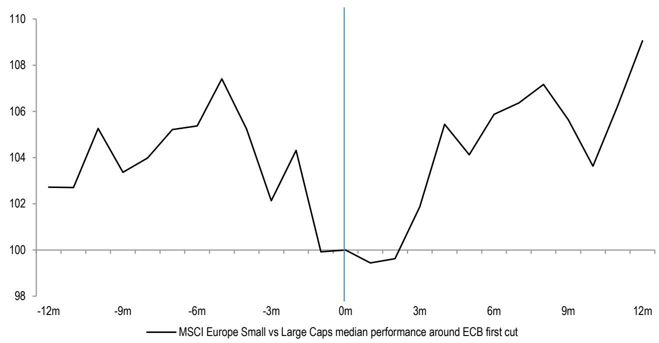
Figure 39: Eurozone small vs large caps and Eurozone manufacturing PMI



Source: Datastream, J.P. Morgan

Eurozone small vs large caps are also likely to fare better on the back of the improvement in PMIs.

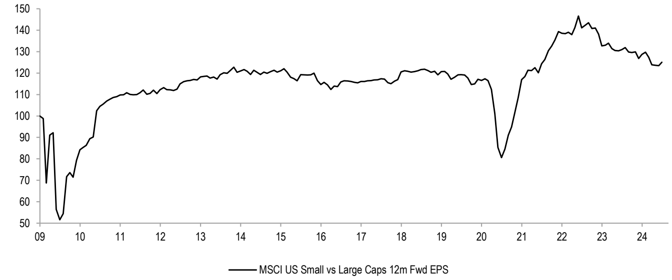
Figure 40: MSCI Europe Small vs large cap performance around ECB first cut



Source: Datastream

European small caps tend to outperform large caps post the start of rate cut cycle.

Figure 41: MSCI US Small vs Large Caps 12m Fwd EPS



Source: Datastream

Small vs large caps earnings in the US have been trending lower for the last 3 years.

Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

Table 10: Q2 earnings preview commentary by sector analysts

Sector	(+) / (-)	Comments
Energy	(+)	Sector analysts maintain a constructive buy the dips EU Oils thesis with near term oil price upside toward $90/bbl Brent (JPM Commodities 3Q inventory draw >1mb/d, rising risk premium) and 'committed' cash breakevens firmly 'in-the-money' at $50-55/boe post capex/divs. This underpins attractive valuations; EPS expectations are well underpinned and a 11.1% 2024/25e base case FCF yield at $80/bbl rises >12% at $90. The re- emergence of MTM yields more firmly in double-digit % territory could prove a positive trigger by providing the additional 'cushion' against demand/macro risks. Q screens as solid but unspectacular. Lower refining and seasonal gas trading moderation are main deviations in sequential O&G conditions and 12M rolling EU Oils CFFO $165bn is >30% below 2022 peak but still top quartile vs. broader history. Their 2Q ideas preference gearing to (upstream) oil and bifurcation in messaging on 2H strategic execution. They suggest staying OW Shell for LNG upside, self-help momentum and are sellers of any notable strength in UW BP as underperformance leaves a balanced 2Q risk/reward. They recommend long Eni (JPM Positive Catalyst Watch) for oil gearing and emergent 2H+ degearing and short a step change in Equinor's re-gearing/falling TSR profile (Negative Catalyst Watch). In the midcaps, they would buy potential weakness in OW Repsol's upcoming trading statement (yield/restructuring) and stay away from UW Neste.
Chemicals	(+)/(-)	Most European chemical companies saw a good demand recovery, also above-seasonal in some cases, in 1Q24 from the very depressed 2H23 levels. This was driven by easing customer destocking (which had been a significant drag from 2H22 onwards) and possibly also modest restocking in select cases reflecting a slight improvement vs. 2H23 in macro indicators (manufacturing PMIs and the associated new orders to finished good ratio). The macro improvement since 2Q24 has slowed, if not stalled. This has meant that some modest improvement in the consensus earnings momentum which was seen post 1Q prints, hasn't yet translated into a broad-based upgrade cycle. If anything, sector analysts have seen further small downgrades to FY24 consensus for multiple companies reflecting a still slower and patchy demand environment from one month to the next. Given the current industry oversupply, especially in China, they note a stronger macro impulse will also be needed for pricing power to improve from the current trough levels across most commodity chemical segments. Overall, while they acknowledge that the broad-based earnings rebound in the sector is still taking longer than our expectations, they retain a positive bias on the sector given that valuations for most stocks remain below long-term levels even on a relatively depressed earnings base. Looking into 2Q, they tactically prefer exposure to stocks with more supportive near-term consensus earnings outlook - Solvay (OW, placed on Positive Catalyst Watch), Evonik (OW) and Novonesis (OW) - vs. the ones where they see a higher risk of material earnings downside risk - Wacker (N, recently placed on Negative Catalyst Watch) and DSM-Firmenich (UW).
Metals & Mining	(+)/(-)	European Metals & Mining has underperformed (SXXP) by 7% YTD and typical macro-economic drivers are muted for H2'24; JPM Economists predict ~4.5% China GDP growth and no significant stimulus, plus the US election in Q4 is likely to amplify macro uncertainty. Our sector analysts retain their OW on Anglo American but they now see significant risk to management's restructuring strategy due to a major fire at coal mine Grosvenor, which is likely to delay Anglo's imminent divestment of its Coal division. Rio Tinto's (OW) shares are vulnerable to seasonal downside risks for iron ore in Q3 but they believe its ~4.5x 2024/25E and 8% FCF yield already discounts ~$80/t iron ore ($110/t currently). They previously placed Norsk Hydro (OW) on Positive Catalyst Watch for Q2 results (23rd July) and our NOK 88 Dec'25 PT carries ~30% upside. They expect Boliden (Neutral) will miss Q2 net debt and FCF and expect Q2 EBITDA will be boosted by a SEK 2.4bn one-off insurance receipt.
Capital Goods	(+)/(-)	Sector analysts expect a Q2 trading backdrop largely unchanged from that of the Q1, see few surprises on the numbers, and forecast an average 2% miss on earnings. However, it is the outlook where they see a change, with a shift to a 'two-speed' demand backdrop; electrification and everything else. For the electricity value chain, including datacenters, they expect another strong quarter and any guidance upgrades will most likely come from the stocks with exposure here. Outside of electrification and specific outliers, chiefly Aerospace & Defence, the backdrop looks more mixed, consistent with manufacturing PMI momentum having clearly stalled and they see risk to the H2 numbers in our short-cycle coverage at least. Against this backdrop, and with the sector multiple rich versus history, they look to be selective both near and longer term. At this stage, subject to updated consensus numbers, heading into the Q2 reporting season, they tactically prefer ABB, Knorr-Bremse, Prysmian and Rotork, and are more cautious on Assa Abloy, Epiroc, Metso, Sandvik, Spectris and Wärtsilä. Rotork is on Positive Catalyst Watch; Metso and Wärtsilä are on Negative Catalyst Watch.
Aerospace & Defense	(+)	Civil Aero: Sector analysts expect a mixed quarter. Airbus new aircraft deliveries were weaker than expected in Q2; at the end of June the company lowered its delivery guidance for FY24-27. They expect a better Q2 from the aero engine companies. The engine companies lose money on new engine sales and so lower than expected new engine sales (due to lower aircraft deliveries by Airbus and Boeing) boosts their EBITA. They also expect solid growth in spare part sales. Defence: They expect good organic growth from European defence companies in Q2. The standout performer should be Rheinmetall where they expects Q2 sales will be up c40% yoy, with rising EBITA margins and improved FCF.
Luxury	(-)	Sector analysts expect Q2/H1 24 reporting to confirm relatively soft trends for the luxury sector, broadly in line with Q1. They think the comments on exit rates will likely be a very important focus given the easing comp base from June and the need for signals of re-acceleration to underpin the current H2 expectations. In this context, comments from companies reported so far have not indicated any material improvement and would be a key focus for upcoming conference calls. Looking into H2, based on current newsflow and latest sector trends, they think the re-acceleration might happen at a slower pace than what is currently factored into consensus and hence that earnings revision for the sector might still be skewed to the downside, which indeed has been confirmed so far by Burberry, Swatch and Hugo Boss (leading to DD% cuts in estimates) and to a lesser extent they expect it at LVMH and Kering (the latter though already embedding some positive brand inflection which currently is not apparent in our Brand Heatmap). The only name where they continue to see material upside to consensus going into H2 is Prada, which they have on Positive Catalyst Watch into H1 results. The sector has been de-rating in the last couple of months and is now trading at more compelling levels; however, with an uninspiring H1 reporting so far and ahead and still earnings cuts to come they do not see a catalyst short term to turn more constructive for now.
Media	(+)/(-)	Sector analysts expect broadly a continuation of Q1 trends for most companies in the Media space. Exceptions are ITV, RTL, Ubisoft and Embracer. ITV should see Q1 ad growth of 3% accelerate to 20% in Q2 partly due to strong demand during the Euros offsetting delayed advertising during the election. RTL is expected to see a slowdown in ad growth from 10% in Q1 to flat in Q2 due to the timings of easter and the euros impacting German advertising. Ubisoft and Embracer will see quiet quarters with no major releases, with several major AAA titles expected for each later in the year.

Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

Retailing	(-)	For calendar Q2, the clothing segment is expected to be weighed by unfavourable weather across regions which has impacted footfall and spend (with the former likely also impacted by sporting events). Tough comps are also unhelpful early in the quarter. Sector analysts expect some pure online players such as Zalando to have proven more resilient, and indeed online traffic trends point to this, given a lesser impact from softer high street footfall, and also facing weaker comps. Such players should also benefit from some gross margin recovery given tighter buying and a more normalised inventory environment across the industry. Sales in the homewares segment are also expected to have remained weak, although particularly in DIY, gardening and big ticket. Data suggests that small-ticket items have fared better. They also note that consumer sentiment remains crucial, with mixed signals across different regions: we have seen sequential improvement in consumer confidence in regions such as Germany, UK and Spain in Q2 vs Q1, while sequentially weaker in regions such as France and Italy. On margins, they see potential headwinds from freight into next year which retailers could take the opportunity to call out (ongoing wage inflation could also be a factor). Overall, they are somewhat cautious on the outlook for Q2 (with the notable exception being Zalando, Positive CW) as the sector faced challenges from weather impacts.
Food&Tob	(+)	For Food/HPC sector analysts expect organic sales growth to see limited change versus the prior quarter, with Q2 JPMe +3.5%, but similarly weighted volume (+1.6%) vs pricing (+1.9%) for the first time in 3 years. Whilst volumes are on a gradually improving path, as marketing activities step up and comparatives ease, they see risks also - notably US pressures (mass beauty slowdown, and still soft food volumes) and China weakness. On margins meanwhile, they expect H124 is also set to be the most benign COGS inflation set-up which should support Gross Margin rebound +165bps, but tempered on EBIT to +55bps as A&P is further ramped up. Into Q2/H1 reporting they placed Unilever (OW) and Symrise (OW) on Positive Catalyst Watch.
Beverages	(+)/(-)	Sector analysts expect Q2 organic sales growth of +4.5% with volumes slightly sequentially deteriorating on shipment phasing while pricing should remain resilient. H124 should also see solid EBIT margin progression given further pricing amid fading input cost inflation. They remain positive on the Beer sub-sector which offers the best combination of EPS growth at reasonable valuation and has already seen a solid start to 2024, and prefer ABI (OW) and Heineken (OW, +ve CW) while also seeing a solid 2024 outlook for Soft Drinks (prefer CCEP). They remain most cautious on Spirits given risks of further EPS downgrades and disappointing guidance from Diageo and Pernod Ricard. The focus remains on the weakness in demand in several key markets (USA, China), though they expect that increasing pressures from volumes de-leverage and weakening mix/pricing with elevated promotions will lead to further correction on consensus margins.
Medtech	(-)	Sector analysts believe trends from Q1 should largely continue in Q2 with normalisation of top-line growth and improving inflation for most companies. Overall, they expect a mixed bag of results with some share price volatility to continue in Q2 on the back of positioning. They have seen early indications on this from the Carl Zeiss and Demant profit warnings, where shares were down c20% and c15% respectively on the day of the announcement. On the other hand, Ambu issued a positive pre-announcement with FY guidance raise, the shares closed up c5%. Overall, they remain cautious as they continue to see some risks from: • Ongoing headwinds in China (anti-corruption and slower consumer) • Weak development in the US dental market • Trading days benefit from Easter timing partially offset by poor weather and elections in some European countries.
Banks	(+)/(-)	The Banks sector has outperformed the Market by c14% YTD, now trading on 7.4x PE, 0.9x PTNAV for a RoTE of 13.3% 2026E. Our sector analysts have taken a bottom up approach to stock selection where they see a) less risk on earnings cuts (e.g. rates driven) with more market/AM exposure than NII (UBS, DBK, Intesa) and b) less Euro NII exposure considering low relative betas which are at risk of rising (NWG). Key topical areas include 2Q results as well as forward looking commentary across 2024 and the medium term: 1) The NII outlook/sensitivities considering Euro rate cuts, with a) volatile rate curves with the forward curve higher compared to 1Q but still indicating ECB rate cuts towards 2.5% in the medium term, b) rising deposit betas and the deposit pricing actions following rate cuts, c) ongoing risks of deposit migration and deposit outflows particularly with rates declining, d) higher wholesale funding costs with refinancing needs (e.g. TLTRO, TFSME). Commentary around the outlook for loan growth and potential impact of lower rates on loan demand, asset pricing and margins will also be in focus. 2) The outlook for Fees given a continued economic recovery with rising equity markets in 2Q which could impact flows and AUM. 3) Inflationary impacts on the cost base which are lagging the decline in headline inflation including stickier wage inflation, as well as the outlook for investment/regulatory spend. 4) IFRS9 provisioning given risks of elevated rates across a longer period of time, alongside inflationary and funding cost pressures risking a deterioration in Credit in some segments (e.g. CRE). 5) Capital return for some banks in 2Q and capital build progression across the sector, with Basel 4 implementation expected in the coming quarters. 6) IB performance with Global IBs 2Q forecasted at FICC Revenues +8% YoY, Equities Revenues +4% YoY and IBD +29% YoY led by DCM.
Diversified Financials	(+)/(-)	• Private markets asset managers: Partners Group was the first to report, with a solid print across fundraising, deployment, and realisations, broadly in line with the optimism, sector analysts had flagged in their preview. They believe this should read positively for EQT's upcoming results. Industry wide data from PitchBook point to global private markets fundraising tracking broadly in line with the 2023 pace. The fundraising/deployment cycle has now reverted back to the long-term average of three years between closings of the funds in the same fund family. PitchBook data also point to still subdued Private Equity volumes as of the end of June 2024, both for exits as well as deployment in Europe. Having said that, Q2 exits and investments were higher than Q1 24, which is encouraging. • Traditional asset managers: For DWS, they expect the Q2 24E underlying net flow picture to be decent, with net inflows in active fixed income, passive and money market and outflows in active equities and alternatives, broadly similar to the trends seen in Q1. However, DWS's CEO guided for "low double-digit billion" outflows as a whole, due to low-margin outflows which they presume are in the fixed income asset class (potentially insurance mandate redemptions, in our view, which wouldn't be captured by Morningstar). For Amundi, preliminary data from Morningstar for Q2 24 point to €6.5bn long term net flows for Amundi, showing promising momentum particularly around fixed income – however, they do acknowledge that near-term volatility following the French elections may delay the shift of net flows towards higher risk/higher margin asset classes. For Schroders, they actually expect outflows in H1 24E driven by Solutions, Mutual Funds, and Institutionals. • Exchanges: As they wrote in their preview, they expect no major surprises from 1H24 results, but they believe that investors' expectations and scrutiny will gradually increase in 2H, given the planned Capital Market Day of Euronext on the 8th November, and LSEG's partnership with Microsoft, which is expected to generate revenues from late 2024/early 2025. For Deutsche Börse, they expect the focus will be mainly on the progresses made with Investment Management Solutions, as well as with Eurex Fixed Income offering. • Platforms: Avanza has already reported, with a miss on both revenues/costs driven by idiosyncratic issues relating to a customer reimbursement/fine from IMY, while delivering beats on all other key revenue lines. During the analyst call, the lack of a clear guidance on the pace and costs associated with the planned transition to the cloud, and the possible pricing pressure arising from the offering of multi-currency trading accounts, might have generated some uncertainty among investors. The absence of similar one-offs at Nordnet, as confirmed by management, and the already implemented transition to the Cloud, as discussed at the Technology day, might result in positive read-across for Nordnet at the upcoming results. For Hargreaves Lansdown, the focus will be on any updates around the non-binding proposal received from a Consortium of private equity investors, which the board said that it was willing to unanimously recommend to HL shareholders. In accordance with regulation, the Consortium will have to communicate by no later than the 19th of July 2024 whether it intends to make an offer, or otherwise to withdraw. Given their concerns for Hargreaves' fundamentals remain, they continue to see risk skewed to the downside.

Insurance	(+)	Sector analysts stay positive on the European insurance sector heading into the Q2 earnings season. They would expect to see generally supportive conditions for the non life insurers with pricing conditions remaining firm offering the potential for strong top line growth. The second quarter saw a more active period for catastrophe losses versus historical averages but they would expect that most companies remain within their catastrophe budgets and this follows on from a relatively benign Q1. In retail non life, they expect that results are unlikely to return back to historical levels in 1H24 with this now expected to be in 2H24. They are expecting generally stable to higher earnings for the life insurers given relatively high negative experience variances in 1H23, and a higher yield environment supporting investment margins and CSM growth. Their forecasts so far suggest ~3%-5% life earnings growth on average at 1H24E vs. 1H23. Given the recent profit warning at SCOR, the market will be looking out for any signs of negative assumption charges or experience impacting life CSM growth. They do not expect this and believe that other insurers have not been impacted by the issues that have affected SCOR. Solvency positions should remain strong overall with market movements generally favourable for the sector.
General Healthcare	(+)	Sector analysts anticipate a relatively solid 2Q'24 earnings season across Large Cap Pharma, with the majority raising FY'24 guidance (though this is largely anticipated by Consensus) and the remainder leaving guidance unchanged. For the 2Q'24 numbers they are broadly in-line to slightly ahead of Consensus suggesting a solid reporting season from EU Pharma.
Software	(-)	With Dassault Systèmes and IONOS already two companies in sector analysts European Software coverage that pre-announced lower-than-expected Q2 revenues and have both trimmed their FY24 revenue growth guides by ~2pt, as well as softer datapoints coming from US peer reporting (Oracle, Workday and Salesforce have all seen demand pressures in their April/-May-end quarters), they see the sector as under continued pressure from increased deal scrutiny, elongated sales cycles and deal compression, with geopolitical uncertainty adding to these dynamics. In this environment, they see SAP as a safe haven thanks to its migration cycle driven growth and into Q2 they expect continued robust current cloud backlog (leading indicator) growth at ~28% cc and see the potential for LSD% Non-IFRS EBIT outperformance relative to company consensus (they have placed SAP on +ve CW into Q2 results on 22nd July). On the IT Services side, they expect no material change in customer spending patterns vs. the prior quarter and expect discretionary spend to remain subdued. For Capgemini, they expect Q2 results to be in line with expectations on growth/margins, forecasting -0.9% Q2 organic growth (vs. -3.6% Q1) and ~0.9% organic growth for FY24 (though note lower for longer discretionary could be a source of downside).
Telecoms	(+)/(-)	Rising promotional activity and tougher comps suggest service revenue growth will slow in Q2 (Q2 +1.2% vs Q1 +1.9%). Top picks into Q2 include DT (anticipation around October CMD), CLNX (Q2 results and Austrian sale) and PROX (scope for guidance upgrade and fibre deal). Stocks to avoid are ORA (French competition), VOD (growth to slow in Q1), TEF (Spanish and UK competitive pressures), and BT (tough Q1 comp).
Utilities	(+)	Sector analyst expect European Utilities to continue to report solid numbers in Q2, continuing the robust trends evidenced in Q1. Generators should continue to benefit from high hydro availability, price volatility and arbitration opportunities. The retail businesses should continue to operate with strong underlying margins while benefiting from ad hoc opportunities to maximise margins due to the spread between wholesale and retail prices.

Source: J.P. Morgan.

Mislav Matejka, CFA [AC]
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

Equity Strategy Key Calls and Drivers

SPW, an equal-weighted S&P500 index, has stalled since March, and is behind SPX so far this year by more than 10%. We think this is reflecting a changing Growth-Policy narrative vs early 2024. Entering this year, investor expectations were for a Goldilocks outcome – growth acceleration and at the same time quick Fed easing, starting already in March. The early Fed cuts and the consequent improving credit impulse didn't materialize, which should weigh on growth in 2H. US activity momentum is slowing, with CESI outright negative at present, putting EPS growth projections of as much as 15% acceleration between Q1 and Q4 of this year at risk. Instead of easing preemptively for market-friendly reasons, such as falling inflation, as was the view at the start of the year, the Fed could end up easing, but reactively, in a response to weakening growth. At the same time, there is no safety net any more, the market is positioned long, Vix is at lows, potentially underpricing risks and credit spreads are extremely tight – this is as good as it gets. Adding to the picture strengthening USD and elevated political uncertainty currently, we arrive at a problematic setup for the equity market during summer. In terms of positioning, we have entered this year again OW Growth vs Value style and Large vs Small caps, and we are keeping these for 2H in the US, not expecting much broadening. The recent relative dip due to French political uncertainty is likely to become a buying opportunity as we move through 2H, but we think the risk of further drawdowns is not finished, as the potential new French government will likely try to test the limits of what they can do. Cyclicals were the best performing sectors in Q1, but struggled to outperform in Q2 . We reiterate our barbell of OW Defensives and Commodities.

Table 11: J.P. Morgan Equity Strategy — Factors driving our medium-term views

Driver	Impact	Our Core Working Assumptions	Recent Developments
Global Growth	Neutral	At risk of weakening as consumer strength wanes	Global composite PMI is at 52.9
European Growth	Positive	reset last year, manufacturing improving, consumer can pick up	
Monetary Policy	Neutral	Fed pivot could be accompanied by activity weakness	
Currency	Neutral	USD could strengthen again	
Earnings	Negative	Corporate pricing power is likely to weaken from here	2024 EPS projections are continuing their downtrend
Valuations	Negative	At 21x, US forward P/E is still stretched, especially vs real yield	MSCI Europe on 13.6x Fwd P/E
Technicals	Negative	Sentiment and positioning are stretched post the rally since November	RSIs are in overbought territory

Source: J.P. Morgan estimates

Table 12: : Base Case and Risk

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

Source: J.P. Morgan estimates.

Table 13: Index targets

	Dec '24 Target	18-Jul-24	% upside
MSCI Eurozone	**256**	290	-12%
FTSE 100	**7,700**	8,205	-6%
MSCI EUROPE	**1,850**	2,057	-10%
DJ EURO STOXX 50	**4,250**	4,870	-13%
DJ STOXX 600 E	**460**	514	-11%

Source: J.P. Morgan.

Table 14: Key Global sector calls

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

Source: J.P. Morgan

Table 15: J.P. Morgan Equity Strategy — Key sector calls*

Sector	Recommendations	Key Drivers
Utilities	Overweight	Sector is low beta, has strong cash flow generation, resilient earnings, and power prices are higher than pre-Ukraine but P/E relative is near record cheap
Healthcare	Overweight	Potential for lower yields and stronger dollar are supports, better earnings
Staples	Overweight	Sector is one of the best performers around the last Fed hike in the cycle, lower bond yields and better relative EPS momentum should help
Banks	Underweight	3 years of strong performance, NII likely peaking, central banks moving to cuts, underprovisioning
Autos	Underweight	Pricing and volume could come under pressure with rising inventories, increasing China competition and weaker demand
Chemicals	Underweight	The sector trades at 70% premium to the market, well above historical norm. pricing continues to deteriorate, downside risks to current earnings and margin projections

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

Mislav Matejka, CFA [AC]
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

Table 16: J.P. Morgan Equity Strategy — Key regional calls

Region	Recommendations	J.P. Morgan Views
EM	Neutral	China tactical positive call since Q1, but structural concerns remain
DM	Neutral	
US	Neutral	Expensive with earnings risk. but our ytd Growth style OW helps
Japan	Overweight	Large rate differential, TSE reforms, consumer reflation, but JPY needs to show stability
Eurozone	Neutral	Eurozone growth differential bottoming, cheap
UK	Overweight	Valuations still look very attractive, low beta with the highest regional dividend yield

Source: J.P. Morgan estimates.

Mislav Matejka, CFA [AC]
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

Top Picks

Table 17: J.P. Morgan European Strategy: Top European picks

Name	Ticker	Sector	Rating	Price	Currency	Market Cap (€ Bn)	EPS Growth 23e	EPS Growth 24e	EPS Growth 25e	Dividend Yield 24e	12m Fwd P/E Current	12m Fwd P/E 10Y Median	12m Fwd P/E % Premium	Performance -3m	Performance -12m
ENI	ENI IM	Energy	OW	14	E	46.9	-35%	-13%	0%	6.4%	6.7	12.5	-46%	-6%	6%
TOTALENERGIES	TTE FP	Energy	OW	64	E	153.0	-33%	-2%	3%	4.8%	7.4	10.6	-30%	-5%	24%
SHELL	SHEL LN	Energy	OW	34	E	212.2	-23%	0%	2%	3.5%	8.8	11.1	-21%	1%	24%
CRH PUBLIC LIMITED	CRH LN	Materials	OW	80	U$	49.9	-14%	25%	9%	1.7%	14.1	14.9	-5%	3%	38%
RIO TINTO	RIO LN	Materials	OW	5004	£	100.6	-11%	2%	-1%	6.7%	8.8	10.2	-14%	-7%	-2%
NORSK HYDRO	NHY NO	Materials	OW	66	NK	11.2	-60%	29%	38%	3.8%	10.0	12.3	-19%	-8%	2%
ANGLO AMERICAN	AAL LN	Materials	OW	2286	£	33.3	-51%	-14%	18%	3.2%	12.9	9.5	36%	5%	-1%
SCHNEIDER ELECTRIC	SU FP	Industrials	OW	221	E	127.1	2%	15%	13%	1.6%	24.9	16.5	51%	3%	37%
ASHTEAD GROUP	AHT LN	Industrials	OW	5426	£	28.2	26%	-	-	1.4%	17.2	14.1	22%	-3%	-1%
RYANAIR HOLDINGS	RYA ID	Industrials	OW	17	E	18.8	-	-	-	0.0%	8.4	12.7	-34%	-19%	1%
AIRBUS	AIR FP	Industrials	OW	131	E	103.7	10%	-14%	35%	1.4%	20.3	18.5	10%	-19%	-2%
MTU AERO ENGINES HLDG.	MTX GR	Industrials	OW	246	E	13.2	24%	12%	14%	0.8%	18.7	18.1	3%	15%	10%
STELLANTIS	STLAM IM	Discretionary	OW	19	E	57.5	12%	-17%	5%	8.2%	3.8	4.7	-19%	-22%	14%
BMW	BMW GR	Discretionary	OW	92	E	57.8	-35%	-7%	-1%	6.6%	5.6	7.6	-26%	-14%	-
INDITEX	ITX SM	Discretionary	OW	45	E	141.0	27%	-	-	2.7%	22.6	24.0	-6%	3%	30%
ADIDAS	ADS GR	Discretionary	OW	232	E	41.7	-154%	-	117%	0.3%	42.0	24.8	69%	3%	34%
RICHEMONT N	CFR SW	Discretionary	OW	135	SF	82.4	78%	-	-	1.8%	19.5	20.8	-6%	5%	-5%
COMPASS GROUP	CPG LN	Discretionary	OW	2195	£	44.4	50%	14%	10%	1.9%	22.0	20.9	5%	1%	5%
COLRUYT GROUP	COLR BB	Staples	OW	46	E	5.8	-27%	-	-	1.7%	15.2	17.6	-13%	12%	29%
ANHEUSER-BUSCH INBEV	ABI BB	Staples	OW	56	E	113.7	-5%	9%	13%	1.3%	17.3	19.4	-11%	4%	9%
NOVO NORDISK 'B'	NOVOB DC	Health Care	OW	887	DK	530.8	52%	25%	26%	1.1%	33.8	22.8	48%	3%	67%
ASTRAZENECA	AZN LN	Health Care	OW	12126	£	223.4	9%	13%	14%	1.8%	17.7	17.7	0%	11%	18%
SMITH & NEPHEW	SN/ LN	Health Care	OW	1102	£	11.4	1%	12%	19%	2.6%	14.0	18.4	-24%	14%	-6%
UBS GROUP	UBSG SW	Financials	OW	27	SF	97.8	-99%	4320%	59%	2.3%	17.8	10.4	72%	6%	49%
NATWEST GROUP	NWG LN	Financials	OW	336	£	33.2	38%	-20%	9%	5.1%	7.8	10.0	-23%	22%	34%
ING GROEP	INGA NA	Financials	OW	17	E	56.1	106%	-9%	8%	6.5%	8.6	9.0	-5%	12%	30%
INTESA SANPAOLO	ISP IM	Financials	OW	4	E	67.1	79%	20%	4%	8.1%	7.6	10.0	-24%	9%	49%
LONDON STOCK EXCHANGE GROUP	LSEG LN	Financials	OW	9470	£	59.8	2%	10%	13%	1.2%	24.9	23.0	8%	5%	14%
AMUNDI (WI)	AMUN FP	Financials	OW	67	E	13.7	4%	8%	7%	6.1%	9.9	12.6	-21%	5%	19%
DASSAULT SYSTEMES	DSY FP	IT	N	34	E	45.5	6%	7%	9%	0.8%	25.3	31.7	-20%	-12%	-16%
ASML HOLDING	ASML NA	IT	OW	839	E	335.1	41%	-5%	60%	0.7%	32.9	27.3	21%	0%	26%
ASM INTERNATIONAL	ASM NA	IT	OW	659	E	32.6	-8%	19%	35%	0.4%	40.2	16.7	141%	21%	61%
DEUTSCHE TELEKOM	DTE GR	Telecoms	OW	24	E	120.3	-13%	14%	12%	3.2%	12.6	13.9	-10%	16%	25%
BT GROUP	BT/A LN	Telecoms	OW	141	£	16.7	9%	-	-	5.5%	7.8	8.6	-9%	35%	16%
RELX	REL LN	Industrials	OW	3473	£	77.1	12%	7%	9%	1.7%	27.0	19.5	38%	4%	36%
HELLOFRESH	HFG GR	Staples	N	6	E	1.1	-49%	-69%	166%	0.0%	15.8	18.4	-14%	-7%	-73%
RWE	RWE GR	Utilities	OW	33	E	24.3	30%	-55%	-26%	3.0%	13.7	13.0	5%	2%	-16%
ENEL	ENEL IM	Utilities	OW	7	E	69.1	15%	10%	0%	6.3%	10.1	11.9	-15%	16%	8%
SEGRO	SGRO LN	Real Estate	OW	925	£	14.9	6%	6%	8%	3.0%	25.8	25.4	2%	10%	24%

Source: Datastream, MSCI, IBES, J.P. Morgan, Prices and Valuations as of COB 18th Jul, 2024. Past performance is not indicative of future returns.

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

Mislav Matejka, CFA [AC]
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

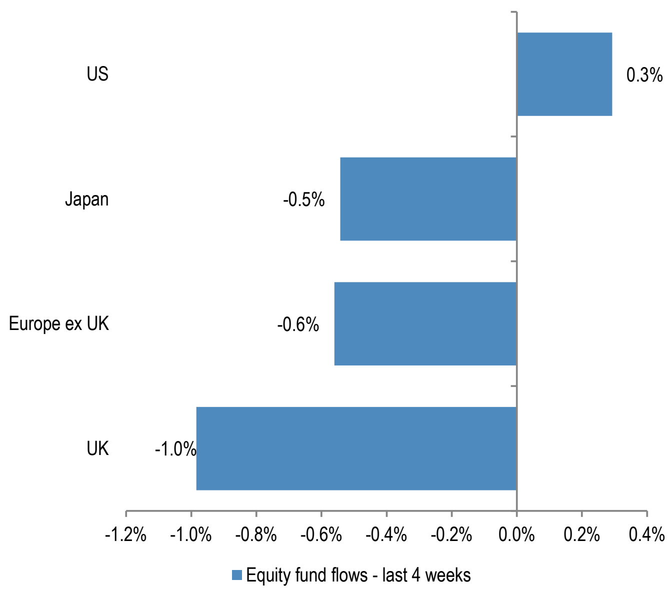
Equity Flows Snapshot

Table 18: DM Equity Fund Flows Summary

Regional equity fund flows										
	$mn					% AUM				
	1w	1m	3m	ytd	12m	1w	1m	3m	ytd	12m
Europe ex UK	-531	-1,998	347	-818	-7,172	-0.2%	-0.6%	0.1%	-0.2%	-2.3%
UK	-834	-2,771	-8,727	-15,499	-28,451	-0.3%	-1.0%	-3.2%	-5.6%	-10.4%
US	5,078	32,112	81,090	146,369	272,523	0.0%	0.3%	0.8%	1.5%	3.1%
Japan	-2,105	-4,384	-4,342	7,864	13,959	-0.3%	-0.5%	-0.5%	1.0%	1.9%

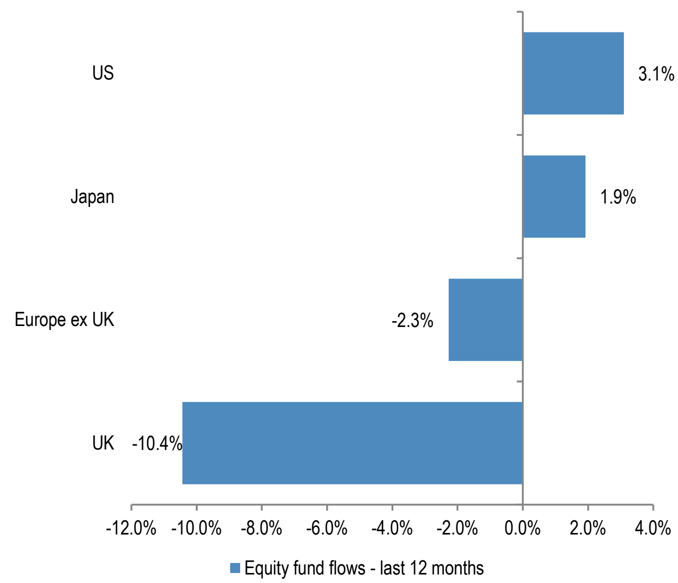
Source: EPFR, as of 10th Jul, 2024

Figure 42: DM Equity Fund flows – last month



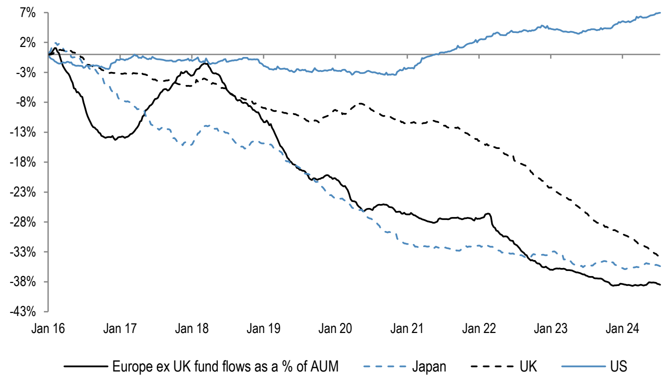
Source: EPFR, Japan includes BoJ purchases.

Figure 43: DM Equity Fund flows – last 12 months



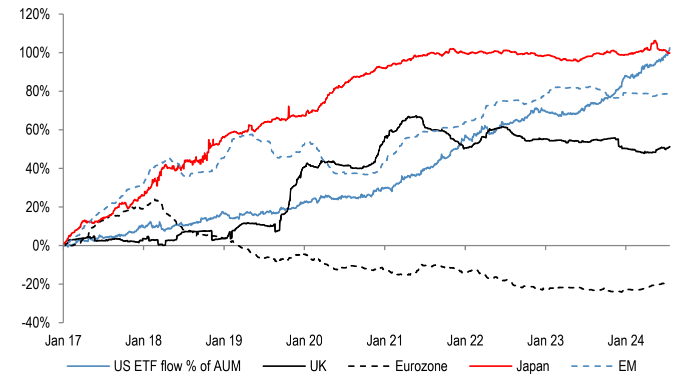
Source: EPFR, Japan includes BoJ purchases.

Figure 44: Cumulative fund flows into regional funds as a percentage of AUM



Source: EPFR, as of 10th Jul, 2024. Japan includes Non-ETF purchases only.

Figure 45: Cumulative fund flows into regional equity ETFs as a percentage of AUM

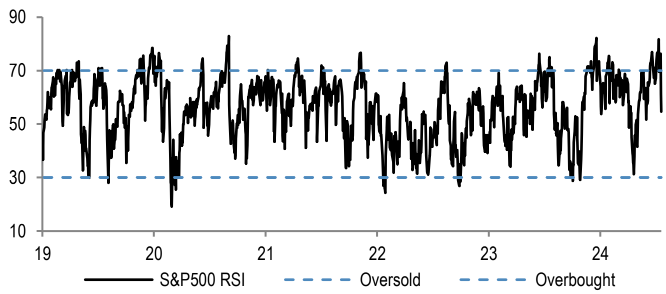


Source: Bloomberg Finance L.P. *Based on the 25 biggest ETF's with a mandate to invest in that particular region. Japan includes BoJ purchases.

Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

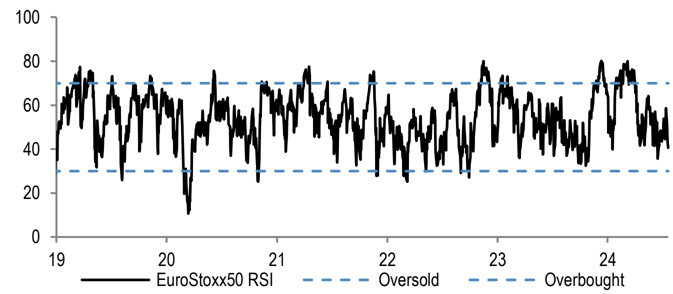
Technical Indicators

Figure 46: S&P500 RSI



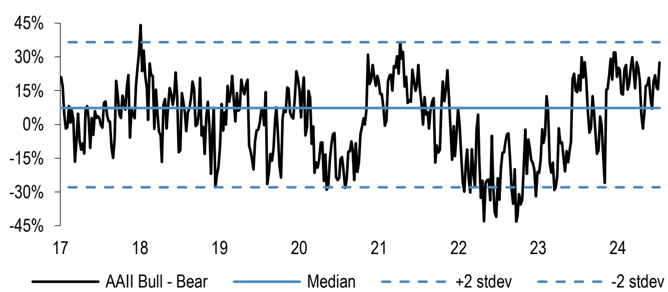
Source: Bloomberg Finance L.P.

Figure 47: EuroStoxx50 RSI



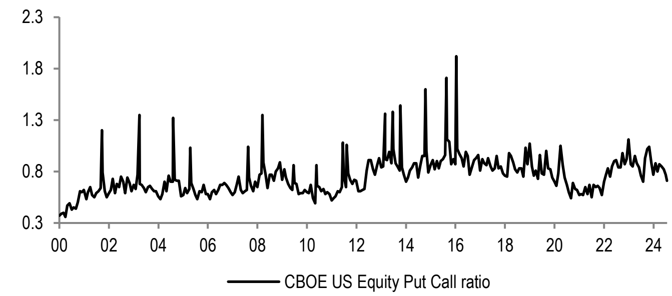
Source: Bloomberg Finance L.P.

Figure 48: AAII Bull-Bear



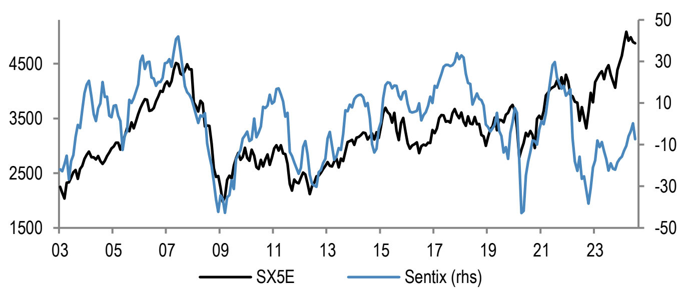
Source: Bloomberg Finance L.P

Figure 49: Put-call ratio



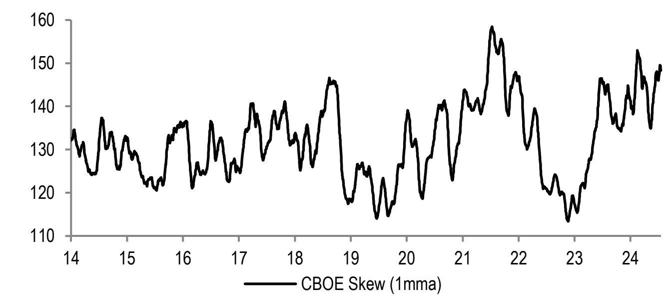
Source: Bloomberg Finance L.P.

Figure 50: Sentix Sentiment Index vs SX5E



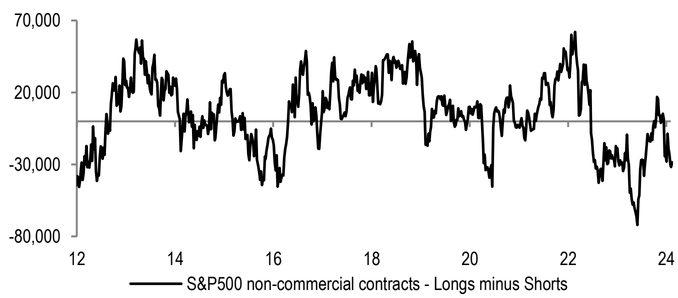
Source: Bloomberg Finance L.P.

Figure 51: Equity Skew



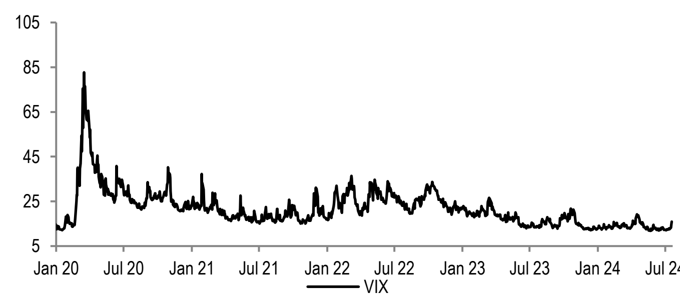
Source: Bloomberg Finance L.P.

Figure 52: Speculative positions in S&P500 futures contracts



Source: Bloomberg Finance L.P.

Figure 53: VIX



Source: Bloomberg Finance L.P.

Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

Performance

Table 19: Sector Index Performances — MSCI Europe

(%change)		Local currency		
Industry Group		**4week**	**12m**	**YTD**
Europe		**(0.9)**	**10.9**	**7.3**
Energy		**0.9**	**13.2**	**2.6**
Materials		**(1.5)**	**8.4**	**1.5**
	Chemicals	(0.1)	7.5	1.3
	Construction Materials	2.8	43.4	22.7
	Metals & Mining	(4.6)	(1.5)	(5.0)
Industrials		**(1.4)**	**17.3**	**9.0**
	Capital Goods	(1.6)	21.1	10.7
	Transport	4.0	(10.9)	(5.3)
	Business Svs	(3.1)	15.8	8.3
Consumer Discretionary		**(1.6)**	**(3.8)**	**2.3**
	Automobile	0.0	(0.6)	1.5
	Consumer Durables	(2.2)	(10.0)	0.3
	Media	(0.3)	21.2	10.4
	Retailing	(3.5)	11.9	13.3
	Hotels,Restaurants&Leisure	(1.1)	(3.1)	0.5
Consumer Staples		**(0.4)**	**(4.4)**	**(0.5)**
	Food & Drug Retailing	4.5	(2.3)	0.8
	Food Beverage & Tobacco	(0.5)	(8.1)	(2.1)
	Household Products	(1.4)	3.1	2.5
Healthcare		**(1.4)**	**14.5**	**13.0**
Financials		**1.4**	**20.5**	**12.4**
	Banks	3.0	23.4	18.1
	Diversified Financials	(0.1)	18.3	5.9
	Insurance	0.1	17.7	9.0
Real Estate		**1.6**	**14.6**	**(0.3)**
Information Technology		**(7.5)**	**21.4**	**14.8**
	Software and Services	0.1	26.2	15.0
	Technology Hardware	(0.2)	16.1	5.7
	Semicon & Semicon Equip	(12.7)	19.6	16.4
Telecommunications Services		**2.5**	**13.1**	**8.3**
Utilities		**1.4**	**0.2**	**(3.0)**

Source: MSCI, Datastream, as at COB 18th Jul, 2024.

Table 20: Country and Region Index Performances

(%change)		Local Currency			US$		
Country	**Index**	**4week**	**12m**	**YTD**	**4week**	**12m**	**YTD**
Austria	ATX	1.3	16.1	7.1	3.1	12.8	5.8
Belgium	BEL 20	2.9	8.4	8.0	4.8	5.3	6.7
Denmark	KFX	(8.1)	31.7	16.3	(6.4)	27.7	14.8
Finland	HEX 20	(2.4)	(0.8)	(2.4)	(0.6)	(3.6)	(3.6)
France	CAC 40	(1.1)	3.7	0.6	0.7	0.7	(0.6)
Germany	DAX	0.6	13.8	9.6	2.4	10.6	8.3
Greece	ASE General	2.5	10.8	12.7	4.4	7.6	11.4
Ireland	ISEQ	2.4	10.2	11.5	4.2	7.0	10.2
Italy	FTSE MIB	2.5	20.3	13.8	4.4	16.8	12.4
Japan	Topix	5.2	27.4	21.2	6.6	12.6	9.0
Netherlands	AEX	(1.9)	18.3	16.4	(0.1)	14.9	15.0
Norway	OBX	2.3	15.5	8.4	(0.0)	7.7	2.2
Portugal	BVL GEN	1.2	(1.0)	(5.1)	3.0	(3.8)	(6.2)
Spain	IBEX 35	(0.1)	17.9	10.3	1.7	14.5	9.0
Sweden	OMX	0.9	15.0	8.4	(0.1)	11.2	3.5
Switzerland	SMI	1.0	10.3	10.0	1.7	7.0	4.7
United States	S&P 500	1.3	21.7	16.2	1.3	21.7	16.2
United States	NASDAQ	0.8	24.5	19.1	0.8	24.5	19.1
United Kingdom	FTSE 100	(0.8)	10.1	6.1	1.5	9.2	8.0
EMU	MSCI EMU	(1.0)	9.5	6.6	0.8	6.4	5.3
Europe	**MSCI Europe**	**(0.9)**	**10.9**	**7.3**	**0.6**	**8.1**	**5.9**
Global	MSCI AC World	1.3	19.3	14.1	1.7	17.7	13.0

Source: MSCI, Datastream, as at COB 18th Jul, 2024.

Earnings

Table 21: IBES Consensus EPS Sector Forecasts — MSCI Europe

	EPS Growth (%yoy)			
	2023	2024E	2025E	2026E
Europe	**(3.8)**	**4.0**	**10.3**	**9.2**
Energy	**(31.6)**	**(4.9)**	**3.0**	**2.7**
Materials	**(39.3)**	**7.7**	**15.1**	**8.1**
Chemicals	(38.9)	22.2	19.3	13.0
Construction Materials	12.2	14.3	9.4	8.3
Metals & Mining	(46.8)	(4.1)	12.1	3.3
Industrials	**(0.5)**	**9.1**	**13.0**	**12.2**
Capital Goods	20.4	12.1	14.7	12.3
Transport	(55.7)	(10.9)	(0.3)	13.7
Business Svs	3.2	7.6	11.5	10.4
Discretionary	**4.9**	**0.7**	**11.5**	**10.5**
Automobile	1.9	(7.5)	7.1	7.4
Consumer Durables	(6.1)	1.2	15.2	12.9
Media	1.8	6.3	9.4	8.7
Retailing	40.0	24.1	14.8	12.4
Hotels,Restaurants&Leisure	62.3	39.3	23.2	18.3
Staples	**2.3**	**2.0**	**8.7**	**7.6**
Food & Drug Retailing	3.7	2.3	10.0	9.4
Food Beverage & Tobacco	1.9	0.4	8.7	7.6
Household Products	2.9	6.5	7.9	6.9
Healthcare	**1.1**	**6.3**	**14.5**	**11.1**
Financials	**15.8**	**8.0**	**7.7**	**8.8**
Banks	28.7	3.7	4.3	6.5
Diversified Financials	(19.9)	18.0	22.2	20.0
Insurance	11.4	14.2	8.2	7.5
Real Estate	**5.6**	**2.7**	**4.2**	**4.2**
IT	**14.4**	**(10.1)**	**33.4**	**16.4**
Software and Services	18.5	(5.9)	23.8	17.0
Technology Hardware	(19.1)	8.2	7.1	12.0
Semicon & Semicon Equip	28.0	(18.2)	50.6	17.4
Telecoms	**(8.5)**	**9.1**	**11.4**	**10.9**
Utilities	**1.9**	**0.1**	**0.2**	**4.3**

Source: IBES, MSCI, Datastream. As at COB 18th Jul, 2024.

Table 22: IBES Consensus EPS Country Forecasts

		EPS growth (%change)			
Country	**Index**	**2023**	**2024E**	**2025E**	**2026E**
Austria	ATX	(23.6)	6.3	4.2	5.6
Belgium	BEL 20	16.4	(6.5)	15.1	11.9
Denmark	Denmark KFX	(14.6)	31.7	18.3	16.9
Finland	MSCI Finland	(25.2)	0.8	12.6	10.0
France	CAC 40	(2.3)	0.2	9.6	8.2
Germany	DAX	0.2	0.5	12.8	11.0
Greece	MSCI Greece	15.1	(9.0)	5.3	10.1
Ireland	MSCI Ireland	58.2	1.2	0.6	6.1
Italy	MSCI Italy	8.9	(0.8)	3.8	5.6
Netherlands	AEX	(1.8)	1.9	12.7	9.0
Norway	MSCI Norway	(41.3)	5.3	5.5	1.5
Portugal	MSCI Portugal	16.9	16.5	0.4	8.2
Spain	IBEX 35	8.3	4.8	4.4	6.0
Sweden	OMX	31.8	1.6	8.3	7.3
Switzerland	SMI	(4.5)	11.6	12.7	10.5
United Kingdom	FTSE 100	(10.6)	0.6	9.0	7.6
EMU	MSCI EMU	3.1	3.3	10.6	9.3
Europe ex UK	MSCI Europe ex UK	0.0	5.1	10.9	9.7
Europe	MSCI Europe	(3.8)	4.0	10.3	9.2
United States	S&P 500	2.5	10.3	14.9	12.4
Japan	Topix	18.0	8.4	10.3	8.4
Emerging Market	MSCI EM	(6.6)	22.0	16.1	10.8
Global	MSCI AC World	0.1	9.8	13.6	11.1

Source: IBES, MSCI, Datastream. As at COB 18th Jul, 2024** Japan refers to the period from March in the year stated to March in the following year – EPS post-goodwill

Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

Valuations

Table 23: IBES Consensus European Sector Valuations

	P/E			Dividend Yield			EV/EBITDA			Price to Book		
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Europe	**14.4**	**13.0**	**12.0**	**3.4%**	**3.5%**	**3.8%**	**9.0**	**8.5**	**7.8**	**1.9**	**1.8**	**1.7**
Energy	**7.9**	**7.7**	**7.5**	**5.4%**	**5.3%**	**5.6%**	**3.5**	**3.4**	**3.3**	**1.2**	**1.1**	**1.0**
Materials	**16.0**	**13.9**	**12.9**	**3.2%**	**3.5%**	**3.7%**	**7.7**	**6.8**	**6.5**	**1.7**	**1.6**	**1.5**
Chemicals	24.2	20.3	18.0	2.7%	2.9%	3.0%	11.7	10.6	9.7	2.3	2.2	2.1
Construction Materials	13.5	12.3	11.4	3.4%	3.7%	4.0%	7.0	6.4	5.8	1.4	1.3	1.3
Metals & Mining	10.7	9.5	9.2	3.9%	4.4%	4.7%	5.2	4.3	4.4	1.2	1.2	1.1
Industrials	**19.8**	**17.6**	**15.7**	**2.4%**	**2.6%**	**2.8%**	**15.6**	**14.9**	**12.8**	**3.3**	**3.1**	**2.8**
Capital Goods	19.9	17.3	15.4	2.3%	2.5%	2.8%	11.1	9.7	8.8	3.4	3.2	2.9
Transport	15.9	15.9	14.0	3.2%	3.2%	3.4%	6.6	6.8	6.3	1.8	1.7	1.7
Business Svs	23.0	20.6	18.7	2.3%	2.5%	2.7%	73.7	75.8	60.4	6.4	5.9	5.4
Discretionary	**13.2**	**11.8**	**10.7**	**2.9%**	**3.1%**	**3.4%**	**5.2**	**5.0**	**4.7**	**1.8**	**1.7**	**1.5**
Automobile	6.0	5.6	5.2	5.5%	5.8%	6.2%	1.8	1.6	1.7	0.7	0.6	0.6
Consumer Durables	23.3	20.2	17.9	1.9%	2.2%	2.4%	13.9	12.6	11.3	3.9	3.5	3.2
Media & Entertainment	17.4	15.9	14.6	2.4%	2.5%	2.7%	12.3	9.7	9.2	2.1	2.1	2.0
Retailing	16.3	14.2	12.6	2.4%	2.5%	2.8%	7.1	10.1	7.6	3.6	3.1	2.7
Hotels,Restaurants&Leisure	23.6	19.1	16.2	2.0%	2.5%	2.9%	12.3	10.4	9.5	4.5	4.1	3.7
Staples	**17.4**	**16.0**	**14.9**	**3.1%**	**3.3%**	**3.5%**	**10.7**	**10.0**	**9.3**	**2.9**	**2.7**	**2.5**
Food & Drug Retailing	11.9	10.9	9.9	4.2%	4.4%	4.8%	5.8	5.7	5.4	1.6	1.5	1.5
Food Beverage & Tobacco	16.9	15.5	14.5	3.4%	3.7%	3.9%	10.6	9.8	9.0	2.6	2.4	2.3
Household Products	20.7	19.2	17.9	2.4%	2.5%	2.7%	13.9	12.9	12.0	4.3	3.9	3.6
Healthcare	**19.0**	**16.6**	**14.9**	**2.3%**	**2.5%**	**2.8%**	**13.0**	**11.7**	**10.2**	**3.7**	**3.4**	**3.0**
Financials	**9.3**	**8.7**	**8.0**	**5.4%**	**5.6%**	**5.9%**	**-**	**-**	**-**	**1.1**	**1.1**	**1.0**
Banks	7.4	7.1	6.7	6.9%	6.8%	7.3%	-	-	-	0.8	0.8	0.7
Diversified Financials	15.2	12.4	10.3	2.3%	2.6%	2.9%	-	-	-	1.4	1.6	1.5
Insurance	10.8	10.0	9.3	5.6%	6.0%	6.3%	-	-	-	1.7	1.6	1.5
Real Estate	**14.9**	**14.3**	**13.7**	**4.1%**	**4.3%**	**4.5%**	**-**	**-**	**-**	**0.9**	**0.9**	**0.8**
IT	**31.6**	**23.7**	**20.3**	**1.2%**	**1.3%**	**1.5%**	**19.2**	**15.2**	**13.2**	**5.1**	**4.6**	**4.1**
Software and Services	32.5	26.2	22.4	1.3%	1.4%	1.5%	18.8	16.2	13.9	4.5	4.1	3.7
Technology Hardware	16.6	15.5	13.8	2.4%	2.6%	2.8%	9.1	9.0	7.7	2.0	1.9	1.8
Semicon & Semicon Equip	37.0	24.6	21.0	0.8%	1.0%	1.1%	24.7	16.8	14.5	8.4	7.2	6.0
Communication Services	**15.3**	**13.7**	**12.4**	**4.1%**	**4.2%**	**4.5%**	**6.6**	**6.2**	**5.8**	**1.5**	**1.5**	**1.4**
Utilities	**12.5**	**12.4**	**11.9**	**5.0%**	**5.0%**	**5.3%**	**8.0**	**8.1**	**8.0**	**1.6**	**1.5**	**1.4**

Source: IBES, MSCI, Datastream. As at COB 18th Jul, 2024.

Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

Table 24: IBES Consensus P/E and 12-Month Forward Dividend Yields — Country Forecasts

		P/E				Dividend Yield
Country	**Index**	**12mth Fwd**	**2024E**	**2025E**	**2026E**	**12mth Fwd**
Austria	ATX	8.0	8.2	7.9	7.5	5.8%
Denmark	Denmark KFX	25.2	28.0	23.6	20.2	1.5%
Finland	MSCI Finland	14.5	15.5	13.8	12.6	4.4%
France	CAC 40	12.4	13.1	12.0	11.1	3.5%
Germany	DAX	11.7	12.6	11.2	10.1	3.4%
Greece	MSCI Greece	29.4	30.3	28.8	26.2	1.9%
Ireland	MSCI Ireland	11.0	11.0	10.9	10.3	3.7%
Italy	MSCI Italy	9.2	9.4	9.1	8.6	5.6%
Netherlands	AEX	15.6	16.7	14.8	13.6	2.4%
Norway	MSCI Norway	10.4	10.7	10.2	10.0	6.4%
Portugal	MSCI Portugal	14.8	14.8	14.8	13.7	3.9%
Spain	IBEX 35	10.8	11.1	10.6	10.0	4.8%
Sweden	OMX	14.7	15.5	14.3	13.4	3.8%
Switzerland	SMI	17.1	18.3	16.2	14.7	3.2%
United Kingdom	FTSE 100	11.3	11.9	10.9	10.1	4.0%
EMU	MSCI EMU	12.7	13.6	12.2	11.2	3.5%
Europe ex UK	MSCI Europe ex UK	14.3	15.2	13.7	12.5	3.3%
Europe	**MSCI Europe**	**13.6**	14.4	13.0	12.0	**3.5%**
United States	S&P 500	21.2	23.2	20.2	18.0	1.4%
Japan	Topix	15.1	15.6	14.2	13.1	2.3%
Emerging Market	MSCI EM	12.4	13.5	11.6	10.5	2.9%
Global	MSCI AC World	18.0	19.5	17.1	15.4	2.0%

Source: IBES, MSCI, Datastream. As at COB 18th Jul, 2024; ** Japan refers to the period from March in the year stated to March in the following year – P/E post goodwill.

Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

Economic, Interest Rate and Exchange Rate Outlook

Table 25: Economic Outlook in Summary

	Real GDP % oya			Real GDP % over previous period, saar						Consumer prices % oya			
	2023E	2024E	2025E	4Q23	1Q24	2Q24E	3Q24E	4Q24E	1Q25E	1Q24	3Q24E	1Q25E	3Q25E
United States	2.5	2.3	1.7	3.4	1.4	2.0	1.0	1.0	2.0	3.2	2.9	2.5	2.4
Eurozone	0.6	0.8	1.1	-0.2	1.3	1.5	1.5	1.0	1.0	2.6	2.3	2.2	1.8
United Kingdom	0.1	1.0	0.8	-1.2	2.9	2.0	1.0	1.0	0.8	3.5	2.1	2.8	3.1
Japan	1.8	-0.1	0.7	0.4	-1.8	1.5	1.0	0.8	0.6	2.5	2.8	3.5	2.5
Emerging markets	4.2	4.0	3.6	4.1	6.1	1.8	3.3	3.8	3.4	3.7	3.4	3.2	3.0
Global	2.8	2.5	2.3	2.7	3.2	1.8	2.1	2.2	2.3	3.3	2.9	2.8	2.6

Source: J.P. Morgan economic research J.P. Morgan estimates, as of COB 12th Jul, 2024

Table 26: Official Rates Outlook

					Forecast for			
	Official interest rate	Current	Last change (bp)	Forecast next change (bp)	Sep 24	Dec 24	Mar 25	Jun 25
United States	Federal funds rate	5.50	26 Jul 23 (+25bp)	Sep 24 (-25bp)	5.25	5.00	4.75	4.50
Eurozone	Depo rate	3.75	6 Jun 24 (-25bp)	Sep 24 (-25bp)	3.50	3.25	3.00	2.50
United Kingdom	Bank Rate	5.25	03 Aug 23 (+25bp)	Aug 24 (-25bp)	5.00	4.75	4.50	4.25
Japan	Pol rate IOER	0.10	19 Mar 24 (+20bp)	3Q24 (+15bp)	0.25	0.50	0.50	0.75

Source: J.P. Morgan estimates, Datastream, as of COB 12th Jul, 2024

Table 27: 10-Year Government Bond Yield Forecasts

10 Yr Govt BY		Forecast for end of			
	19-Jul-24	Sep 24	Dec 24	Mar 25	Jun 25
US	4.21	4.20	4.15	4.05	3.90
Euro Area	2.45	2.40	2.20	2.10	2.00
United Kingdom	4.10	4.10	3.95	3.85	3.75
Japan	1.04	1.20	1.45	1.45	1.60

Source: J.P. Morgan estimates, Datastream, forecasts as of COB 12th Jul, 2024

Table 28: Exchange Rate Forecasts vs. US Dollar

Exchange rates vs US$		Forecast for end of			
	18-Jul-24	Oct 24	Jan 25	Apr 25	Jul 25
EUR	1.09	1.05	1.09	1.12	1.12
GBP	1.30	1.25	1.31	1.35	1.35
CHF	0.89	0.94	0.92	0.89	0.89
JPY	157	157	156	155	154
DXY	104.2	107.1	103.7	101.3	101.1

Source: J.P. Morgan estimates, Datastream, forecasts as of COB 28th Jun, 2024

Mislav Matejka, CFA AC
(44-20) 7134-9741
mislav.matejka@jpmorgan.com

Sector, Regional and Asset Class Allocations

Table 29: J.P. Morgan Equity Strategy — European Sector Allocation

		MSCI Europe Weights	Allocation	Deviation	Recommendation
Energy		**5.6%**	8.0%	2.4%	**OW**
Materials		**7.0%**	6.0%	-1.0%	**N**
	Chemicals				UW
	Construction Materials				N
	Metals & Mining				N
Industrials		**15.8%**	14.0%	-1.8%	**N**
	Capital Goods ex Aerospace & Defence				UW
	Aerospace & Defence				OW
	Transport				N
	Business Services				N
Consumer Discretionary		**9.1%**	7.0%	-2.1%	**UW**
	Automobile				UW
	Consumer Durables				N
	Consumer Srvcs				UW
	Speciality Retail				UW
	Internet Retail				UW
Consumer Staples		**11.7%**	13.0%	1.3%	**OW**
	Food & Drug Retailing				UW
	Beverages				OW
	Food & Tobacco				OW
	Household Products				OW
Healthcare		**16.0%**	18.0%	2.0%	**OW**
Financials		**18.1%**	14.0%	-4.1%	**UW**
	Banks				UW
	Insurance				N
Real Estate		**0.9%**	2.0%	1.1%	**OW**
Information Technology		**7.1%**	7.0%	-0.1%	**N**
	Software and Services				N
	Technology Hardware				N
	Semicon & Semicon Equip				UW
Communication Services		**4.5%**	5.0%	0.5%	**OW**
	Telecommunication Services				OW
	Media				N
Utilities		**4.4%**	6.0%	1.6%	**OW**
		100.0%	**100.0%**	**0.0%**	**Balanced**

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

Table 30: J.P. Morgan Equity Strategy — Global Regional Allocation

	MSCI Weight	Allocation	Deviation	Recommendation
EM	10.0%	10.0%	0.0%	Neutral
DM	90.0%	90.0%	0.0%	Neutral
US	70.9%	68.0%	-2.9%	Neutral
Japan	6.2%	8.0%	1.8%	Overweight
Eurozone	8.6%	8.0%	-0.6%	Neutral
UK	3.8%	6.0%	2.2%	Overweight
Others*	10.5%	10.0%	-0.5%	Neutral
	100.0%	**100.0%**	**0.0%**	**Balanced**

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

Table 31: J.P. Morgan Equity Strategy — European Regional Allocation

	MSCI Weight	Allocation	Deviation	Recommendation
Eurozone	51.0%	48.0%	-3.0%	Neutral
United Kingdom	22.6%	25.0%	2.4%	Overweight
Others**	26.5%	27.0%	0.5%	Overweight
	100.0%	**100.0%**		**Balanced**

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

Table 32: J.P. Morgan Equity Strategy — Asset Class Allocation

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

Source: MSCI, J.P. Morgan

Anamil Kochar (anamil.kochar@jpmchase.com) of J.P. Morgan India Private Limited is a co-author of this report.

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