PORTFOLIO INSIGHTS

# Global Asset Allocation Views

## Insights and implications from the Multi-Asset Solutions Strategy Summit

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ASSET CLASS VIEWS (PAGE 3)

Underweight ● Neutral ● Overweight ●

| Asset class | | Opportunity set | UW | N | OW | Change | Conviction |
|---|---|---|---|---|---|---|---|
| MAIN ASSET CLASSES | | Equities | ○ | ○ | ● | | High |
| | | Duration | ● | ○ | ○ | ▼ | Low |
| | | Credit | ○ | ○ | ● | | Low |
| | | Cash | ● | ○ | ○ | | Moderate |
| PREFERENCE BY ASSET CLASS | EQUITIES | U.S. | ○ | ○ | ● | | Low |
| | | Europe | ○ | ○ | ● | | Moderate |
| | | UK | ○ | ● | ○ | | |
| | | Japan | ○ | ○ | ● | | Moderate |
| | | Emerging markets | ○ | ● | ○ | ▼ | |
| | FIXED INCOME | U.S. Treasuries | ● | ○ | ○ | ▼ | Low |
| | | G4 ex-U.S. sovereigns | ○ | ● | ○ | ▲ | |
| | | EMD hard currency | ○ | ○ | ● | | Low |
| | | EMD local FX | ○ | ○ | ● | | Low |
| | | Corporate investment grade | ○ | ● | ○ | | |
| | | Corporate high yield | ○ | ○ | ● | | Moderate |
| | CURRENCY | USD | ○ | ● | ○ | ▲ | |
| | | EUR | ○ | ○ | ● | | Low |
| | | JPY | ● | ○ | ○ | ▼ | Moderate |
| | | EM FX | ○ | ○ | ● | | Low |

## IN BRIEF

- An extended period of above-trend global growth lies ahead in 2021, initially powered by the U.S. recovery but with other regions picking up by mid-year. Inflation looks to be volatile but ultimately contained, while monetary policy remains accommodative.
- Despite economic optimism, expressing a risk-on view is likely to be more nuanced in 2021. We expect equity markets to do well, but with rates also rising, sector and style leadership is shifting. Above all, earnings growth rather than multiple expansion is set to drive stocks in 2021.
- We favor cyclical equity regions and value as a style, preferring U.S. small caps, Europe and Japan to U.S. large caps and emerging markets. U.S. yields have scope to rise further – in turn supporting the dollar – and credit, especially high yield, is still our preferred fixed income asset.
- Risks around policy, reopening and vaccines persist. But, above all, we wish to lean into the U.S.-led global economic recovery, though the precise way we position for this demands a more clinical allocation approach.

**THE TONE OF OUR QUARTERLY STRATEGY SUMMIT IN MID-MARCH 2021 STOOD IN MARKED CONTRAST TO THE MOOD OF THE MARCH 2020 SUMMIT.** A year back, we stared into the abyss – economic and social – and wondered just how bad the damage would turn out to be. Today, while significant challenges of course remain, the combination of ongoing policy support and the quickening pace of vaccine distribution helps create an aura of high optimism.

Beneath the surface, while confidence in the economic outlook is strong, expectations for asset returns are rather more circumspect. Even those who are overwhelmingly positive on the economy accept that expressing such a view in portfolio positioning now requires a more clinical approach than merely buying stocks and selling bonds.

We expect a prolonged period of above-trend global growth that will last through 2021 and well into next year. Initially, the U.S. economy is likely to lead, given the scale of stimulus and relative success of the vaccine rollout. However, we expect other regions to catch up over the course of 2021. Regions such as Europe that are likely at peak pessimism now over vaccine delays seem poised to accelerate later in the year. By contrast, the leadership by Asian economies that was especially strong in 2020 may moderate a little as global services start to catch up to the surge already underway in global goods markets.

Inflation remains a persistent concern for investors. We expect headline inflation to be volatile in the second and third quarters, with the potential for some sticker shock as annualized base effects generate optically elevated year-on-year readings. However, we believe that many of the secular disinflationary forces – globalization, technology adoption, etc. – continue to anchor core inflation so that even allowing for huge policy stimulus, inflation rates should remain contained in 2021.

Policymakers have thus far telegraphed a very sanguine view of inflation. We believe that even if core inflation moves reasonably above target, the Federal Reserve (Fed) will be reluctant to signal policy tightening. At the end of 2021, the Fed may communicate a tapering of bond purchases that would gradually take place over 2022, but even should that occur, we do not see any change to fed funds rates until well into 2023 at the earliest. With other global central banks well behind the Fed, we see a prolonged period of easy financial conditions but steeper yield curves.

The economic and policy backdrop calls for a pro-risk tilt in our multi-asset portfolios. Nevertheless, we acknowledge that the early innings of this market cycle are over and the pace of returns will moderate from here. Picking the best spots to deploy risk is today a more nuanced process. For instance, we want to continue to position for U.S. economic strength, but we will need to rethink the way we express this view. Simply put, the sectors and style tilts that worked so well in the last cycle are unlikely to perform so well as rates rise and curves steepen.

In our multi-asset portfolios we are overweight equities and credit, and underweight duration and cash. The complexion of our equity overweight is shifting, and in 2021 we expect earnings growth to be the primary driver of returns while multiple expansion takes a back seat. As the economy gathers steam, we also expect operating leverage to be important. Sectors with positive gearing to higher rates – such as financials – have scope to rerate.

In equities, we lean into cyclical sectors and regions, and value styles, while reducing our exposure to long-duration equity sectors such as technology, and growth styles. Overall, this leaves us preferring U.S. small caps, Europe and Japan at the expense of emerging markets – which could be further constrained by strength in the dollar – and U.S. large caps. In some of our portfolios, we are further modifying our U.S. exposure to favor an equally weighted S&P 500 in place of the traditional market cap-weighted index.

In fixed income, we see credit returns being primarily driven by carry and favor high yield over investment grade. In sovereign bonds, we are now modestly underweight duration, in particular in U.S. Treasuries, since the Fed has shown little inclination to push back on rising yields.

Overall, our portfolios are geared to above-trend growth, higher yields and a cyclical earnings recovery. Key risks are unjustified withdrawal of policy stimulus stopping the recovery in its tracks, unwarranted consumer caution as economies reopen, or vaccine nationalism deteriorating into wider trade disputes. Nevertheless, our central case remains a strong recovery and an economy moving rapidly from early to mid-cycle, with asset markets continuing to offer decent upside, albeit demanding a more targeted approach than they did last year.

## Multi-Asset Solutions Key Insights & "Big Ideas"

The Key Insights and "Big Ideas" are discussed in depth at our Strategy Summit and collectively reflect the core views of the portfolio managers and research teams within Multi-Asset Solutions. They represent the common perspectives we come back to and regularly retest in all our asset allocation discussions. We use these "Big Ideas" as a way of sense-checking our portfolio tilts and ensuring they are reflected in all of our portfolios.

- Global growth above trend: U.S. will lead in 1H, broadening in 2H
- Headline CPI to be volatile, but core remains contained in 2021
- Fiscal and monetary stimulus persists into the new cycle
- Higher yields reflect better growth rather than tighter policy
- Dollar downtrend pauses in 1H21, but downside risks remain
- EPS growth, not multiple expansion, drives returns for 2021
- Prefer stocks to bonds, favor small cap, value and cyclicals
- Tech, long-duration equity, emerging markets and U.S. large cap less favored

## Active allocation views

These asset class views apply to a 12- to 18-month horizon. Up/down arrows indicate a positive (▲) or negative (▼) change in view since the prior quarterly Strategy Summit. These views should not be construed as a recommended portfolio. This summary of our individual asset class views indicates strength of conviction and relative preferences across a broad-based range of assets but is independent of portfolio construction considerations.

Underweight ● Neutral ● Overweight ●

| Asset class | | Opportunity set | UW | N | OW | Change | Conviction | |
|---|---|---|---|---|---|---|---|---|
| MAIN ASSET CLASSES | | Equities | ○ | ○ | ● | | High | Strong earnings recovery continues; scope for rerating in banks, resources and cap goods |
| | | Duration | ● | ○ | ○ | ▼ | Low | Improving growth driving yields up; front ends anchored but potential for steeper curves |
| | | Credit | ○ | ○ | ● | | Low | Returns led by carry, not spread compression, but remain attractive in risk-adjusted terms |
| | | Cash | ● | ○ | ○ | | Moderate | Central banks reaffirming lower-for-longer policies keeps real cash rates negative in 2021 |
| PREFERENCE BY ASSET CLASS | EQUITIES | U.S. | ○ | ○ | ● | | Low | Supported by U.S. economic strength, but prefer small cap or equal-weighted S&P 500 |
| | | Europe | ○ | ○ | ● | | Moderate | Vaccine issues flagged, soft data improving, scope for cyclical EPS recovery to strengthen |
| | | UK | ○ | ● | ○ | | | Post-Brexit issues still messy, but commodity strength and UK rebound supportive for FTSE |
| | | Japan | ○ | ○ | ● | | Moderate | Attractive value and cyclical tilts; soft JPY and above-trend global growth point to upside |
| | | Emerging markets | ○ | ● | ○ | ▼ | | Too tilted to growth style, tech sector and long-duration stocks to outperform in 2021 |
| | FIXED INCOME | U.S. Treasuries | ● | ○ | ○ | ▼ | Low | No pushback from Fed on higher yields; growth still underpriced at current rates |
| | | G4 ex-U.S. sovereigns | ○ | ● | ○ | ▲ | | Ex-U.S. inflation pressure lower, and central banks more vocally committed to lower yields |
| | | EMD hard currency | ○ | ○ | ● | | Low | EM economic outlook continues to improve, but long duration some headwind to returns |
| | | EMD local FX | ○ | ○ | ● | | Low | Improving commodity prices and global recovery supportive, as is attractive yield pickup |
| | | Corporate investment grade | ○ | ● | ○ | | | Spreads tight, but rebalancing flow likely supportive for IG, especially at longer end |
| | | Corporate high yield | ○ | ○ | ● | | Moderate | Mostly a carry play, but realized defaults set to be low, thus some scope for tighter spreads |
| | CURRENCY | USD | ○ | ● | ○ | ▲ | | Buoyed by U.S. economic strength; remains overvalued but likely supported through 1H21 |
| | | EUR | ○ | ○ | ● | | Low | A further leg higher plausible as Europe starts to catch up to the global recovery in midyear |
| | | JPY | ● | ○ | ○ | ▼ | Moderate | BoJ likely to remain accommodative; low rates and volatilty make JPY a carry funder |
| | | EM FX | ○ | ○ | ● | | Low | Preferred way to play continuing global growth support of EM economies |

Source: J.P. Morgan Asset Management Multi-Asset Solutions; assessments are made using data and information up to March 2021. For illustrative purposes only.

Diversification does not guarantee investment returns and does not eliminate the risk of loss. Diversification among investment options and asset classes may help to reduce overall volatility.

## MULTI-ASSET SOLUTIONS

J.P. Morgan Multi-Asset Solutions manages over USD 290 billion in assets and draws upon the unparalleled breadth and depth of expertise and investment capabilities of the organization. Our asset allocation research and insights are the foundation of our investment process, which is supported by a global research team of 20-plus dedicated research professionals with decades of combined experience in a diverse range of disciplines.

**Multi-Asset Solutions' asset allocation views are the product of a rigorous and disciplined process that integrates:**

- Qualitative insights that encompass macro-thematic insights, business-cycle views and systematic and irregular market opportunities
- Quantitative analysis that considers market inefficiencies, intra- and cross-asset class models, relative value and market directional strategies
- Strategy Summits and ongoing dialogue in which research and investor teams debate, challenge and develop the firm's asset allocation views

As of December 31, 2020.

## NEXT STEPS

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



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