

2020 Vision and Political Distortions: A Guide to the Markets

Dr. David Kelly | Global Chief Strategist, J.P. Morgan Asset Management

February 20, 2020

IMPORTANT INFORMATION

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MARKET INSIGHTS

2020 Vision and Political Distortions: A Guide to the Markets

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J.P. Morgan Asset Management
February 2020

J.P. Morgan



NOW AVAILABLE!

A daily update of the *Guide to the Markets* and Powerpoint presentation is now available each morning on the J.P. Morgan Asset Management website by 10am EST for internal and external use.

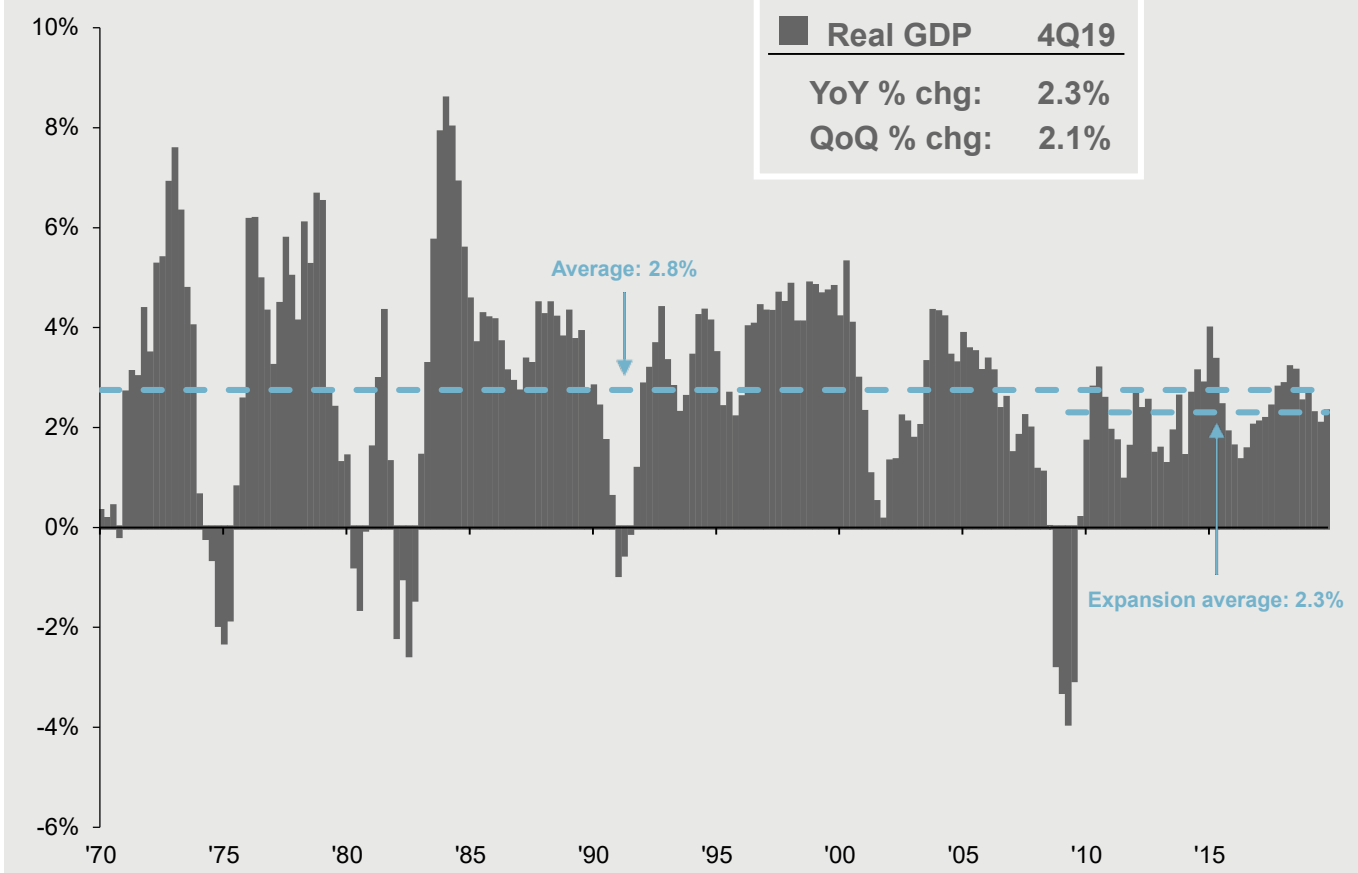
Additionally, it can now be accessed on the Market Insights app each afternoon by 1pm EST.

<https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-the-markets>

- **Economic growth should slow, but not stall, in 2020.**
- Tight labor markets, steady inflation and fading trade risks should keep the Fed on hold.
- Investors maybe overestimating political risks.
- With valuations high, investors will need to consider international equities, alternative investments, and active management to enhance returns.

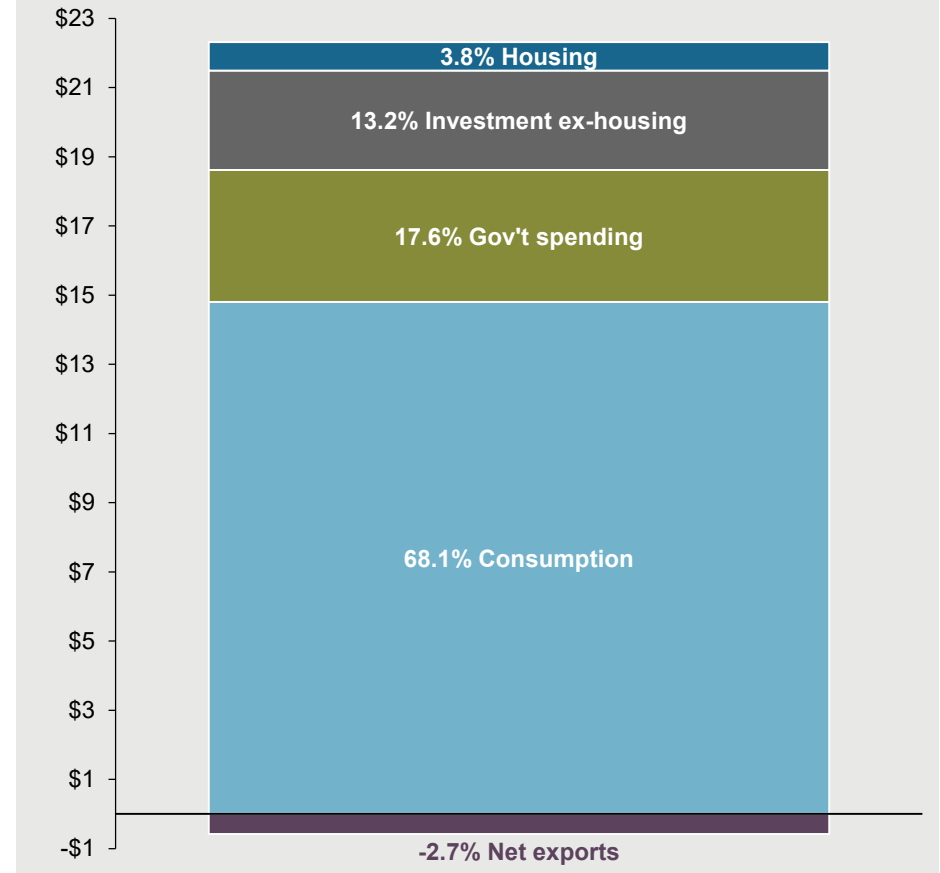
Real GDP

Year-over-year % change

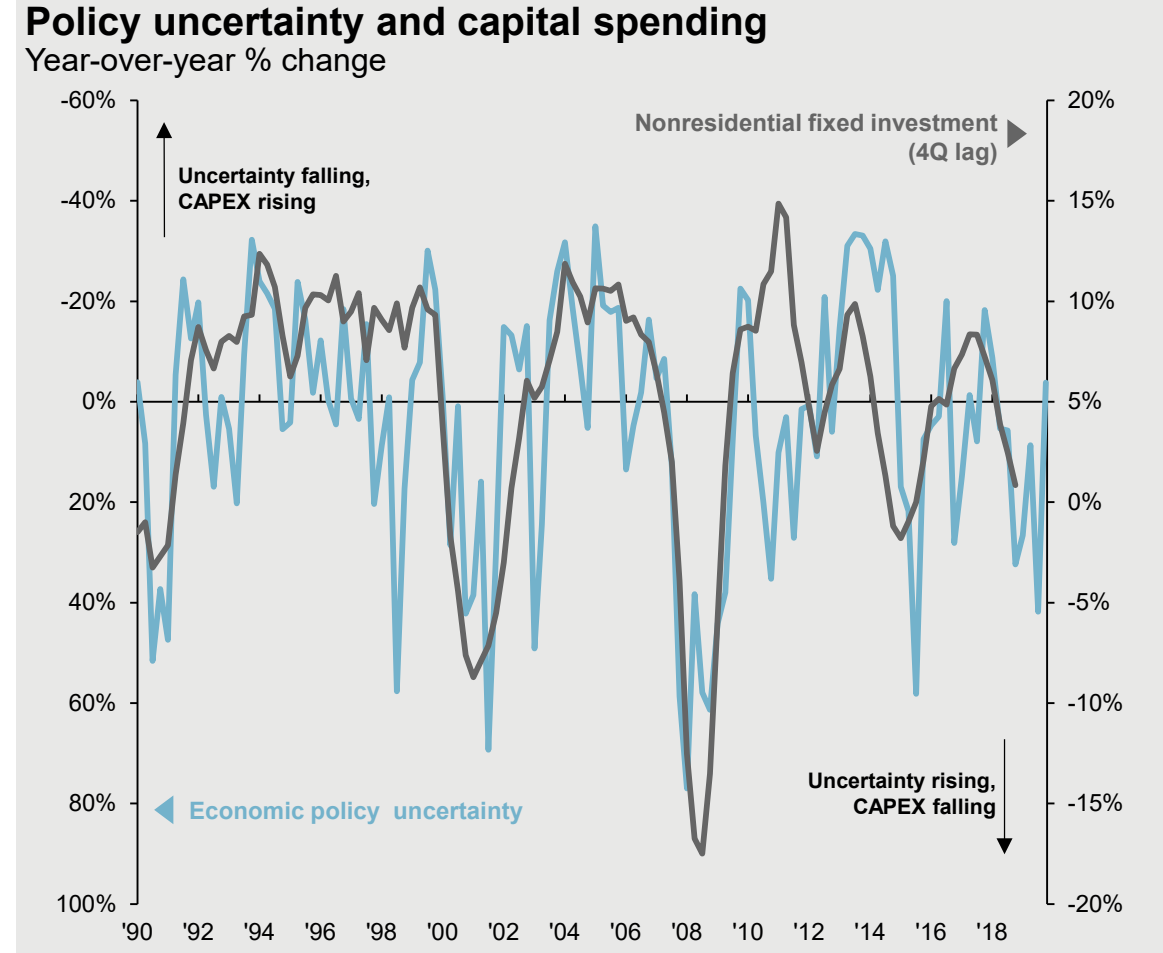
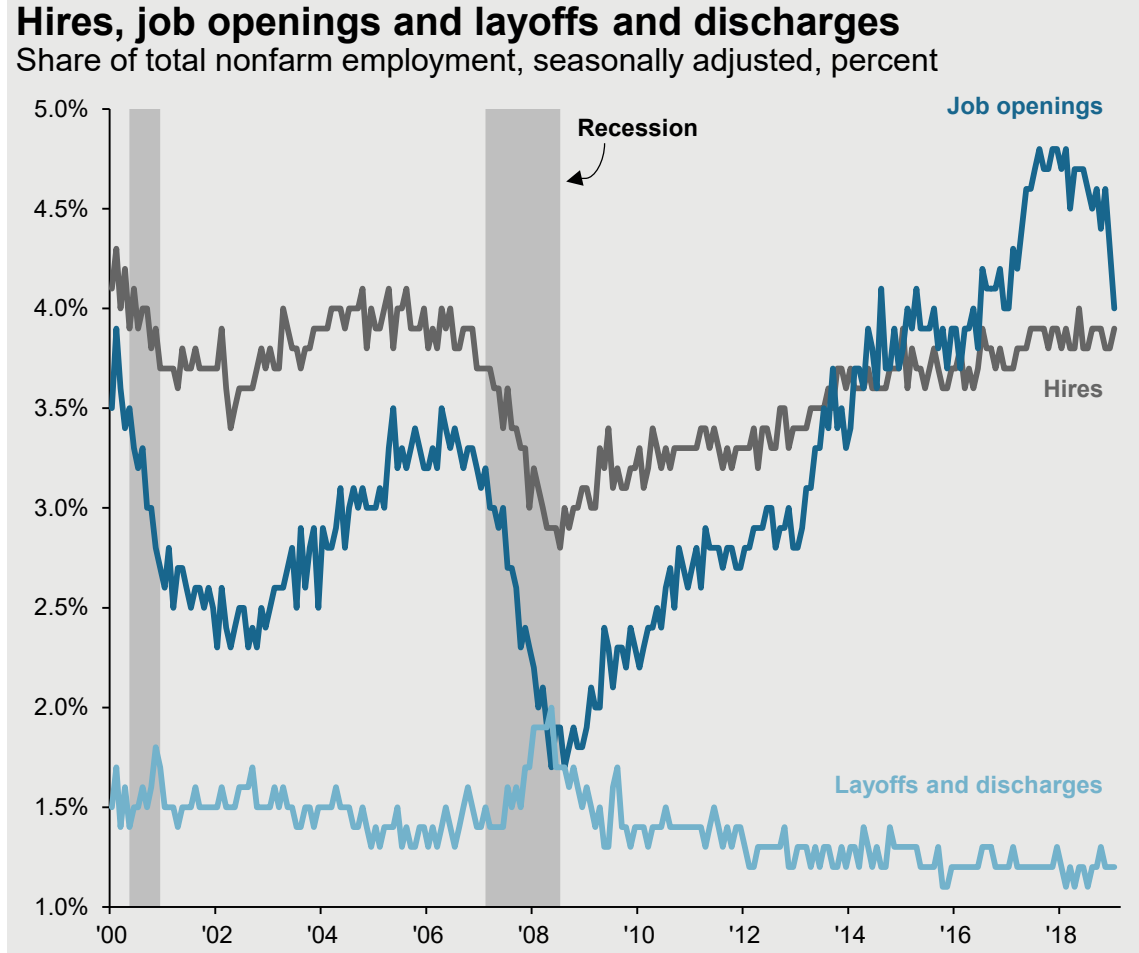


Components of GDP

4Q19 nominal GDP, USD trillions



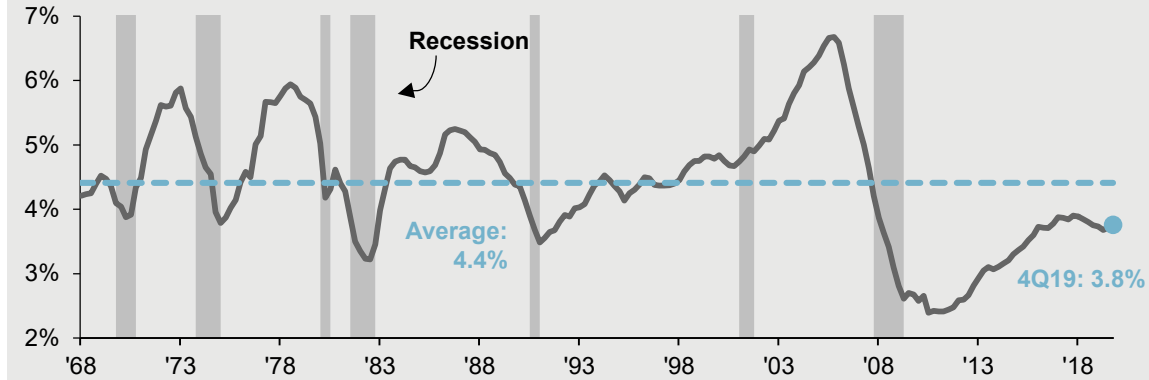
Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding. Quarter-over-quarter percent changes are at an annualized rate. Average represents the annualized growth rate for the full period. Expansion average refers to the period starting in the third quarter of 2009. *Guide to the Markets – U.S.* Data are as of February 10, 2020.



Source: J.P. Morgan Asset Management, (Left) Bureau of Labor Statistics; (Right) Bureau of Economic Analysis, "Measuring Economic Policy Uncertainty" by Scott Baker, Nicholas Bloom and Steven J. Davis. The policy uncertainty index is constructed by three components: newspaper coverage of policy-related economic uncertainty, the number of federal tax code provisions set to expire in future years and disagreement among economic forecasters as a proxy for uncertainty. *Guide to the Markets – U.S.* Data are as of February 10, 2020.

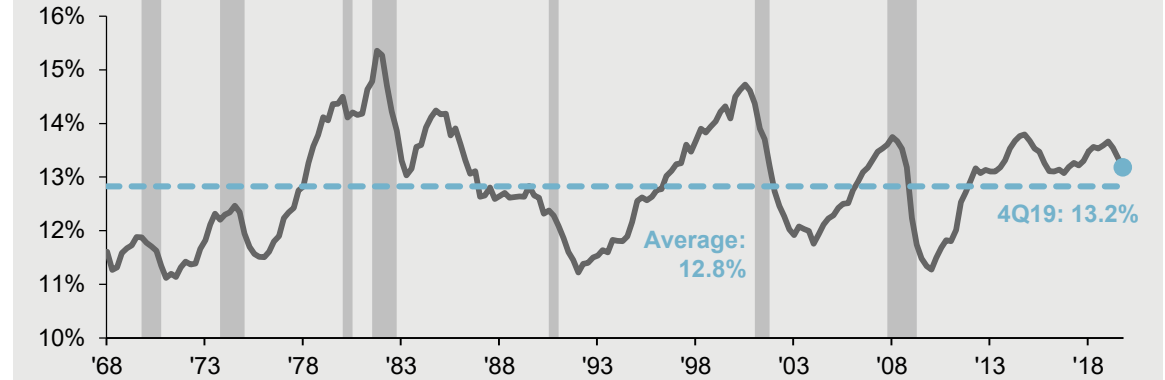
Residential investment as a % of GDP

Quarterly, seasonally adjusted



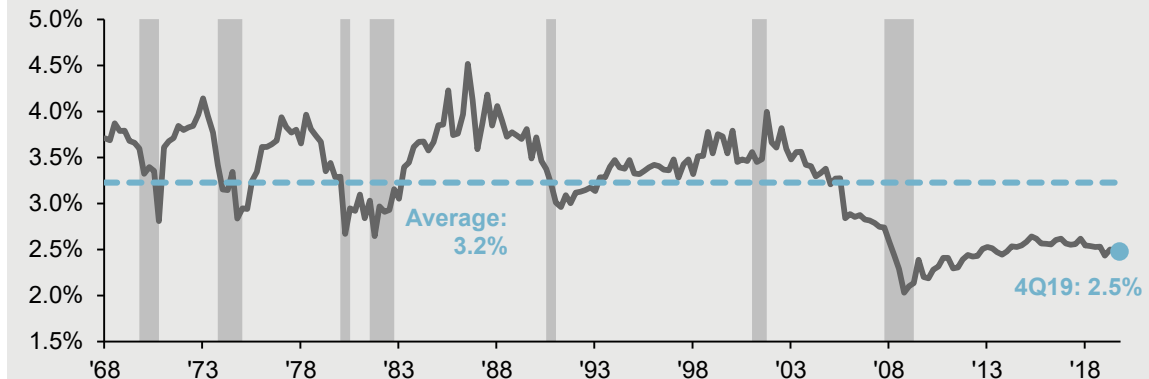
Business fixed investment as a % of GDP

Quarterly, seasonally adjusted



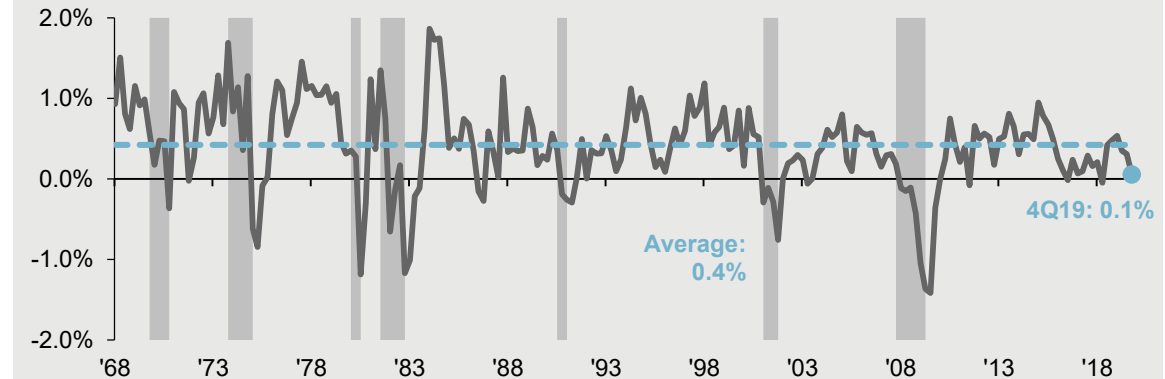
Motor vehicle and parts consumption as a % of GDP

Quarterly, seasonally adjusted



Change in private inventories as a % of GDP

Quarterly, seasonally adjusted

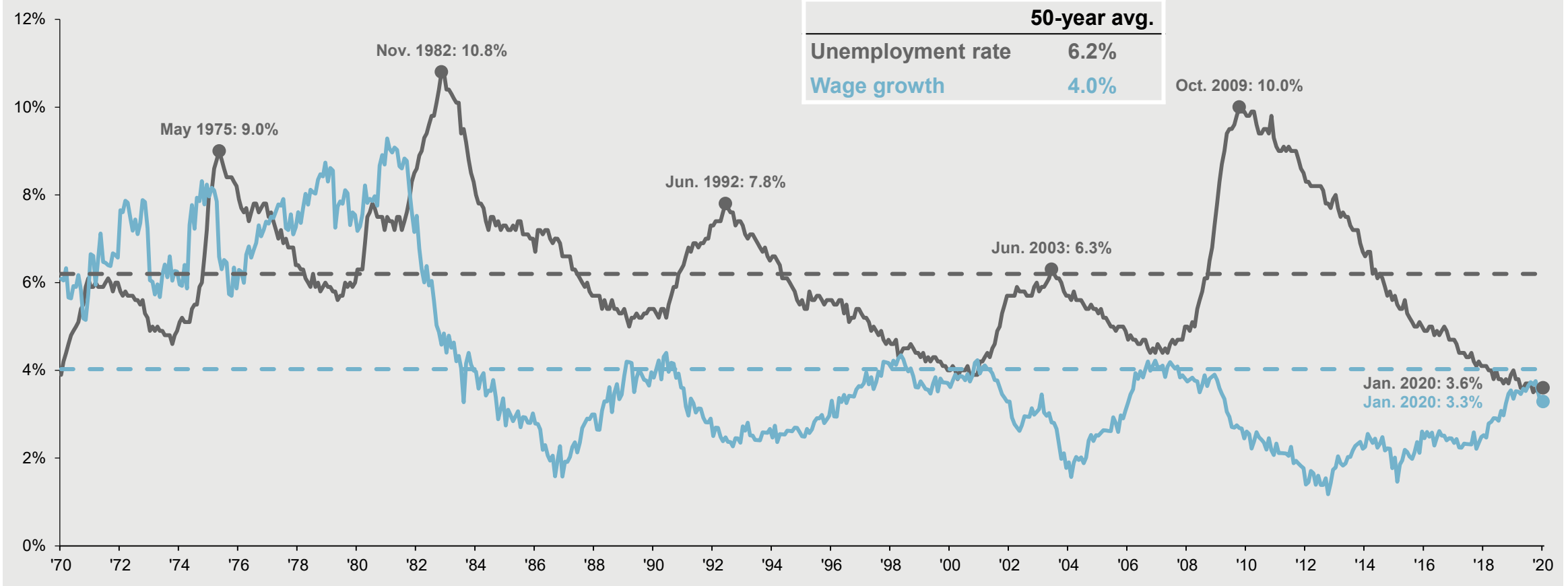


Source: BEA, FactSet, J.P. Morgan Asset Management.
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Civilian unemployment rate and year-over-year wage growth for private production and non-supervisory workers

Seasonally adjusted, percent



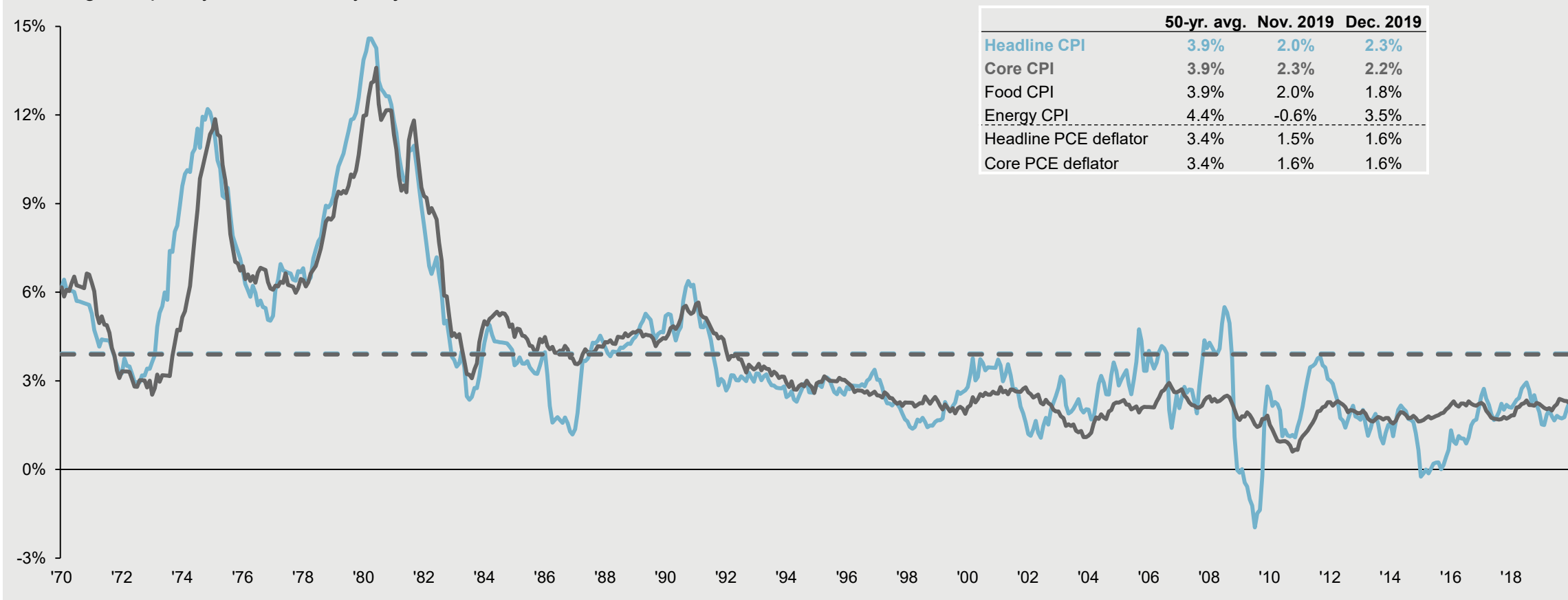
Source: BLS, FactSet, J.P. Morgan Asset Management.
 Guide to the Markets – U.S. Data are as of February 10, 2020.

Inflation has remained below the Fed's 2% target, but should gradually move higher.

Economy

CPI and core CPI

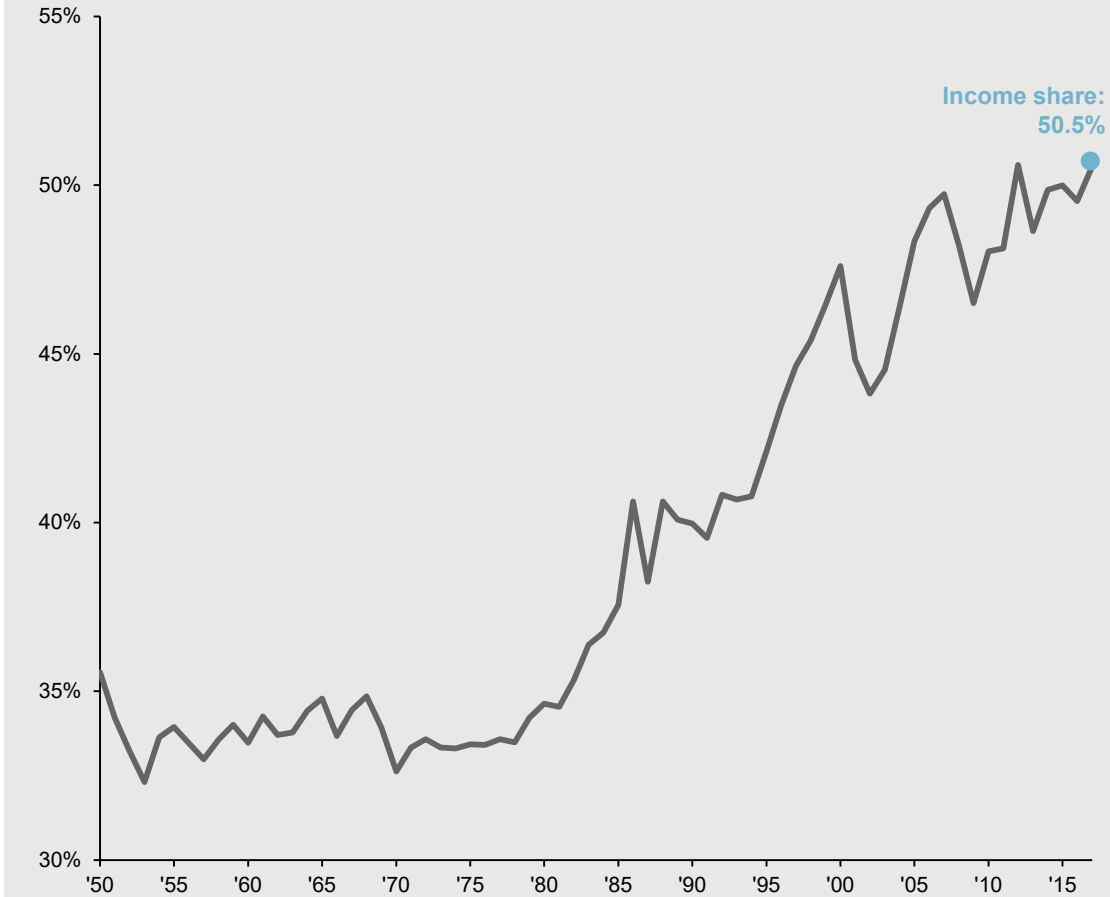
% change vs. prior year, seasonally adjusted



Source: BLS, FactSet, J.P. Morgan Asset Management. CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.

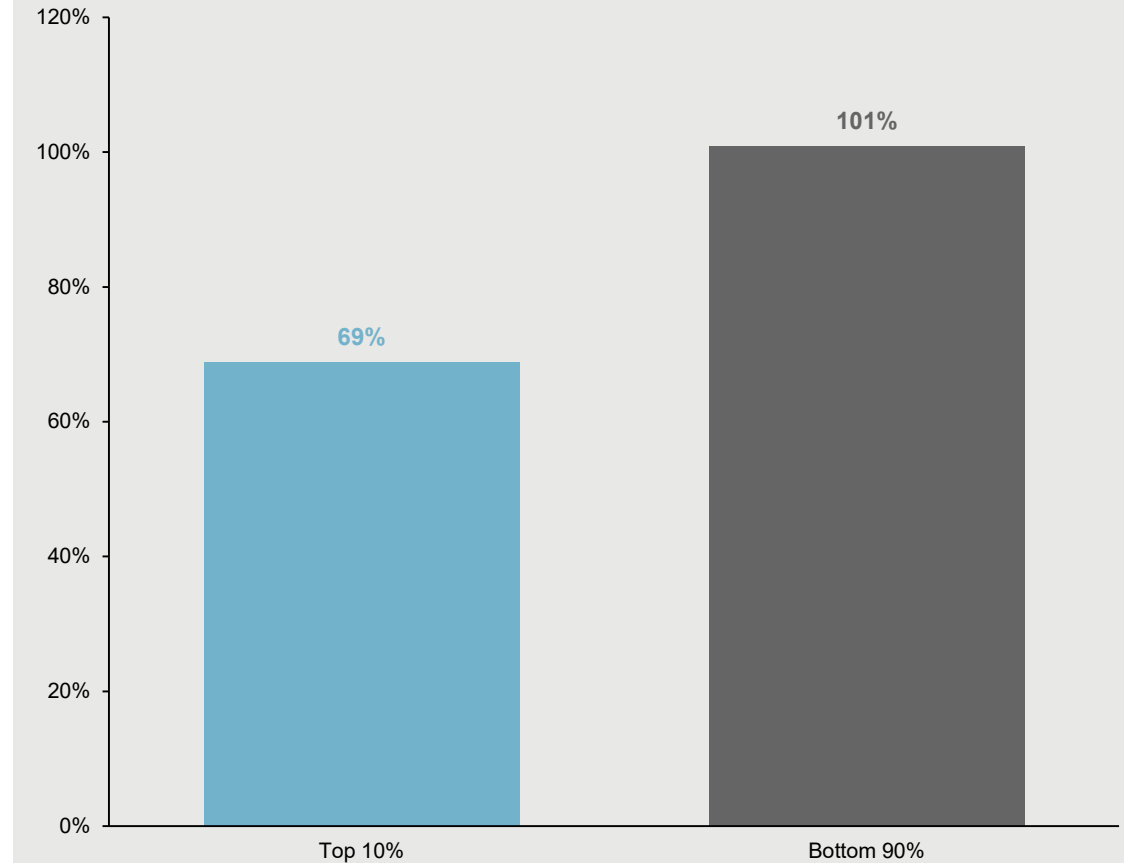
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Top 10% share of pre-tax national income



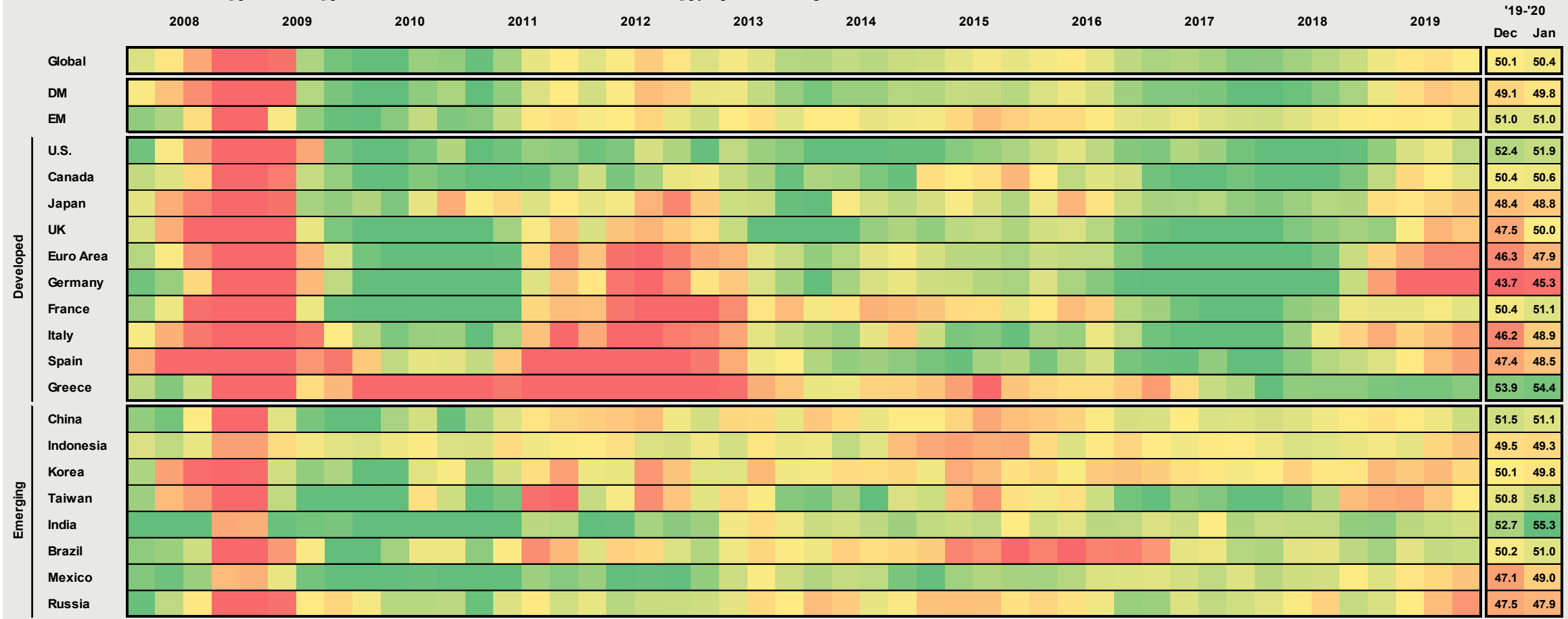
Spending as a share of income after tax

Consumer expenditure survey, 2018



Source: Bureau of Labor Statistics, Piketty, Saez, J.P. Morgan Asset Management. (Left) "Income Inequality in the United States, 1913-1998" by Thomas Piketty and Emmanuel Saez, updated to 2018. Income is defined as market income and excludes government transfers but includes capital gains. In 2018, top decile includes all families with annual income above \$135,000. (Right) Consumer Expenditure Survey 2018. *Guide to the Markets – U.S.* Data are as of February 10, 2020.

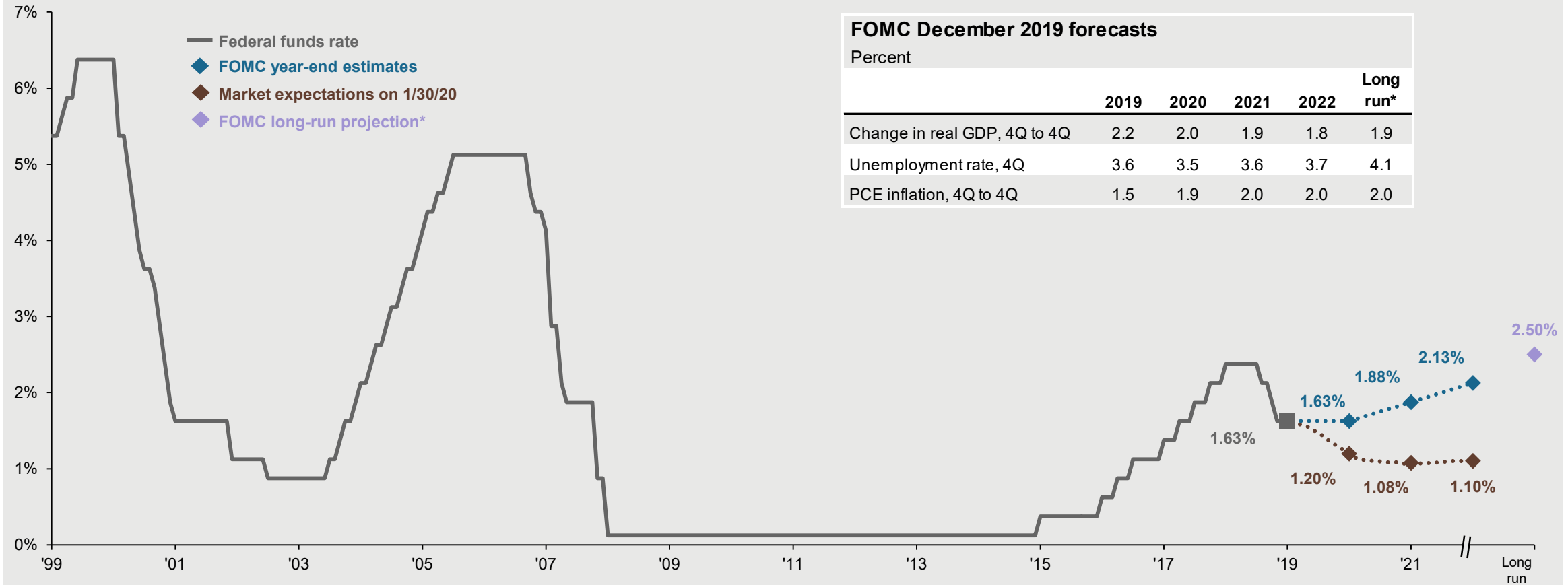
Global Purchasing Managers' Index for manufacturing, quarterly



Source: Markit, J.P. Morgan Asset Management. Heatmap colors are based on PMI relative to the 50 level, which indicates acceleration or deceleration of the sector, for the time period shown. Heat map is based on quarterly averages, with the exception of the two most recent figures, which are single month readings. Data for Canada, Indonesia and Mexico are back-tested and filled in from December 2007 to November 2010 for Canada and May 2011 for Indonesia and Mexico due to lack of existing PMI figures for these countries. DM and EM represent developed markets and emerging markets, respectively. *Guide to the Markets – U.S.* Data are as of February 10, 2020.

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



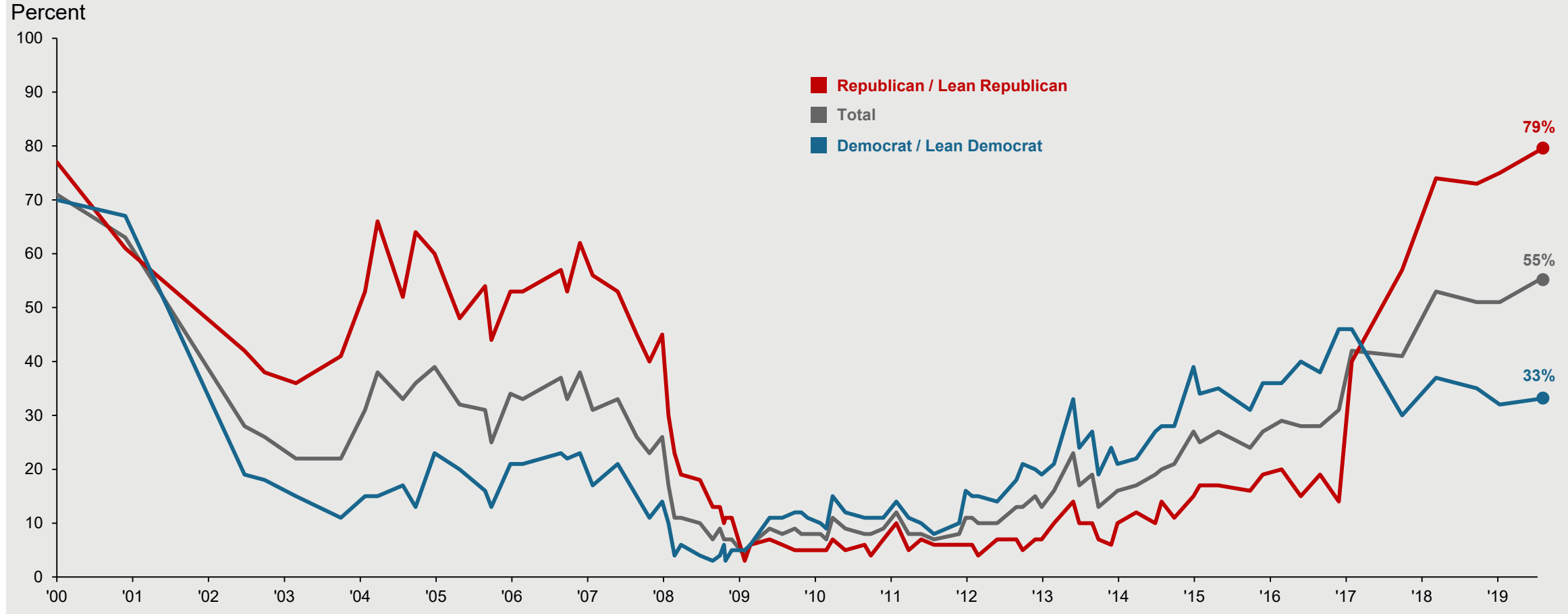
Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

Market expectations are the federal funds rates priced into the fed futures market as of the following date of the December 2019 FOMC meeting and are through December 2022. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy.

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Percentage of Republicans and Democrats who rate national economic conditions as excellent or good



Source: Pew Research Center, J.P. Morgan Asset Management. Pew Research Center, July 2019, "Public's Views of Nation's Economy Remain Positive and Deeply Partisan."
 Question: Thinking about the nation's economy, How would you rate economic conditions in this country today... as excellent, good, only fair, or poor?
 Guide to the Markets – U.S. Data are as of February 10, 2020.

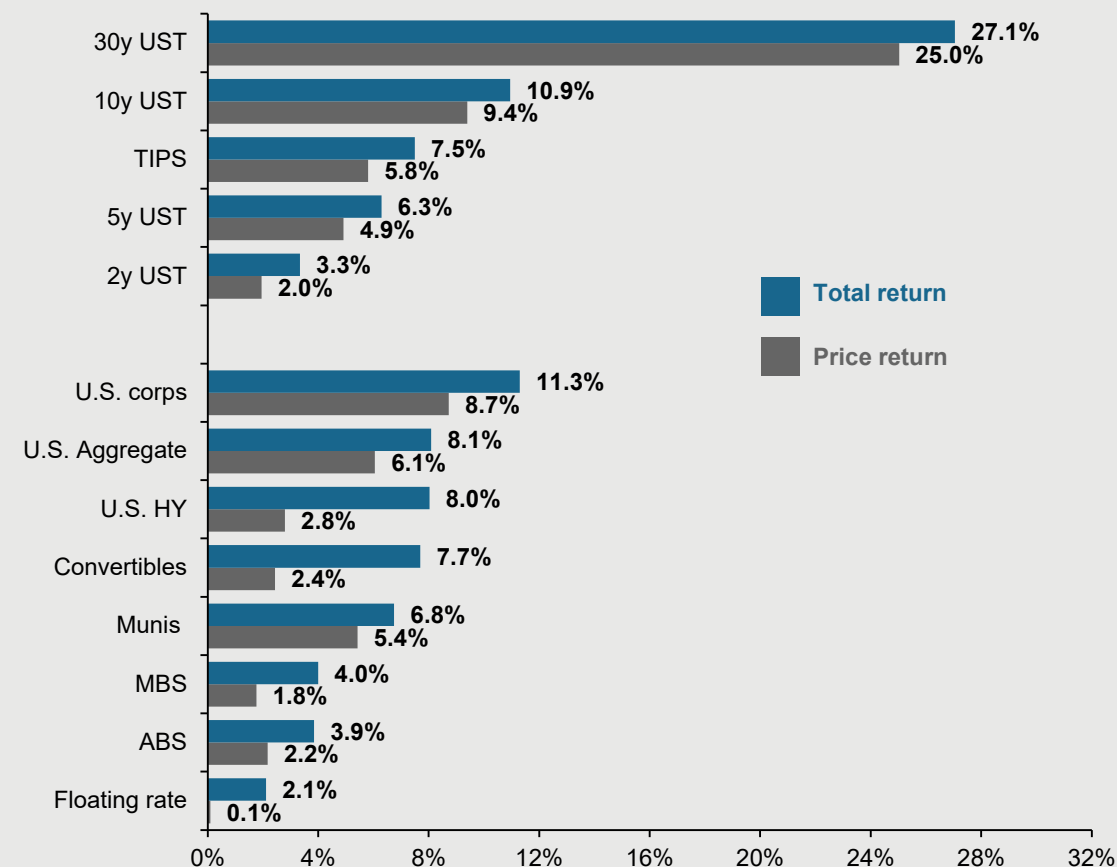
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Yields are low, but investors may not be adequately compensated for taking on more risk. Quality should be the focus.

| U.S. Treasuries | Yield | | Return | | | |
|-----------------------|-----------|------------|----------|---------------|------------------------|------------------------|
| | 2/10/2020 | 12/31/2019 | 2020 YTD | Avg. Maturity | Correlation to 10-year | Correlation to S&P 500 |
| 2-Year | 1.37% | 1.58% | 0.49% | 2 years | 0.67 | -0.35 |
| 5-Year | 1.38% | 1.69% | 1.66% | 5 | 0.92 | -0.33 |
| TIPS | -0.10% | 0.15% | 1.97% | 10 | 0.62 | 0.13 |
| 10-Year | 1.56% | 1.92% | 3.49% | 10 | 1.00 | -0.31 |
| 30-Year | 2.03% | 2.39% | 8.15% | 30 | 0.93 | -0.32 |
| Sector | | | | | | |
| Corporates | 2.57% | 2.84% | 2.60% | 11.7 | 0.52 | 0.31 |
| U.S. Aggregate | 2.03% | 2.31% | 1.99% | 8.1 | 0.88 | -0.01 |
| Convertibles | 5.26% | 5.36% | 4.77% | - | -0.28 | 0.89 |
| High Yield | 5.23% | 5.19% | 0.66% | 5.9 | -0.22 | 0.72 |
| Municipals | 1.33% | 1.63% | 1.87% | 10.0 | 0.54 | -0.02 |
| MBS | 2.24% | 2.54% | 0.86% | 4.4 | 0.82 | -0.13 |
| ABS | 2.70% | 2.87% | 0.83% | 2.3 | 0.06 | 0.20 |
| Floating Rate | 2.01% | 2.30% | 0.46% | 1.9 | -0.19 | 0.38 |

Impact of a 1% fall in interest rates

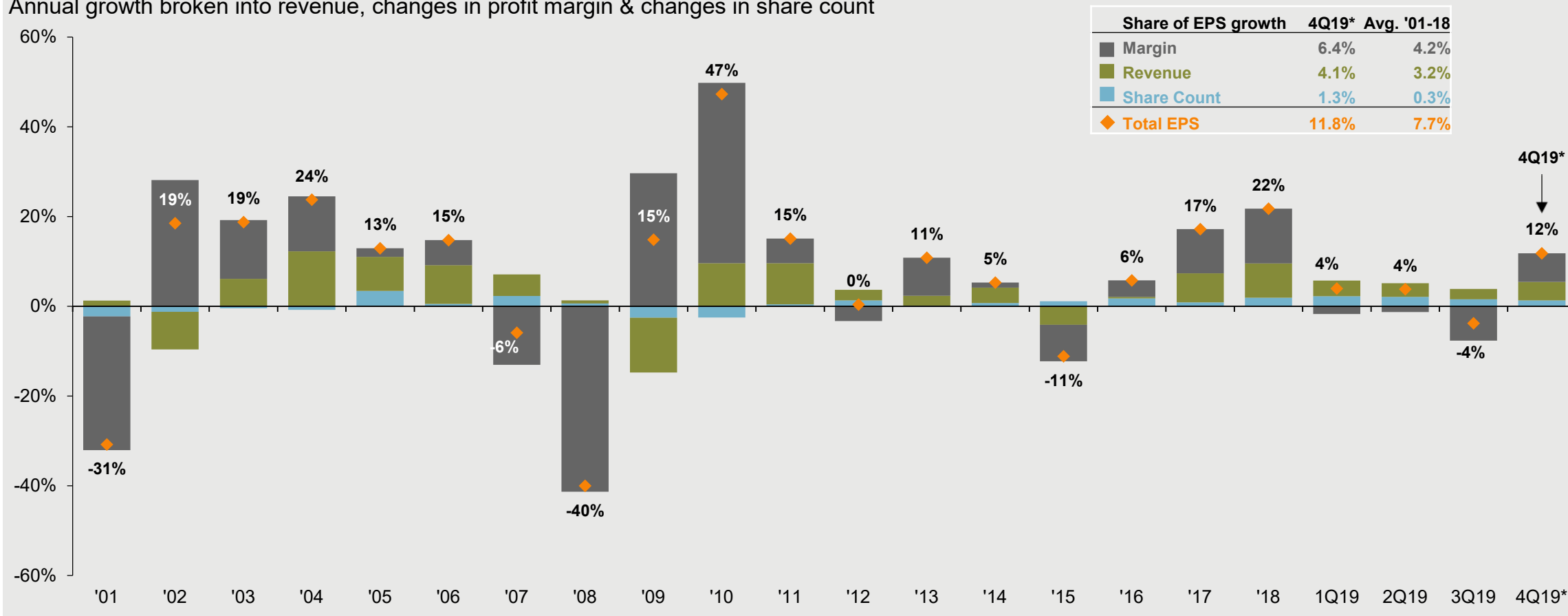
Assumes a parallel shift in the yield curve



Source: Barclays, Bloomberg, FactSet, Standard & Poor's, U.S. Treasury, J.P. Morgan Asset Management. Sectors shown above are provided by Bloomberg unless otherwise noted and are represented by – U.S. Aggregate; MBS: U.S. Aggregate Securitized - MBS; ABS: J.P. Morgan ABS Index; Corporates: U.S. Corporates; Municipals: Muni Bond 10-year; High Yield: Corporate High Yield; TIPS: Treasury Inflation-Protected Securities (TIPS); U.S. Floating rate index; Convertibles: U.S. Convertibles Composite. Yield and return information based on bellwethers for Treasury securities. Sector yields reflect yield to worst. Convertibles yield is based on U.S. portion of Bloomberg Barclays Global Convertibles. Correlations are based on 15-years of monthly returns for all sectors. Change in bond price is calculated using both duration and convexity according to the following formula: $New\ Price = (Price + (Price * -Duration * Change\ in\ Interest\ Rates)) + (0.5 * Price * Convexity * (Change\ in\ Interest\ Rates)^2)$. Chart is for illustrative purposes only. Past performance is not indicative of future results. *Guide to the Markets – U.S.* Data are as of February 10, 2020.

S&P 500 year-over-year EPS growth

Annual growth broken into revenue, changes in profit margin & changes in share count

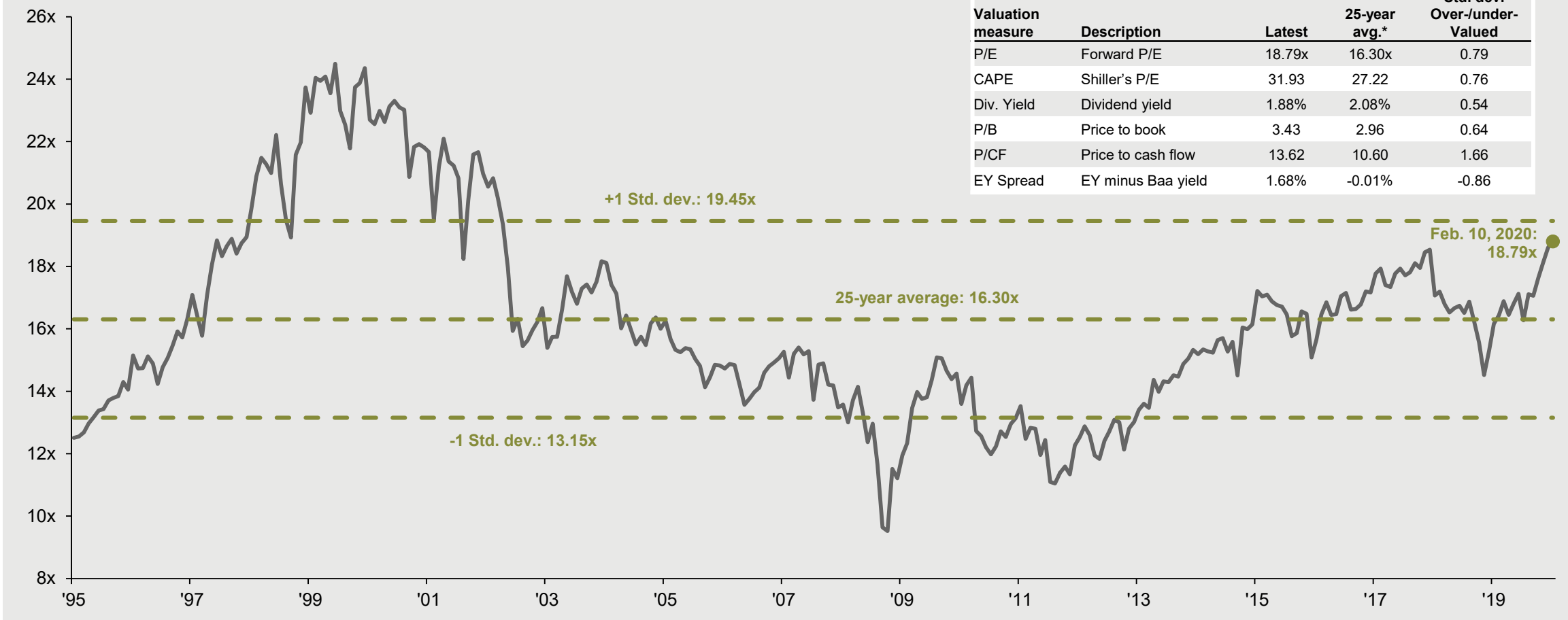


Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.

EPS levels are based on annual operating earnings per share except for 2019, which is quarterly. Percentages may not sum due to rounding. Past performance is not indicative of future returns. *4Q19 earnings are calculated using actual earnings for 61.0% of S&P 500 market cap and earnings estimates for the remaining companies.

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S&P 500 Index: Forward P/E ratio

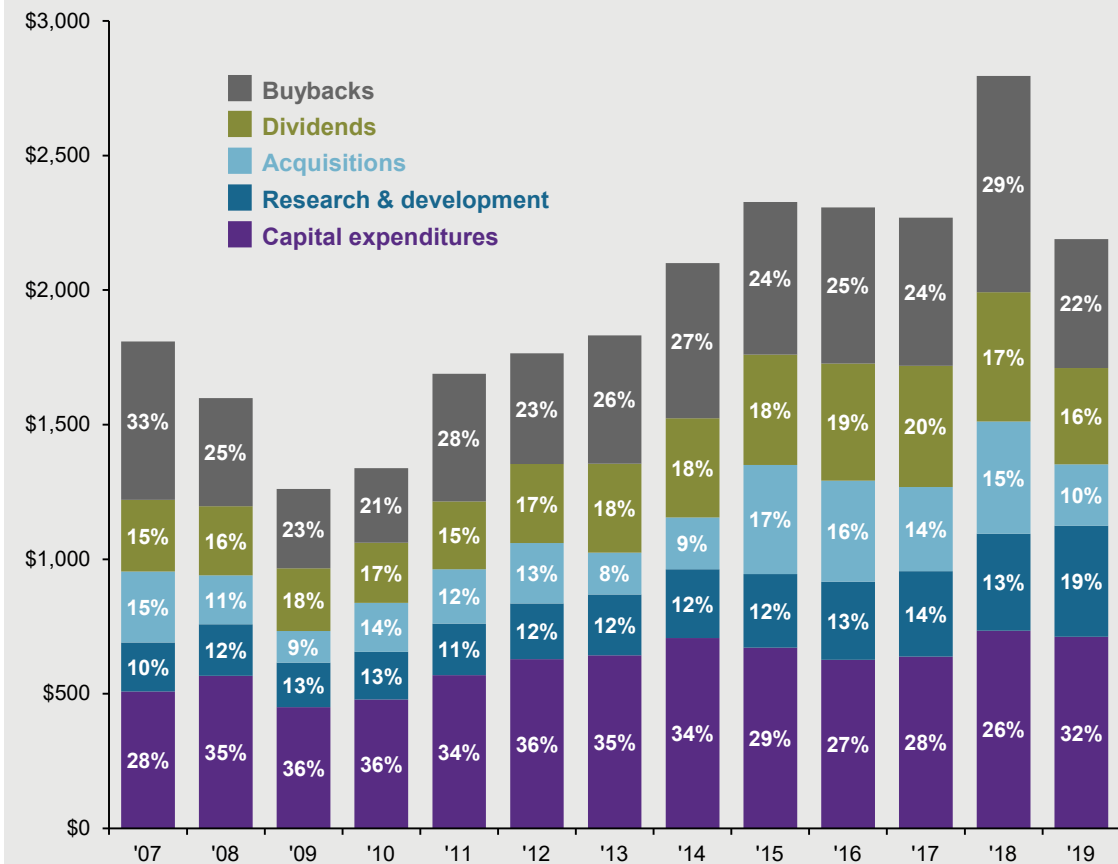


Source: FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management. Price to earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since February 1995, and FactSet for February 10, 2020. Average P/E and standard deviations are calculated using 25 years of IBES history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price. Price to book ratio is the price divided by book value per share. Price to cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. *P/CF is a 20-year average due to cash flow data availability. *Guide to the Markets – U.S.* Data are as of February 10, 2020.

...so investors should focus on quality and total shareholder yield, which includes both dividends and buybacks.

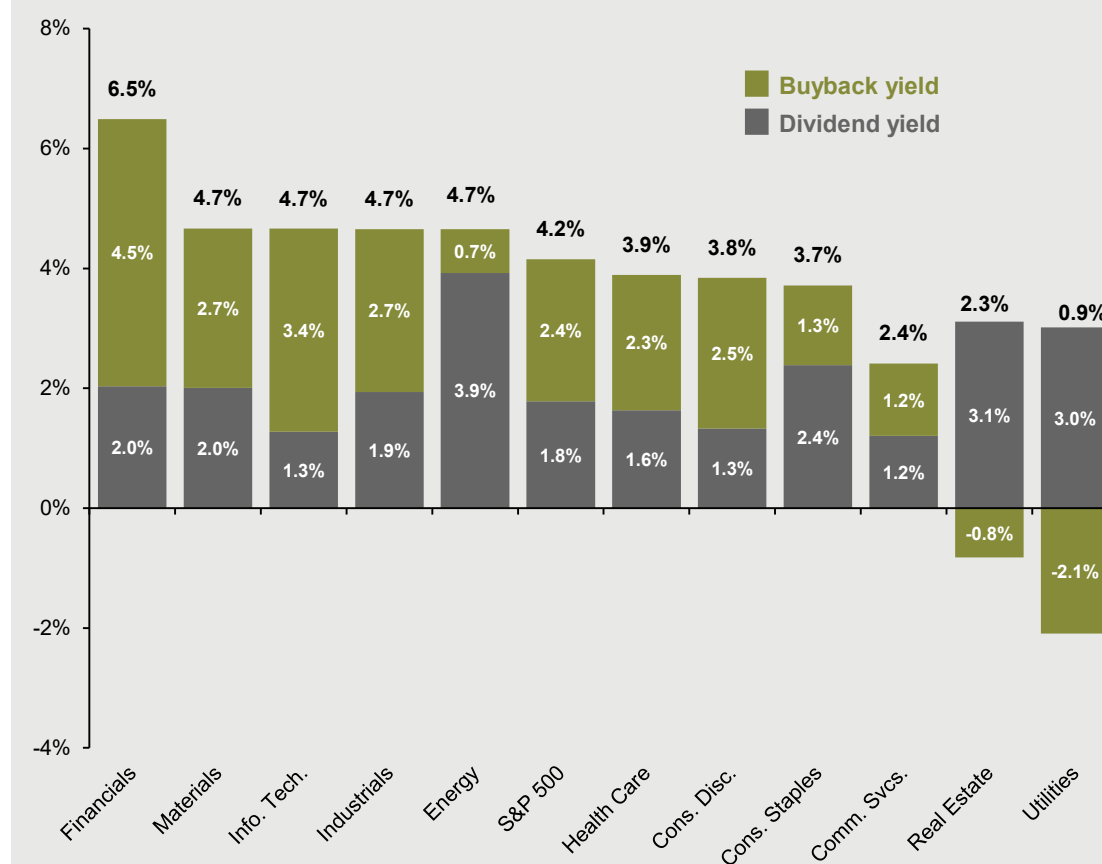
S&P 500 uses of cash

USD billions



Total shareholder yield by sector

Last 12-months dividends and buybacks minus iss. divided by mkt. cap



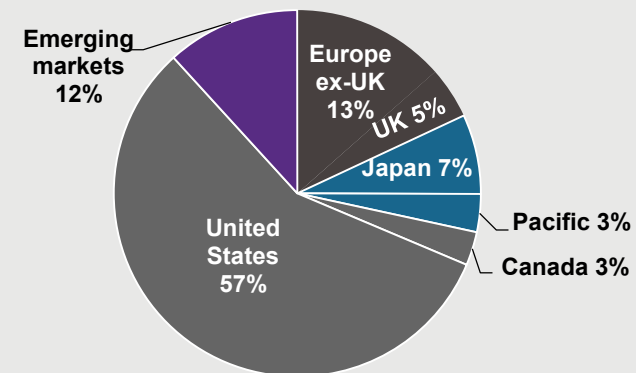
Source: Bloomberg, Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Buyback yield is net of share issuance and is based on last 12-months net issuance divided by market capitalization. Dividend yield is calculated as the last 12-month dividend divided by market capitalization. *2019 S&P 500 uses of cash are a full-year forecast based on the growth rates observed year-to-date though the 3Q19 reporting season.

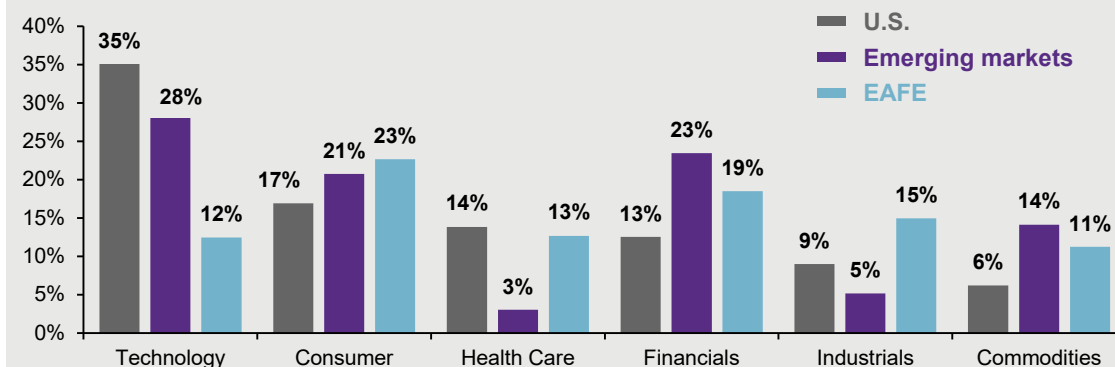
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| Returns | 2020 YTD | | 2019 | | 15-years | |
|---------------------------|----------|------|-------|------|----------|------|
| | Local | USD | Local | USD | Ann. | Beta |
| Regions | | | | | | |
| U.S. (S&P 500) | - | 3.9 | - | 31.5 | 9.0 | 0.87 |
| AC World ex-U.S. | 1.0 | -1.0 | 21.4 | 22.1 | 5.7 | 1.10 |
| EAFE | 1.5 | -0.7 | 22.3 | 22.7 | 5.3 | 1.06 |
| Europe ex-UK | 2.8 | 0.4 | 27.5 | 25.9 | 5.9 | 1.20 |
| Emerging markets | -1.1 | -2.4 | 18.5 | 18.9 | 7.8 | 1.27 |
| Selected Countries | | | | | | |
| United Kingdom | -1.3 | -3.8 | 16.5 | 21.1 | 4.2 | 1.01 |
| France | 1.4 | -1.3 | 29.3 | 27.0 | 5.9 | 1.22 |
| Germany | 1.6 | -1.1 | 23.9 | 21.7 | 6.4 | 1.32 |
| Japan | 0.5 | -0.5 | 18.9 | 20.1 | 4.3 | 0.75 |
| China | -0.7 | -0.6 | 23.3 | 23.7 | 11.3 | 1.26 |
| India | 0.5 | 0.6 | 10.0 | 7.6 | 9.2 | 1.31 |
| Brazil | -2.4 | -9.0 | 31.5 | 26.7 | 9.5 | 1.49 |
| Russia | -2.1 | -4.8 | 38.8 | 52.7 | 7.4 | 1.53 |

Weights in MSCI All Country World Index
% global market capitalization, float adjusted



Global equities by sector
% of index market capitalization

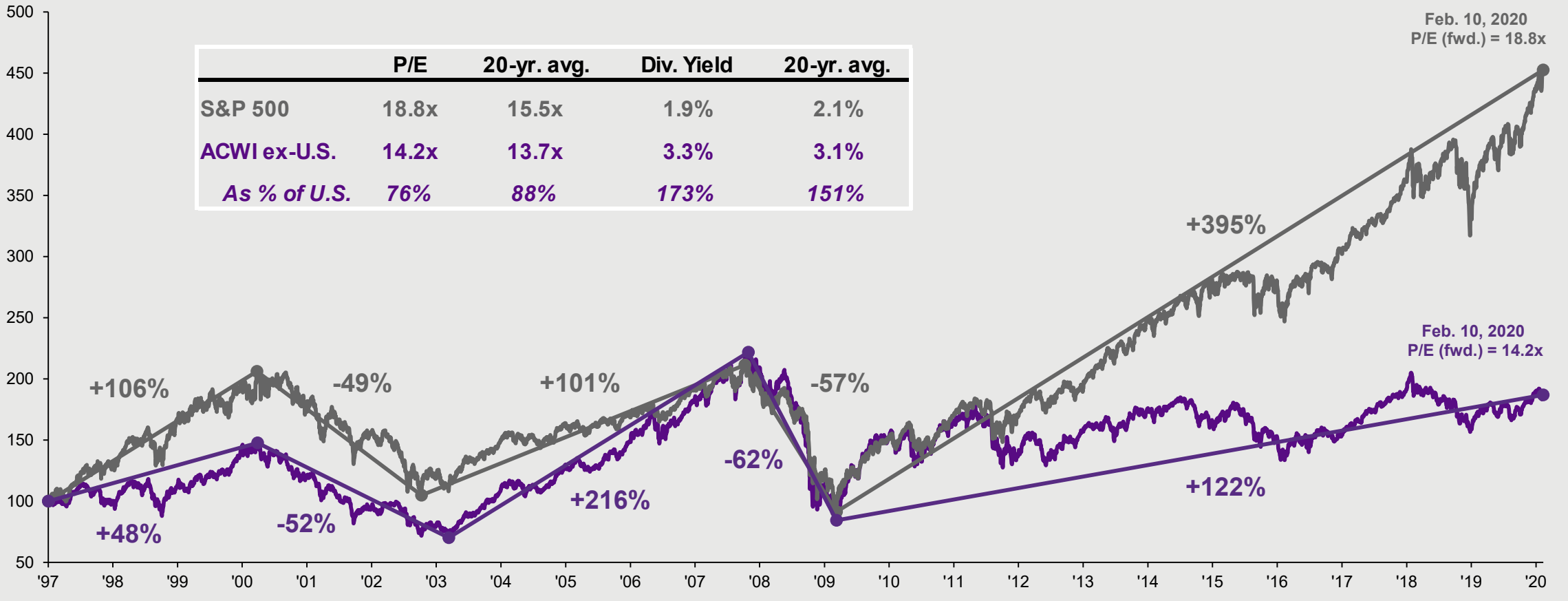


Source: FactSet, Federal Reserve, MSCI, Standard & Poor's, J.P. Morgan Asset Management. All return values are MSCI Gross Index (official) data. 15-year history based on U.S. dollar returns. 15-year return and beta figures are calculated for the time period 12/31/04-12/31/19. Beta is for monthly returns relative to the MSCI AC World Index. Annualized volatility is calculated as the standard deviation of quarterly returns multiplied by the square root of 4. Chart is for illustrative purposes only. Please see disclosure page for index definitions. Past performance is not a reliable indicator of current and future results. Sector breakdown includes the following aggregates: Technology (communication services and technology), consumer (consumer discretionary and staples) and commodities (energy and materials). The graph excludes the utilities and real estate sectors for illustrative purposes. *Guide to the Markets – U.S.* Data are as of February 10, 2020.

...and international equities are trading at a discount to U.S. equities, with a greater dividend yield.

MSCI All Country World ex-U.S. and S&P 500 Indices

Dec. 1996 = 100, U.S. dollar, price return



International

Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.

Forward price to earnings ratio is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on price movement only, and do not include the reinvestment of dividends. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by FactSet Market Aggregates. Past performance is not a reliable indicator of current and future results.

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With risks ahead such as the election and continuing trade uncertainty, diversification is critical.

GTM – U.S. | 60

| 2005 - 2019 | | | | | | | | | | | | | | | | YTD | Ann. | Vol. |
|----------------------|-----------------------|----------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|-----------------------|-----------------------|----------------------|----------------------|-----------------------|------|
| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | YTD | Ann. | Vol. | |
| EM Equity 34.5% | REITs 35.1% | EM Equity 39.8% | Fixed Income 5.2% | EM Equity 79.0% | REITs 27.9% | REITs 8.3% | REITs 19.7% | Small Cap 38.8% | REITs 28.0% | REITs 2.8% | Small Cap 21.3% | EM Equity 37.8% | Cash 1.8% | Large Cap 31.5% | Large Cap 3.9% | Large Cap 9.0% | REITs 22.2% | |
| Comdty. 21.4% | EM Equity 32.6% | Comdty. 16.2% | Cash 1.8% | High Yield 59.4% | Small Cap 26.9% | Fixed Income 7.8% | High Yield 19.6% | Large Cap 32.4% | Large Cap 13.7% | Large Cap 1.4% | High Yield 14.3% | DM Equity 25.6% | Fixed Income 0.0% | REITs 28.7% | Fixed Income 2.0% | REITs 8.3% | EM Equity 22.1% | |
| DM Equity 14.0% | DM Equity 26.9% | DM Equity 11.6% | Asset Alloc. -25.4% | DM Equity 32.5% | EM Equity 19.2% | High Yield 3.1% | EM Equity 18.6% | DM Equity 23.3% | Fixed Income 6.0% | Fixed Income 0.5% | Large Cap 12.0% | Large Cap 21.8% | REITs -4.0% | Small Cap 25.5% | REITs 1.3% | Small Cap 7.9% | Comdty. 18.6% | |
| REITs 12.2% | Small Cap 18.4% | Asset Alloc. 7.1% | High Yield -26.9% | REITs 28.0% | Comdty. 16.8% | Large Cap 2.1% | DM Equity 17.9% | Asset Alloc. 14.9% | Asset Alloc. 5.2% | Cash 0.0% | Comdty. 11.8% | Small Cap 14.6% | High Yield -4.1% | DM Equity 22.7% | Asset Alloc. 0.9% | EM Equity 7.8% | Small Cap 17.7% | |
| Asset Alloc. 8.1% | Large Cap 15.8% | Fixed Income 7.0% | Small Cap -33.8% | Small Cap 27.2% | Large Cap 15.1% | Cash 0.1% | Small Cap 16.3% | High Yield 7.3% | Small Cap 4.9% | DM Equity -0.4% | EM Equity 11.6% | Asset Alloc. 14.6% | Large Cap -4.4% | Asset Alloc. 19.5% | High Yield 0.4% | High Yield 7.2% | DM Equity 17.3% | |
| Large Cap 4.9% | Asset Alloc. 15.3% | Large Cap 5.5% | Comdty. -35.6% | Large Cap 26.5% | High Yield 14.8% | Asset Alloc. -0.7% | Large Cap 16.0% | REITs 2.9% | Cash 0.0% | Asset Alloc. -2.0% | REITs 8.6% | High Yield 10.4% | Asset Alloc. -5.8% | EM Equity 18.9% | Cash 0.2% | Asset Alloc. 6.6% | Large Cap 14.0% | |
| Small Cap 4.6% | High Yield 13.7% | Cash 4.8% | Large Cap -37.0% | Asset Alloc. 25.0% | Asset Alloc. 13.3% | Small Cap -4.2% | Asset Alloc. 12.2% | Cash 0.0% | High Yield 0.0% | High Yield -2.7% | Asset Alloc. 8.3% | REITs 8.7% | Small Cap -11.0% | High Yield 12.6% | Small Cap 0.0% | DM Equity 5.3% | High Yield 10.9% | |
| High Yield 3.6% | Cash 4.8% | High Yield 3.2% | REITs -37.7% | Comdty. 18.9% | DM Equity 8.2% | DM Equity -11.7% | Fixed Income 4.2% | Fixed Income -2.0% | EM Equity -1.8% | Small Cap -4.4% | Fixed Income 2.6% | Fixed Income 3.5% | Comdty. -11.2% | Fixed Income 8.7% | DM Equity -0.7% | Fixed Income 4.1% | Asset Alloc. 10.0% | |
| Cash 3.0% | Fixed Income 4.3% | Small Cap -1.6% | DM Equity -43.1% | Fixed Income 5.9% | Fixed Income 6.5% | Comdty. -13.3% | Cash 0.1% | EM Equity -2.3% | DM Equity -4.5% | EM Equity -14.6% | DM Equity 1.5% | Comdty. 1.7% | DM Equity -13.4% | Comdty. 7.7% | EM Equity -2.4% | Cash 1.3% | Fixed Income 3.4% | |
| Fixed Income 2.4% | Comdty. 2.1% | REITs -15.7% | EM Equity -53.2% | Cash 0.1% | Cash 0.1% | EM Equity -18.2% | Comdty. -1.1% | Comdty. -9.5% | Comdty. -17.0% | Comdty. -24.7% | Cash 0.3% | Cash 0.8% | EM Equity -14.2% | Cash 2.2% | Comdty. -8.1% | Comdty. -2.6% | Cash 1.0% | |

Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management. Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Barclays Global HY Index, Fixed Income: Bloomberg Barclays US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg Barclays 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg Barclays US Aggregate, 5% in the Bloomberg Barclays 1-3m Treasury, 5% in the Bloomberg Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period of 12/31/04 – 12/31/19. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.
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Investing principles

All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

Equities:

The **Dow Jones Industrial Average** is a price-weighted average of 30 actively traded blue-chip U.S. stocks.

The **MSCI ACWI (All Country World Index)** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The **MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe.

The **MSCI Pacific Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Pacific region.

The **Russell 1000 Index**® measures the performance of the 1,000 largest companies in the Russell 3000.

The **Russell 1000 Growth Index**® measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index**® measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 2000 Index**® measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **Russell 2000 Growth Index**® measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 2000 Value Index**® measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 3000 Index**® measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

The **Russell Midcap Index**® measures the performance of the 800 smallest companies in the Russell 1000 Index.

The **Russell Midcap Growth Index**® measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth index.

The **Russell Midcap Value Index**® measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value index.

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The **S&P 500 Index** focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

Fixed income:

The **Bloomberg Barclays 1-3 Month U.S. Treasury Bill Index** includes all publicly issued zero-coupon US Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non convertible.

The **Bloomberg Barclays Global High Yield Index** is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices. The high yield and emerging markets sub-components are mutually exclusive. Until January 1, 2011, the index also included CMBS high yield securities.

The **Bloomberg Barclays Municipal Index**: consists of a broad selection of investment-grade general obligation and revenue bonds of maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market.

The **Bloomberg Barclays US Dollar Floating Rate Note (FRN) Index** provides a measure of the U.S. dollar denominated floating rate note market.

The **Bloomberg Barclays US Corporate Investment Grade Index** is an unmanaged index consisting of publicly issued US Corporate and specified foreign debentures and secured notes that are rated investment grade (Baa3/BBB or higher) by at least two ratings agencies, have at least one year to final maturity and have at least \$250 million par amount outstanding. To qualify, bonds must be SEC-registered.

The **Bloomberg Barclays US High Yield Index** covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.

The **Bloomberg Barclays US Mortgage Backed Securities Index** is an unmanaged index that measures the performance of investment grade fixed-rate mortgage backed pass-through securities of GNMA, FNMA and FHLMC.

The **Bloomberg Barclays US TIPS Index** consists of Inflation-Protection securities issued by the U.S. Treasury.

The **J.P. Morgan Emerging Market Bond Global Index (EMBI)** includes U.S. dollar denominated Brady bonds, Eurobonds, traded loans and local market debt instruments issued by sovereign and quasi-sovereign entities.

The **J.P. Morgan Domestic High Yield Index** is designed to mirror the investable universe of the U.S. dollar domestic high yield corporate debt market.

The **J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI Broad Diversified)** is an expansion of the **J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI)**. The CEMBI is a market capitalization weighted index consisting of U.S. dollar denominated emerging market corporate bonds.

The **J.P. Morgan Emerging Markets Bond Index Global Diversified (EMBI Global Diversified)** tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds. The index limits the exposure of some of the larger countries.

The **J.P. Morgan GBI EM Global Diversified** tracks the performance of local currency debt issued by emerging market governments, whose debt is accessible by most of the international investor base.

The **U.S. Treasury Index** is a component of the U.S. Government index.

Other asset classes:

The **Alerian MLP Index** is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs) that provides investors with an unbiased, comprehensive benchmark for the asset class.

The **Bloomberg Commodity Index** and related sub-indices are composed of futures contracts on physical commodities and represents twenty two separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc

The **Cambridge Associates U.S. Global Buyout and Growth Index®** is based on data compiled from 1,768 global (U.S. & ex – U.S.) buyout and growth equity funds, including fully liquidated partnerships, formed between 1986 and 2013.

The **CS/Tremont Hedge Fund Index** is compiled by Credit Suisse Tremont Index, LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The Index uses the Credit Suisse/Tremont database, which tracks over 4500 funds, and consists only of funds with a minimum of US\$50 million under management, a 12-month track record, and audited financial statements. It is calculated and rebalanced on a monthly basis, and shown net of all performance fees and expenses. It is the exclusive property of Credit Suisse Tremont Index, LLC.

The **HFRI Monthly Indices (HFRI)** are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. The HFRI are broken down into 4 main strategies, each with multiple sub strategies. All single-manager HFRI Index constituents are included in the HFRI Fund Weighted Composite, which accounts for over 2200 funds listed on the internal HFR Database.

The **NAREIT EQUITY REIT Index** is designed to provide the most comprehensive assessment of overall industry performance, and includes all tax-qualified real estate investment trusts (REITs) that are listed on the NYSE, the American Stock Exchange or the NASDAQ National Market List.

The **NFI-ODCE**, short for NCREIF Fund Index - Open End Diversified Core Equity, is an index of investment returns reporting on both a historical and current basis the results of 33 open-end commingled funds pursuing a core investment strategy, some of which have performance histories dating back to the 1970s. The NFI-ODCE Index is capitalization-weighted and is reported gross of fees. Measurement is time-weighted.

Definitions:

Investing in **alternative assets** involves higher risks than traditional investments and is suitable only for sophisticated investors. Alternative investments involve greater risks than traditional investments and should not be deemed a complete investment program. They are not tax efficient and an investor should consult with his/her tax advisor prior to investing. Alternative investments have higher fees than traditional investments and they may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain. The value of the investment may fall as well as rise and investors may get back less than they invested.

Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise.

Investments in **commodities** may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.

Derivatives may be riskier than other types of investments because they may be more sensitive to changes in economic or market conditions than other types of investments and could result in losses that significantly exceed the original investment. The use of derivatives may not be successful, resulting in investment losses, and the cost of such strategies may reduce investment returns.

Distressed Restructuring Strategies employ an investment process focused on corporate fixed income instruments, primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance or obliged (par value) at maturity as a result of either formal bankruptcy proceeding or financial market perception of near term proceedings.

Investments in **emerging markets** can be more volatile. The normal risks of investing in foreign countries are heightened when investing in emerging markets. In addition, the small size of securities markets and the low trading volume may lead to a lack of liquidity, which leads to increased volatility. Also, emerging markets may not provide adequate legal protection for private or foreign investment or private property.

The price of **equity** securities may rise, or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. These price movements may result from factors affecting individual companies, sectors or industries, or the securities market as a whole, such as changes in economic or political conditions. Equity securities are subject to "stock market risk" meaning that stock prices in general may decline over short or extended periods of time.

Equity market neutral strategies employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between securities, select securities for purchase and sale. Equity Market Neutral Strategies typically maintain characteristic net equity market exposure no greater than 10% long or short.

Global macro strategies trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets.

International investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Some overseas markets may not be as politically and economically stable as the United States and other nations.

There is no guarantee that the use of **long and short positions** will succeed in limiting an investor's exposure to domestic stock market movements, capitalization, sector swings or other risk factors. Using long and short selling strategies may have higher portfolio turnover rates. Short selling involves certain risks, including additional costs associated with covering short positions and a possibility of unlimited loss on certain short sale positions.

Merger arbitrage strategies which employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are currently engaged in a corporate transaction.

Mid-capitalization investing typically carries more risk than investing in well-established "blue-chip" companies. Historically, mid-cap companies' stock has experienced a greater degree of market volatility than the average stock.

Price to forward earnings is a measure of the price-to-earnings ratio (P/E) using forecasted earnings. **Price to book value** compares a stock's market value to its book value. **Price to cash flow** is a measure of the market's expectations of a firm's future financial health. **Price to dividends** is the ratio of the price of a share on a stock exchange to the dividends per share paid in the previous year, used as a measure of a company's potential as an investment.

Real estate investments may be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographical sector. Real estate investments may be subject to risks including, but not limited to, declines in the value of real estate, risks related to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrower.

Relative Value Strategies maintain positions in which the investment thesis is predicated on realization of a valuation discrepancy in the relationship between multiple securities.

Small-capitalization investing typically carries more risk than investing in well-established "blue-chip" companies since smaller companies generally have a higher risk of failure. Historically, smaller companies' stock has experienced a greater degree of market volatility than the average stock.

The Market Insights program provides comprehensive data and commentary on global markets without reference to products. Designed as a tool to help clients understand the markets and support investment decision-making, the program explores the implications of current economic data and changing market conditions.

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Unless otherwise stated, all data are as of February 10, 2020 or most recently available.

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