

Outlook 2021

The global economy will heal.
Embrace the optimism.



J.P.Morgan
Private Bank

Foreword

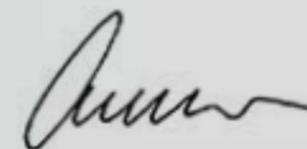
As a dad, I glean a surprising number of lessons from my daughter's favorite films. In one poignant scene from Disney's *Finding Nemo*, dozens of fish are trapped in a fisherman's net, which is being hoisted inexorably toward the surface. But then the film's heroes implore the threatened fish to swim down together, and to just keep swimming. Under the weight of all the fish swimming in the same direction, the net snaps and the fish are freed.

As we turn the page from 2020 and look ahead to 2021, I'm reminded of the message of this scene. Just when our predicament has seemed most dire, the forces of human ingenuity and determination have set us on a brighter path. Frontline healthcare staff and essential workers have kept us going during the pandemic. Today, the scientific community is on the cusp of delivering a vaccine in record time. We have also seen communities around the world come together to push for a more fair and equal society, and we hope to see further progress in the future. And from a financial perspective, the collective efforts of governments, central banks, consumers and businesses, all swimming in the same direction, will help the global economy heal from the COVID-19 crisis.

While a full economic recovery everywhere in the world won't be easy to achieve, we're already well on our way. To help you plan your own journey in the year ahead, I encourage you to read our Outlook for 2021. It is full of actionable insights into what is happening across the globe, and it explains the five big forces likely to shape the global economic recovery and your portfolios in 2021. We also discuss the key risks we see ahead, reaffirm our belief that certain megatrends have the potential to outperform significantly, and share some of our favorite trade ideas.

But it's most important that you discuss these ideas with your J.P. Morgan team to see how they may apply to your unique plans and work toward the goals you have for yourself and your family.

Sincerely,



Andrew Goldberg

Global Head of Market & Asset Class Strategy

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Executive summary



Finally, we are starting to see the light at the end of the tunnel. Welcome news on COVID-19 vaccines arrived near the end of a difficult and volatile 2020. Trial results of several vaccine candidates suggest greater than 90% effectiveness, promising an eventual end to a global pandemic that has disrupted the lives of so many of us. In response, broad equity markets are close to all-time highs, and the stocks of companies in industries most impacted by virus restrictions have been rallying in anticipation of the benefits that a return to normal will bring.

But we still have to wait. Virus case counts are rising in much of the world and mass vaccine distribution will be no small feat, given the logistical complexities. Plus, the economy is not yet completely out of the woods. Additional support from governments seems badly needed for the businesses that have been impacted by restrictions. So uncertainty will persist. While uncertainty can cause anxiety around your investments, we find comfort in areas where we have more visibility. Most importantly, we believe the global economy will continue to heal. In fact, by the end of last summer, it seemed likely that the healing process had already started, with some sectors, including technology and housing, doing remarkably well in the new environment. From here, the contours of that healing process will likely be defined by five big forces in 2021: the virus, policy, inflation, equity valuations and the dollar.

Because fiscal and monetary policy will continue to drive investment outcomes, we look for beneficiaries of policy support: U.S. and Asian equities, companies exposed to physical and digital infrastructure investment, energy transitions and the next generation of transportation. And because policy rates will likely remain near zero for a few years, yield will be hard to come by. Two places to find it: U.S. high yield bonds and preferred equities. We also think investors should focus on assets that do well during periods of modestly rising inflation, such as equities, real estate, infrastructure and commodities.

Yes, equity valuations are high, but we believe high valuations are deserved. They may even be the new normal as long as global central banks stay accommodative and long-term interest rates remain near secular lows. We think both are good bets over the medium term. We believe stocks are likely to generally outperform fixed income and cash in 2021. On the currency front, the dollar will likely weaken modestly as the global recovery proceeds. Investors should keep an eye on currency exposures and consider beneficiaries of a weakening dollar, such as emerging markets.

In sum, amid a healing global economy, markets offer a wide range of opportunities to uncover, and risks to manage. We explore them in the following pages.

What might derail the recovery?

For markets, we see three key risks (in addition to the virus): failure to provide enough policy support; a tech war between the United States and China; and certain geopolitical flashpoints.

Policy support has driven economic recovery to date and, in many regions, will likely continue to do so. Some policymakers may hesitate to provide more, citing concerns about government debt levels. We believe most will conclude that the near-term benefits of providing additional support outweigh the potential long-term costs.

Meanwhile, the tech war between the United States and China is simmering and unlikely to stop even if a Biden administration lowers the heat by adopting a more traditional tone. The ramifications of this tech war will take years to play out, but the choices each country makes today will impact companies, sectors and even regional economies. Right now, both nations are focusing on reallocating their supply chains to less volatile trading partners and innovating to create new domestic production. For policymakers, that adds impetus to invest in fundamental research and commercial R&D. For investors, the focus on innovation may create opportunity in accelerated technological progress.

Various conflicts around the world also threaten to divert investors' attention from the global recovery (though we think they are unlikely to occur): For example, military tensions between China and the United States are rising as China presses its territorial claims (in the South China Sea and elsewhere in Asia).



How do you invest in today's environment?

Uncertainties (and there are many) make investors nervous. To combat that anxiety, we have a plan and are focusing on three themes: navigating volatility, finding yield and capitalizing on opportunities in the megatrends of digital transformation, healthcare innovation and sustainability.

To navigate volatility, we still believe core bonds provide the most efficient buffer against equity volatility, but think other asset classes and vehicles (such as hedge funds) should be added as a complement. Within the equity market, certain types of exposure may be less volatile than the market as a whole. Companies with strong balance sheets and stable growth profiles can help protect capital in volatile markets.

Prospects seem bleak for investors seeking income. As the big three global central banks may not raise rates for years, investors may want to hold less cash, and consider other means to maximize yield for strategic cash reserves. To enhance yield in core fixed income, we think investors should consider slightly extending duration and rely on active management in mortgage-backed securities, municipal debt and portions of the investment grade corporate market.

To augment income, investors also may look to increase risk. Our preferred space is the upper tier of the high yield corporate market. The U.S. BB-rated index has a yield around 5%, and we expect default rates have already peaked. In addition, a modest amount of leverage on an investment in the upper tier of the high yield market can increase the effective yield in the right situation.

But if you are searching for stocks with the potential to outperform in the next few years, we think the best places to look are in three megatrends: digital transformation, healthcare innovation and sustainability.

Over the last five years, more than 1,700 stocks have contributed to the return of the MSCI World Index. But only 42 stocks increased their market capitalizations by more than 4X when they were part of the index. Of those big winners, over 60% came from the technology and healthcare sectors. Meanwhile, 2020 was a breakout year for sustainability and sustainable investing; the S&P Global Clean Energy Index was up nearly 100%.

Digital transformation was the defining market trend of 2020 as businesses, consumers and families learned how to live in an online world. Even so, we are just beginning to see the ways in which technology will influence future production and consumption (think 5G).

Healthcare innovation—its value and importance—was made painfully clear by the global pandemic. But the demand for healthcare innovation is longstanding and nearly ubiquitous. We see significant investment opportunity in testing and diagnostics, not only for COVID-19, but for many other diseases as well. Even before the pandemic, laboratory testing was the single-highest-volume medical activity in the United States, with an estimated 13 billion tests performed each year.¹

Sustainability is a powerful trend that will grow in force in the coming years. We expect a big step forward toward developing a more circular economy, especially in the food industry.² By 2030, a circular economy³ could yield up to \$4.5 trillion in economic benefits, solving the annual problem of 1.3 billion tons of food waste, 92 million tons of textiles in landfills and 45 trillion gallons of water wasted just through annual food production.

Remember: Your goals are your North Star

We believe this young recovery could last for years. But before you act on this kind of optimism, make sure you have a solid, long-range investment strategy that aligns with the goals you have for yourself and your family. Planning holistically is the only way you can truly build—and keep full confidence in—your investment portfolio.

As you look for your opportunities and meet the challenges that 2021 will bring, we will be there to help you and your family achieve your financial goals.

¹ “The Healthcare Diagnostics Value Game,” KPMG. 2018.

² With today's global population of 7.8 billion people set to increase by another 2 billion people over this coming decade, the strain on our planet's resources is going to grow exponentially. In fact, if we continue on this path, by 2050, global demand for resources will overuse the planet's capacity by more than 400%.

³ A circular economy is one in which there is no waste because all leftovers from production are fed back into the system and used to create new usable products.

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Key takeaways

01

The global economy will continue to heal from the coronavirus pandemic.

02

We expect output in parts of Asia and the United States to surpass pre-pandemic levels while Europe and Latin America lag. China has already recovered lost output.

03

Investors should be critical of excess cash holdings.

04

Global equity markets will likely reach new highs.

05

We expect equities to outperform high yield bonds and core fixed income. High yield bonds remain an anchor for portfolio returns.

06

Interest rates will likely rise modestly as the economy heals, but they should remain near secular low levels.

07

We are focused on three key themes: navigating volatility; finding yield; and harnessing megatrends.

08

Risks to our view include economic malaise catalyzed by ineffective virus containment, governments and central banks failing to provide sufficient policy support, the tech war between the United States and China, and geopolitical flashpoints.

09

Core fixed income still provides the most efficient protection against equity volatility.

From crisis to recovery

2020 was an intense and volatile year. The coronavirus pandemic has cost over one million lives worldwide, and the ensuing lockdowns catalyzed the most severe economic contraction since the Great Depression. In the United States, the presidential election underscored entrenched political polarization while mass demonstrations for racial justice emphasized persistent inequities and inequalities.

Almost everywhere, policymakers struggled to manage enormous economic and public health challenges, with differing degrees of success. Capital markets experienced their own turmoil. Global equity markets suffered their sharpest-ever drawdown (the MSCI All-Country World Index fell 34% from peak on February 12 to trough on March 23), but recovered at a record pace, making new all-time highs by September. The snapback reflected unprecedented central bank action that ensured access to financing for businesses and impressive fiscal support that replaced incomes for unemployed workers. By the summer, it seemed more likely that a global economic recovery had begun, with some sectors, including technology and housing, actually thriving in the new environment.

We believe the global economy will continue to heal through 2021 and beyond. We believe five big forces—and how they play out—are likely to shape the global economic recovery and asset returns in 2021:

1 The virus

Can a vaccine be the “silver bullet” that many hope?

2 Policy

Which governments and central banks will provide enough support?

3 Inflation

Are prices going to rise too quickly, or too slowly?

4 Equities

Are high valuations sustainable?

5 The dollar

Will it continue to weaken?

Serious risks loom.

For markets, the main dangers we see now are: a premature return to austerity; the tech war between the United States and China; and certain geopolitical flashpoints.

Uncertainties make investors nervous, but we find comfort in having a plan. To guide our process, we are focusing on three themes: navigating volatility; finding yield; and capitalizing on opportunities in the megatrends of digital transformation, healthcare innovation and sustainability.

We also find comfort where we have greater visibility. In our view, monetary and fiscal policy should remain supportive for the foreseeable future. This should encourage borrowing, investment and spending, and sustain the recovery.

That is why we are optimistic about investments, despite the risks. Although there will be periodic bouts of market volatility, we believe balanced portfolios can appreciate in 2021, driven by equities. Indeed, the global healing has already started, though some economies are further along than others.





Global healing— great differences across regions

Asia: Relatively successful virus containment, adequate policy response

China and much of East Asia are benefiting from a “first in, first out” dynamic and effective containment of the virus.

China was the first to see activity and growth bottom in the first quarter of 2020. Its rebound was led by the industrial sector, helped by strong exports. More recently, China’s recovery has broadened to services and consumers. In fact, domestic travel and tourism are well on their way to normalization, even without a vaccine. Barring another severe virus outbreak, we expect the recovery to prove self-sustaining.

South Korea and Taiwan also recovered relatively early, thanks to strong global demand for tech products. However, these countries’ dependence on exports means they may be at risk if demand for tech products softens. Japan has experienced a smaller domestic shock from the pandemic, but is still struggling with deflationary pressures, weaker demand due to consumption tax hikes and a strong currency (which hampers exports).

India, Indonesia and the Philippines have struggled to balance virus containment with the need for economic growth. We think a full recovery in these economies ultimately depends on a globally available vaccine.

Europe: Poor virus containment, modest policy response

Europe has fallen marginally behind as a resurgence in new cases has slowed the recovery’s momentum from its previously robust pace. Recent weeks have brought a more rapid escalation of new infections than authorities were expecting. Some countries (including Germany, France and the United Kingdom) have responded with fresh lockdown measures.

So far, these lockdowns are not as severe as they were in the spring, and their focus on restricting the leisure and hospitality sectors means the level of risk varies significantly. For example, the value added from restaurants/hotels and arts/leisure/entertainment is almost 4% of GDP on average. However, these sectors account for almost 8% of GDP in Spain and less than 3% in Germany.

Many of Europe’s weaker economies (such as Turkey, Spain, Italy and Greece) rely heavily on tourism, which was decimated by springtime travel restrictions that have never fully lifted. Indeed, the slow recovery of travel-dependent, high-contact service industries is why European countries dominate the list of economies that are forecasted to be smaller in 2022 than in 2019. Of the nine major advanced countries forecasted by the International Monetary Fund (IMF) to meet this unwanted criteria, seven are European.

On the policy side, the European Recovery Fund represents an unprecedented level of political commitment to coordinated fiscal policy. However, its €750 billion price tag is probably insufficient to generate a return to pre-pandemic GDP levels in 2021, especially in light of new restrictions. Recent vaccine developments are encouraging, but probably insufficient to make Europe a preferred region for investment.

Latin America: Poor virus containment, uneven policy response

The recovery in Latin America is barely getting started and, by most measures, lags the rest of the world. The region was unprepared to confront the global crisis because of its highly informal labor markets and inadequate public health systems. The pandemic hit hard in densely populated, poor areas. A rapid spread of the virus forced the authorities to impose meaningful mobility restrictions until they realized that effectively paralyzing productive activity threatened economic catastrophe.

While Latin American economic growth is poised to rebound (somewhat timidly) in 2021 as domestic and foreign demand recover, its potential is limited. Downside risks to the regional outlook include Brazil's gradual withdrawal of fiscal stimulus and rising public debt burden; Mexico's policy uncertainty and lack of significant fiscal relief measures; and Argentina's lingering macroeconomic imbalances and potentially market-unfriendly policies. Given the extent of the damage, the region's economic scars will take a long time to heal fully. Indeed, Latin America is unlikely to recover its pre-crisis economic standing until 2023 at the earliest, later than any other major region.



United States: Poor virus containment, strong policy response

The United States has had poor virus containment, but a powerful policy response and consumer rebound. The United States never got the virus under control, but relaxed restrictions and resumed mobility anyway. The CARES Act, passed in March, was surprisingly effective at limiting the potential lasting damage of the initial lockdown. Bankruptcies are lower than before the pandemic; corporate debt default rates are already declining; and personal incomes and household wealth actually increased through the recession.

On the monetary side, the Federal Reserve entered the crisis with room to reduce policy rates and a full financial crisis-era playbook to dust off and deploy to fix issues in credit markets. The consumer rebound has been swift, especially in economically important sectors such as housing. Household and corporate cash balances are elevated; interest rates are low.

That said, there are still areas of real pain—acute disruptions that the U.S. economy's flexibility is masking: 3.5 million workers no longer have jobs in the leisure and hospitality sectors; also, permanent unemployment is elevated. There may be lasting damage in the labor market, but it looks like the U.S. economic healing process is robust. While we're likely to see new restrictions imposed through the winter months, the very promising developments on the vaccine front may allow investors to look through the near-term disruption toward the more positive future.

3.5M jobs lost in the
leisure and
hospitality sectors

Five big forces in 2021

These five big forces are likely to determine the shape of the recovery and portfolio returns in 2021.

1

The virus

2

Policy

3

Inflation

4

Equities

5

The dollar



The virus

Will a vaccine be the “silver bullet” that many hope?

SHORT ANSWER

A vaccine will be a game changer, eventually. It probably won't be a “silver bullet” in 2021. The good news is that we believe a vaccine may not be a prerequisite for economic output to surpass pre-pandemic levels in certain sectors and regions (including the United States).

COVID-19 is still an important risk, but we believe its influence on your portfolio will likely diminish throughout 2021.

We do expect a vaccine, and relatively soon. It should be available to certain high-risk populations in the developed world by the first quarter of 2021 and broadly thereafter. So why won't a vaccine be a complete solution? A few reasons. We do not know how effective a vaccine will be even though preliminary results have been quite encouraging. Also critical: a material portion of the global population likely will not be vaccinated in 2021—due to personal choice, logistics or economic constraints.

It seems likely that the world will have to continue to rely on other ways to control the spread through 2021: rapid testing, contact tracing, mask compliance and restrictions on high-risk activities. Improved treatments and procedures should deliver continued progress on treating those infected.

Even without a vaccine, there's been a rebound both in consumption and production activity globally. Consumer spending has simply shifted from sectors such as leisure and hospitality to housing and e-commerce.

U.S. retail sales are already above pre-pandemic levels. With inventories depleted, restocking has sparked a recovery in production and trade. Chinese production and exports have surged. Consumption was similarly rebounding at a rapid pace in Europe, though now it remains to be seen what kind of damage new restrictions will cause.

A vaccine may have more of an impact on markets in 2021 than on the real economy because asset prices can reflect future benefits before they actually happen. Another implication: The spread of the virus itself may not exert the same kind of downward pressure on asset prices.

Overall, we are focusing on investments that can work with or without an effective vaccine. These include companies linked to digital transformation, healthcare innovation and household consumption. Sovereign yields will probably rise and yield curves steepen as global activity and risk sentiment improve along with medical progress. This could create tactical opportunities in equities sensitive to interest rates (such as banks). However, we believe the gravity of easy central bank policy will keep rates near secular lows.

COVID-19 continues to spread around the world

Global new COVID-19 cases, 7-day moving average



Source: Bloomberg Finance L.P., Johns Hopkins University. November 12, 2020.

Policy

Which governments
and central banks
will provide enough
support?

SHORT ANSWER

The United States and some Asian countries. The global policy stance is supportive for risk assets, but the differences in policy support will drive relative outcomes. Investors are likely to find opportunity by investing in: U.S. and Asian equities, high yield bonds, companies exposed to physical and digital infrastructure investment, energy transitions and the next generation of transportation.

Asia

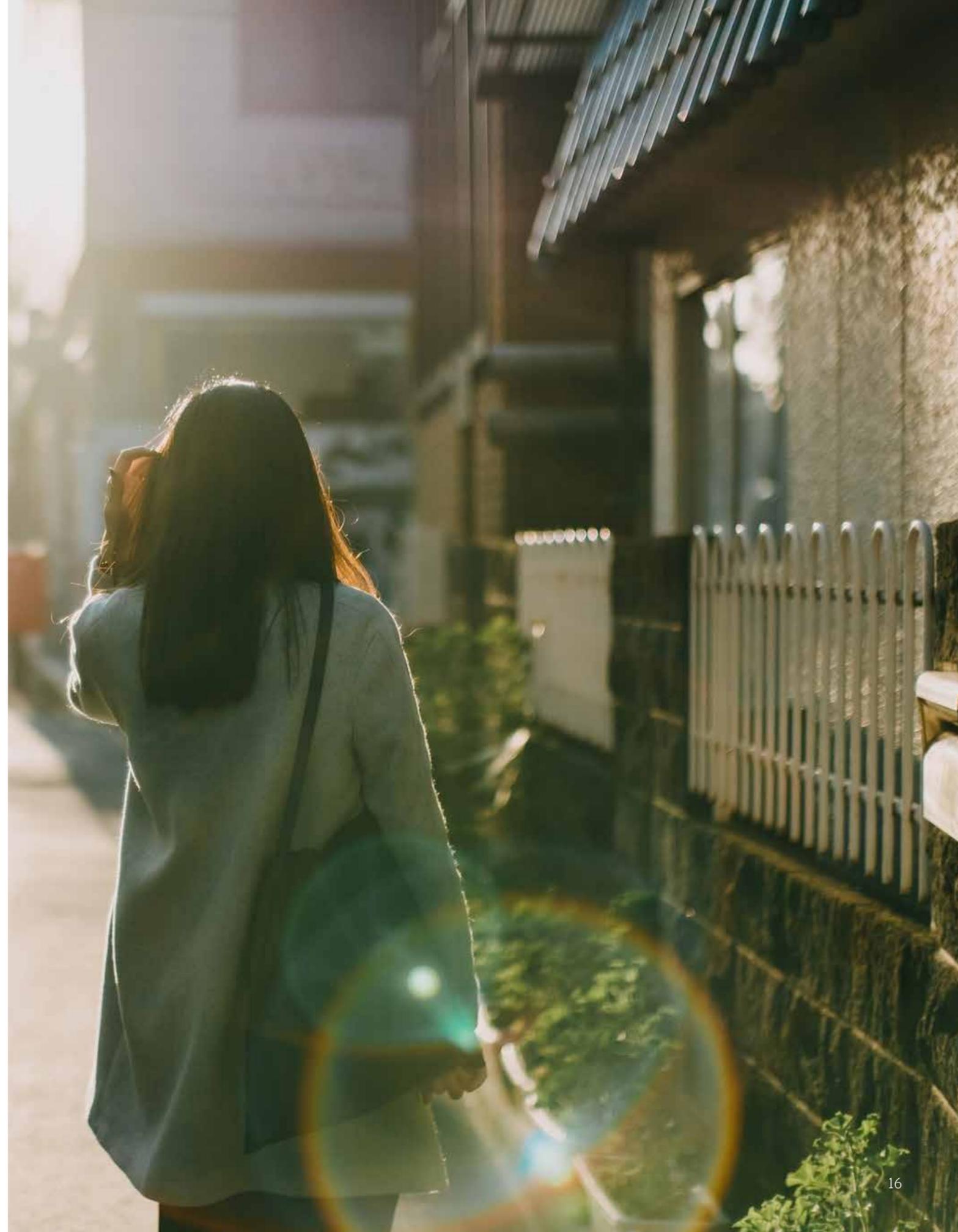
In Asia, we see varying levels of need for additional stimulus. China was able to contain the virus relatively quickly and effectively. It was therefore less dependent on monetary and fiscal policy to help bridge the economic gap that lockdowns created.

As the recovery continues to broaden in China, there is less need for additional support. In fact, China already has started to unwind the limited amount of monetary easing it delivered in Q1 2020. We think the country's budget deficit will actually be smaller as a share of its GDP in 2021 and the following years than it was in 2020. So there may be reductions in fiscal spending, especially given the focus that policymakers have on ensuring the debt situation is sustainable. In particular, we expect more tightening measures in the property market over the next two or three years.

In Taiwan and Korea, growth has rebounded, reducing the need for more easing. Both countries, export-dependent, have benefited from demand for technology products. We expect policymakers to remain on hold until the global economy rebounds meaningfully and the Federal Reserve (Fed) starts to signal a more balanced outlook.

Japanese policies will likely remain supportive because the COVID-19 hit has exacerbated deflationary pressures. To make matters worse, the economy was already in a domestic policy-induced recession before the pandemic spread to this country. Yet another headwind the Japanese economy faces is a stronger currency relative to its trading partners.

Countries throughout the rest of Asia still have room to ease. The coronavirus recession may be over and growth recovering from the trough, but virus containment will continue to weigh on economic activity. If the U.S. dollar does not appreciate, then Indonesia, Malaysia and the Philippines all will have room to ease. Singapore will likely be able to refrain from further easing, due to its links to the stronger growth backdrops in China and the United States. India will likely try to ease policy, which could stoke inflation higher and deficits wider.



€750 billion

The European Recovery Fund introduced in May is an important first step.

Europe

Europe broadly faces some challenges in providing adequate policy support. Interest rates already are negative and asset purchase programs are nearing self-imposed limits. Given the limitations of the European Central Bank (ECB), the Eurozone seems to be more reliant on fiscal support to generate positive-growth outcomes.

The European Recovery Fund (agreed upon this summer) is a promising first step toward delivering that fiscal support, but there are still hurdles to clear in actually distributing its funds.⁴

At the individual country level, Eurozone fiscal rules are currently suspended and markets are tolerant of large deficits run by all countries. This is good news. But as the virus is eventually overcome, European policymakers still face member states with vastly divergent economic performances and structural challenges—all of which are likely to necessitate additional policy support.

In particular, problems remain with the Eurozone periphery of Italy, Greece and Spain. Poor demographics, little or no productivity growth and weak banking systems have kept the economies of these countries fragile for a while. Some progress has been made: Significant economic reforms in many countries are starting to pay dividends, and banking systems have strengthened. For example, the percentage of bank loans in Italy that are non-performing had fallen from 18% five years ago to 8% before the pandemic.

However, COVID-19 has badly hurt the region, both directly and through the hospitality and tourism industries. The arrival of a vaccine remains a crucial variable to its recovery, as does the timing of the funds from the European Union (EU) recovery facility. Markets may grow concerned about the debt dynamics if output and tax revenue remain depressed too long. Such pressures would force the ECB to try to do more, to the degree it can.

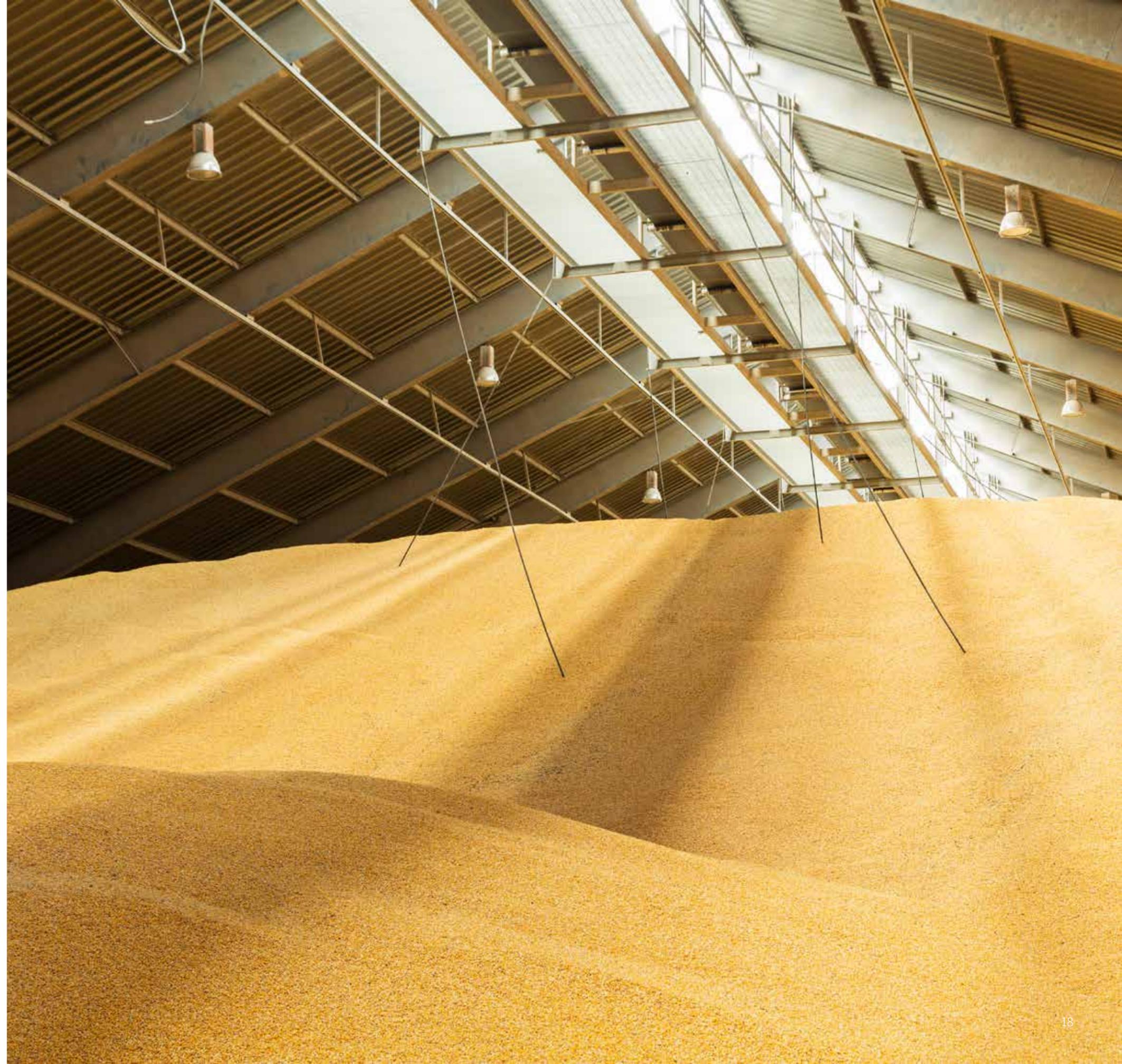
Outside the Eurozone, the United Kingdom has significant policy space, but the government seems reluctant to use it. The Bank of England is preparing the operational mechanisms for negative rates and will extend quantitative easing as necessary. The issue lies in the U.K. Treasury's inherent conservatism. Prior to the second wave, it appeared determined to remove support as soon as possible. Then a second wave of infections hit and it relented. Still, though, a tightening of policy support remains a key risk in the country, especially as Brexit will remain a drag through 2021.

⁴Specifically, the process of turning political agreement into legal text has run into difficulties. Our base case is that these will be overcome and that some funds will be delivered in 2021. However, the longer the delay, the less impactful those funds will be upon the Eurozone's depressed economies. Still, the pace on institutional development remains a medium-term positive for investors in Europe. Just look at the 2021 European Commission Work Programme, which seeks to set up EU-level taxes on carbon usage. This could be the first step toward "fiscal federalism" because it will provide a revenue stream that can and will be able to back the issue of debt at the "federal" level, both for the European Recovery Fund and for other future uses.

Latin America

Latin American central banks aggressively cut interest rates to unprecedented levels, like much of the rest of the world. But countries throughout the region have limited fiscal policy room.

They lack the ability to borrow as liberally as can “reserve currency” countries (such as China, Japan and the United States). Worse yet, they have already used their scarce fiscal ammunition to shield their economies from the worst effects of the crisis and to reactivate growth. Mounting fiscal deficits and elevated levels of public indebtedness may pose serious challenges down the line. At some point, today’s bills will have to be paid, and there is no telling if overall conditions will be better when they come due. Unless economic health is promptly restored, concerns that there may be another debt crisis in Latin America may rise quickly.



United States

The United States has a very supportive mix of monetary and fiscal support. The Federal Reserve has shifted toward an average inflation-targeting framework, which means it wants employment to reach maximum levels and inflation to *average 2%*.

To achieve its goals, the Fed has set policy rates at zero and is buying \$120 billion worth of Treasury bonds and mortgage-backed securities per month. If the Fed needed to do more to get what it seems to want, it could move its purchases to longer-term securities or deliver more forceful forward guidance regarding eventual rate hikes—or both. The Fed has committed to not raising policy rates until those employment and inflation targets are met—which could be years away.

On the fiscal side of U.S. affairs, the CARES Act came with a \$2.2 trillion price tag—more than double the support provided after the Global Financial Crisis. Now that the dust has (mostly) settled on a contentious U.S. election season, we expect another stimulus package, this time worth around \$1 trillion. It's expected to include support for state and local governments and augmented unemployment insurance. Such a package—critical for the workers and businesses that are still suffering—would likely be enough to ensure the recovery continues. We expect one, but a congressional failure to provide support could cause more permanent damage to the economy.

\$120 billion

Fed purchases of Treasury bonds and mortgage-backed securities per month

\$2.2 trillion

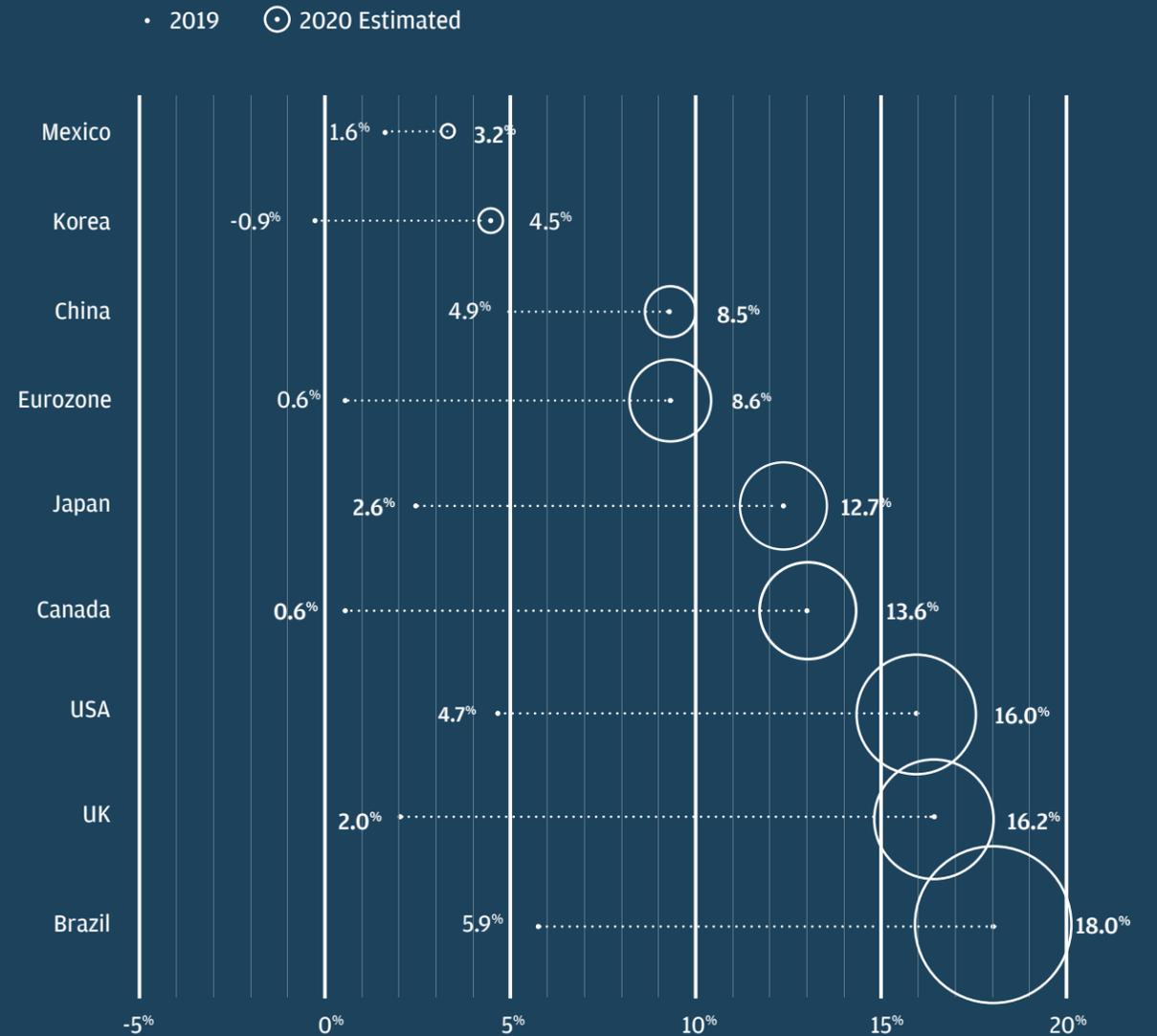
CARES Act price tag

Around \$1 trillion

additional stimulus expected

Growing budget deficits indicate willingness to enact support during the recovery

Budget deficit as a % of GDP



Source: Oxford Economics, Haver Analytics. October 2020.

Inflation

Will prices
rise too quickly,
or too slowly?

SHORT ANSWER

We expect inflation to rise modestly over the next 12 to 18 months to just below 2% in the United States and around 1% in Europe—right where it was for most of the last cycle. This means that policy rates will remain anchored, and investors should be wary of holding excess cash.

Debates about the future path of inflation dominate investment conversations. That makes sense—inflation is a critical consideration for central bank policy and short- and long-term interest rates. Of course, it also directly impacts the purchasing power of the cash in your wallet. Despite the debate, inflation was remarkably stable over the last decade.

Now, we believe, the inflation game has changed. In the past, higher inflation was a constant risk for economies. Central banks were designed to keep inflation down. Today, the risk that prices won't rise fast enough, or will actually fall, is more realistic than the threat that they will rise too fast. As a result, global central banks are actively trying to push inflation higher rather than working on keeping it contained. They have a tall task ahead of them.

There is still slack in the global economy, particularly in the labor market. The number of permanently unemployed U.S. workers is still elevated—even as headline employment numbers recover. The digital economy does not have many physical constraints that lead to price hikes. Also, the lack of a “blue wave” in the U.S. elections means that we likely won't see a large-scale government spending program that might push prices higher. Further supply chain disruptions from de-globalization could put upward pressure on prices, but we would expect that process to play out over several years, if not decades. Central banks will need to remain supportive for the foreseeable future to keep inflation expectations roughly close to their targets.



To be clear, modestly rising inflation would be consistent with an improving global growth backdrop, and central banks want to stoke inflation modestly higher. We think the Fed will be successful ultimately, but the path ahead will be more difficult for the ECB and Bank of Japan. Forward inflation expectations already have recovered to pre-COVID-19 levels in the United States, but are still below the Fed's 2%+ target. Meanwhile, expectations in the Eurozone and Japan are still depressed.

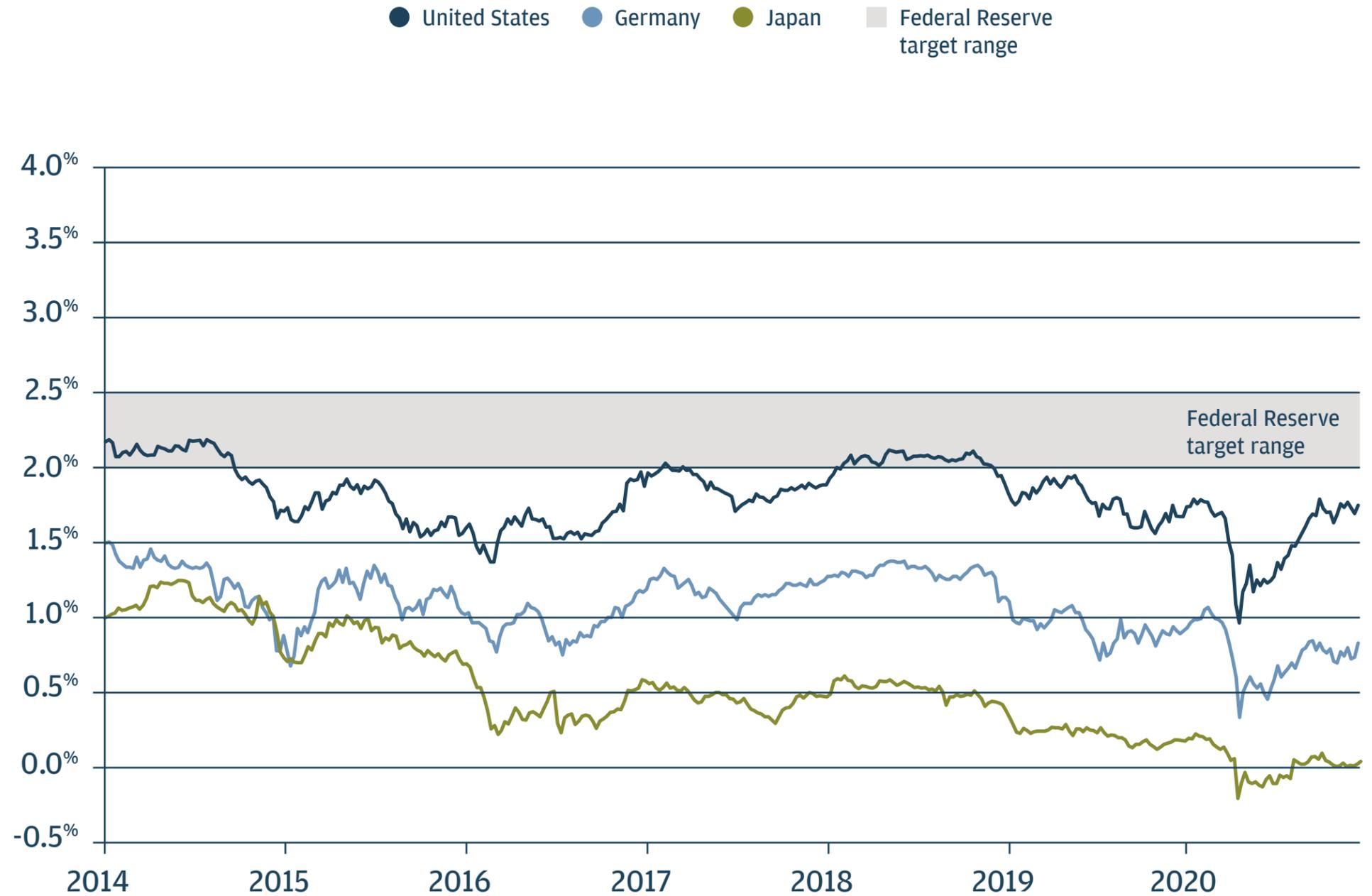
Because policy rates will likely remain near zero for a few years, excess cash is not an investor's friend, and yield will be hard to find. To augment yield, we think investors can rely on U.S. high yield bonds and preferred equities. Further, there could be opportunities in assets that do well when inflation is rising from low levels: real estate, infrastructure and commodities.

2%+

Federal Reserve
inflation target

Inflation expectations in the United States, Europe and Japan should rise modestly

Market implied 10-year average inflation



Source: Bloomberg Finance L.P. November 12, 2020.

Equities

Are current
valuations
sustainable?

SHORT
ANSWER

We think historically high valuations may be justified. You may not be getting a bargain in stocks, but they will likely outperform fixed income and cash next year.

Most conventional metrics (e.g., Price to Earnings, Price to Free Cash Flow, Enterprise Value to Sales, etc.) suggest global equities are expensive relative to their own history.

This assessment seems unreasonable to many observers. After all, the macroeconomic environment can be described as “early-stage recovery” at best. Also, there’s a high degree of uncertainty on the horizon.

We disagree, and see several reasons why current valuations may be justified. For one, the largest companies in the world have pristine balance sheets and stable growth profiles underpinned by secular growth trends. One of them even has a stronger credit rating than the U.S. government. Now, with the Federal Reserve working to backstop lending and support markets, the largest weights in global equity markets have a low perceived risk of default, which supports higher equity valuations. They also tend to be technology and technology-adjacent, which have less volatile earnings streams.

Perhaps more importantly, interest rates are low globally. The yield on the JPMorgan Global Aggregate Bond Index is just barely above all-time lows. Low interest rates support equity valuations in two ways: (1) the rate at which future earnings streams are discounted is low; and (2) equities look more attractive to investors on a relative basis because dividend, earnings and cash flow yields are much higher than fixed income yields.



When you examine global equity valuations relative to bond yields, you find that valuations are closer to “fair” than “expensive.” To illustrate, we compare the dividend yield of the MSCI World Index to the yield on the JPMorgan Global Aggregate Bond Index. On this basis, the dividend yield of the market relative to bond yields is right around where it was at the depths of the EM balance of payments crisis of early 2016, and a far cry from where it was at more “exuberant” times, such as September 2018.

We believe there could be a “new normal” for equity valuations—as long as global central banks remain on hold (we think they will) and long-term interest rates remain near secular lows (we think they will). Of course, a risk to this view would be an unexpected rise in interest rates.

This “new normal” might not apply to all regions or sectors equally. Take Latin America, for example. While in theory, low interest rates could favor a rotation to equities, a slow recovery from the economic crisis could keep valuations depressed for some time. In addition, Latin American equity indices (or European ones for that matter) do not have a material weighting toward tech and tech-adjacent companies, which have commanded valuation premiums because of their growth profiles.

Those looking for value may want to look at the financial and healthcare sectors. They are trading at low relative valuations, reflecting the risks of indefinitely low policy rates (which hurt bank earnings) and potential changes to U.S. healthcare policy. We think both sectors may surprise to the upside.

Equity valuations are elevated on most traditional metrics

MSCI World price to 12-month forward earnings



Source: MSCI, FactSet. November 12, 2020.

The takeaway for investors is that high valuations at the index level are underpinned by strong fundamentals and impressive cash flow, earnings and dividend streams.

Equities are not expensive relative to bonds

Dividend yield of global equities—Yield to maturity of Global Aggregate bonds



Source: J.P. Morgan Corporate & Investment Bank, Bloomberg Finance L.P. November 13, 2020.

The dollar

Will it continue
to weaken?

SHORT
ANSWER

It probably will, but modestly from current levels. Investors are likely to move money from the safe haven of the United States into higher-return opportunities elsewhere as the global healing continues. Investors should be mindful of currency exposures and consider beneficiaries of a weakening dollar, such as emerging markets.

The value of the U.S. dollar relative to other currencies can tell investors a lot about relative growth and policy expectations, as well as broad sentiments about risk.

When the global outlook is worsening, investors tend to flock to safe havens, which drives up the value of the dollar. This happened during March and April, when the first-wave lockdowns rolled out around the world. When global growth expectations are rising (and the rest of the world is doing better), other currencies tend to gain against the dollar as capital flows toward opportunities with higher potential returns.

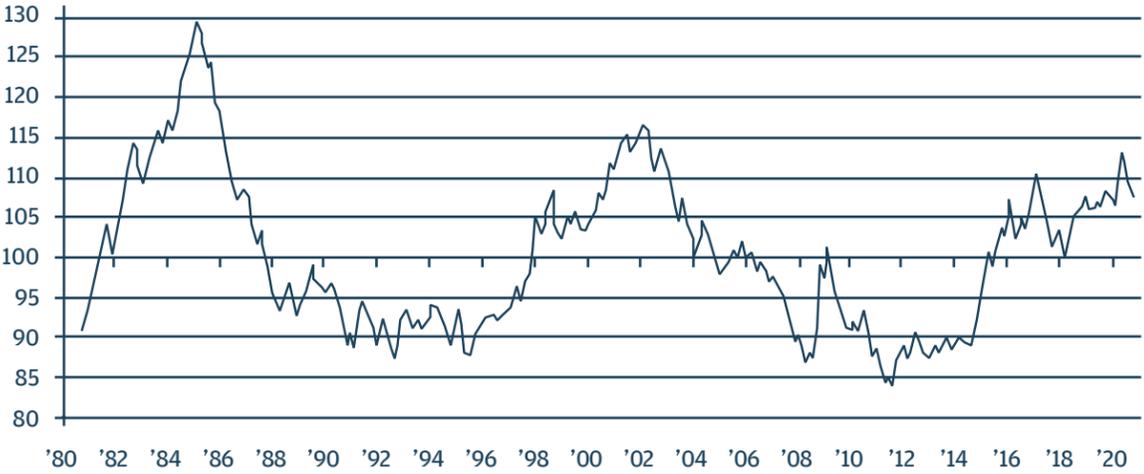
Through the summer and after the U.S. election, the U.S. dollar weakened. Risk sentiment around the world has been improving; global trade and manufacturing has rebounded; and, crucially, the “carry advantage” an investor might have earned by investing in the United States, which had higher real interest rates, has collapsed. Finally, a more

predictable trade policy from the White House could encourage cross-border investment and commerce.

We expect the global economy to continue to heal. That argues for more modest dollar weakness relative to its trading partners. That said, we do not expect the U.S. dollar to lose its status as the world’s reserve currency for the foreseeable future. If the dollar continues to weaken, it will be a sign that the global recovery is occurring, not that the world is on the precipice of a currency regime change.

What does that mean for investors? Be thoughtful about currency exposures. If the dollar continues to lose value, concentration in U.S. dollar-denominated assets could hurt relative performance.

U.S. dollar cycles tend to play out over the course of several years
Trade-weighted U.S. Dollar Index (average = 100)



Source: Federal Reserve, Bloomberg Finance L.P. October 31, 2020.



A weaker dollar also leads to easier financial conditions for many emerging market countries, as well as companies that earn revenue in local currency but pay debt service in dollars. This dynamic would also help support the recovery in emerging markets, and makes us more positive on equities in the region.

Key dangers we see now

While the global healing process is likely to continue, there are risks. Three concern us most; yet despite them, we expect the global recovery to continue and global equities to make new highs in 2021.

Government failure to provide enough support

The risk

Insufficient policy and fiscal support could create headwinds for the global healing process. Clearly, workers and businesses in the sectors still at risk will need more help until a vaccine is widely available. However, concerns about growing government debts may give some policymakers cold feet.

The bad news

The vital lifeline that governments provided to consumers and businesses in 2020 comes with a cost. Fiscal deficits and national debt levels have ballooned. By year-end, U.S. debt held by the public will grow to 98% of GDP. EU debt-to-GDP will spike to over 95%. In the United States and the United Kingdom, some politicians already are arguing against more fiscal support because of increasing debt. Some observers also worry that the emergency International Monetary Fund (IMF) loans taken out by many developing countries may have strings attached that could force them into austerity down the line.

Worry that there will be insufficient support has already had some negative market effects. A stalemate in Washington, D.C., over the so-called “phase four” deal sent stocks lower in October 2020. Then in November, the U.S. election produced a divided government that may provide underwhelming policy support. Squabbles over how to implement the EU’s watershed recovery fund added pressure to euro-denominated assets. And even though China doesn’t need stimulative policy to support its recovery, lower fiscal thrust within China could be bad news for other countries exposed to Chinese growth.

Over the long term, high levels of debt could pose a risk. It is possible that debt service crowds out discretionary spending (for such areas as education, law enforcement, healthcare, research and transportation infrastructure). However, this is a long-term issue.

The good news

There doesn’t seem to be a compelling argument for denying policy support, and there is a strong argument against it. More fiscal support in the near term would ensure the global healing continues. While some politicians will surely propose tackling daunting debt levels by reducing government spending, we think government debts are actually quite manageable. The cost of servicing debt is low in most developed countries, and central banks are doing what they can to help ensure it stays that way.

In the end, we believe most policymakers will conclude that the near-term benefits of providing additional support will outweigh the costs. So, while there could be missteps as some countries face their debt burdens, we don’t believe this risk will derail the economic recovery over the medium term.

The simmering tech war between the United States and China

The risk

Since signing the 2019 Phase One trade deal, the United States and China have experienced a rapid rise in tensions and further deterioration of their relationship. The actions taken so far have largely focused on the tech sector, and could disrupt the largest sector of the global equity market.

The bad news

Drivers of the current tensions include national security concerns, election-year politics and ongoing U.S. efforts to “level the playing field.” These aren’t likely to dissipate, even with a new administration in the White House. The ramifications of the tech war will take years to play out fully, and the choices each side makes today will impact individual companies, sectors and even regional economies. From a U.S. perspective, protecting intellectual capital and data privacy is paramount for the country’s ability to maintain its technological leadership. From China’s perspective, the risk of having such a large and important part of its economy choked off by U.S. export bans is too big to ignore. After all, the Chinese digital economy is now estimated at more than \$3 trillion, a material portion of national output.

Semiconductors tell the story. Advanced microchips can be found in everything: smartphones, thermostats, vehicles and almost every modern weapon system. Without a consistent supply of semiconductors, any modern economy or military would cease to function. China’s policymakers and businesses have seen the U.S. 2019 ban on sales of tech components as a big wake-up call.

The good news

The Biden administration will likely take a more traditional (and predictable) tone in negotiations with China, which should give businesses and investors more confidence in decision making. Meanwhile, both countries are now focusing on reallocating their supply chains to less volatile trading partners and innovating to create new domestic production. From a policymaker’s perspective, there is added motivation to invest in fundamental research and commercial R&D. For investors, these priorities may create opportunity, as the tech war could accelerate technological progress. As this decoupling unfolds, it will be vital for investors to identify winners and losers on a regional, country and company basis.

Geopolitical flashpoints

The risk

Geopolitical shocks could cause investor consternation and short-term market turmoil.

The bad news

There are several hot spots that could flare into conflict:

Non-economic tensions between China and the United States

Military tensions have been rising as China presses its territorial claims in the region, most notably through the U.S. Navy's operations in the South China Sea. Outright war is very unlikely, but recent developments are concerning, given that they complicate the trade and economic conflict.

The Middle East

Conflict in the region tends to spill over into the economy and financial markets through oil prices. Turkey has been active in establishing itself as a major player in the region, which threatens Saudi Arabia, Russia and Iran. Again, war is unlikely (excepting the conflict between Armenia and Azerbaijan), but the region is on a low boil and should be monitored.

The stability of the Eurozone, European Union and United Kingdom

Italy remains a separation risk; the United Kingdom itself still needs to formalize its divorce from the EU; and Scotland has expressed a desire to leave the United Kingdom.

The good news

Our analysis finds that market impacts of geopolitical shocks generally pass quickly and can be mitigated through diversification across asset classes and geographies. It is also critical to assess the link between any potential conflict and financial markets and economies. Oil prices are a clear factor, as are global supply chains. While geopolitical flashpoints will likely cause consternation and turmoil, we do not expect them to leave lasting market impacts, or for them to permanently disrupt the global healing process.

In the end, the best way to deal with risks is to have a goals-based plan for your investments. That way, when a shock comes, it is easier to avoid knee-jerk reactions and focus on longer-term goals. Certainly, this strategy worked during the COVID-19 crisis.

How we're planning to invest

To guide our investing in 2021, we're focusing on three key themes: navigating volatility; finding yield; and harnessing megatrends.

Here's our thinking.

Navigate volatility

We still believe core bonds provide the most efficient way to dampen volatility in portfolios, but we believe other asset classes and vehicles (such as hedge funds) should be added to that mix.

Core fixed income (such as investment grade sovereign and corporate bonds, and high-quality mortgage-backed securities) still plays a critical role in diversifying equity exposure. However, bonds may not be as reliable a diversifier as they once were.

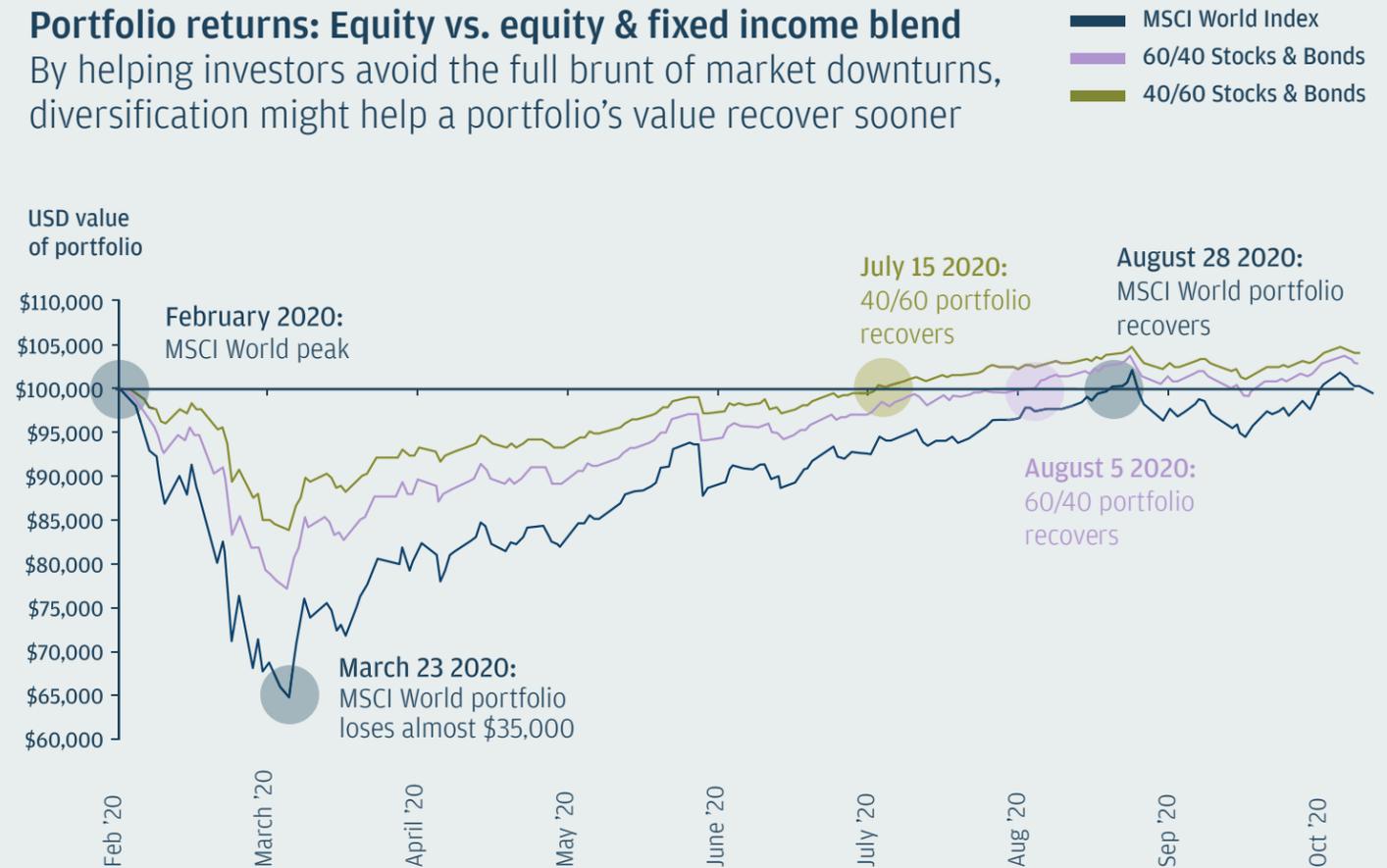
Now, though, we think it's best to add other types of protection to portfolios. We prefer hedge funds as a complement to core fixed income. In 2020, hedge fund portfolios that we manage have performed in line with aggregate bonds, and going forward we expect hedge funds will outperform core fixed income with a lower volatility than high yield. To do this well, we are focused on effective, dynamic managers that operate in niche areas of the market (such as equity special situations, structured credit, merger arbitrage and foreign exchange). Protection is all about managing correlation and diversification; identifying differentiated return streams can help to dampen volatility.

Even within the equity market, certain types of exposure may be less volatile than the market as a whole. Companies with strong balance sheets plus stable growth profiles can help protect capital in volatile markets. So far in 2020, the companies with the best sales growth outperformed by over 20%, while the most leveraged companies underperformed by 7%.

Volatility can also expose value in asset prices. If price declines are caused by developments that are unlikely to disrupt the global healing process, we would likely be willing buyers. Implied equity market volatility is still elevated, which creates opportunities in structured notes and for proven active managers that have the flexibility to quickly reposition portfolios when sell-offs do occur.

Portfolio returns: Equity vs. equity & fixed income blend

By helping investors avoid the full brunt of market downturns, diversification might help a portfolio's value recover sooner



Source: J.P. Morgan Market Strategy, MSCI, Barclays, Bloomberg Finance L.P. November 13, 2020.

Find yield

Prospects seem bleak for investors seeking income. Interest rates across the global fixed income landscape are at secular lows; 25% of all investment grade debt trades have a negative yield. A sign of the times: Greek 10-year debt trades at 65 basis points (bps); Portuguese debt trades at 4 bps; and you actually have to pay Ireland 26 bps a year to lend the country money.

The low yield environment is unlikely to change soon, as it is the global central banks' current policy stance. In the United States, the Federal Reserve has tied future rate hikes to specific outcomes—employment at the maximum level and inflation averaging 2% over time. There is a long way to go until these criteria are met. Expect to see policy rates near zero for years.

Because U.S. Treasury rates reflect investors' expectations regarding future Fed policy moves, the shift in framework argues for lower long-term rates as well. Right now, the market isn't expecting the Fed to raise interest rates until the end of 2023. Meanwhile, in Europe, policy rates have been negative since 2014 and are expected to stay there for the rest of the decade. Yes, decade. Expectations for a rate-hiking cycle from the Bank of Japan are nonexistent.

Yield-seeking investors should face the possibility that the big three global central banks may not raise rates for a very, very long time.

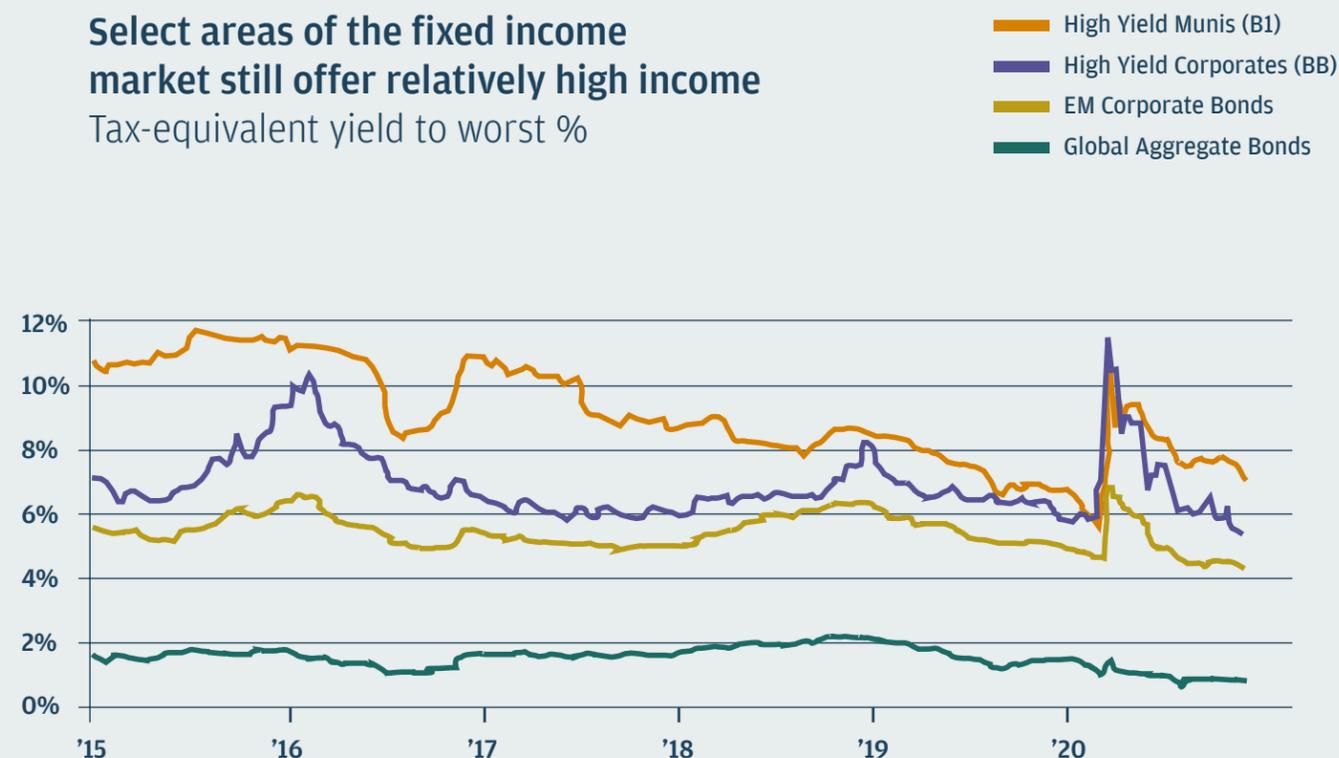
The most obvious solution to this problem is for investors to be very critical of the amount of cash they hold, and consider other means to enhance yield for strategic cash reserves. To enhance yield in core fixed income, we think investors should consider slightly extending duration, and rely on active management in mortgage-backed securities and portions of the investment grade corporate market. Particularly appealing are mortgage-backed securities, given the strong fundamentals of the U.S. housing market and household balance sheets.

To augment income, investors have another lever they might pull: Increase risk. Our preferred space for this maneuver is the high yield corporate market, with especially good opportunities in the upper tier of that space. The BB-rated index has a yield around 5%, and we expect default rates have already peaked. In addition, a modest amount of leverage (managed as part of an overall portfolio) on an investment in the upper tier of the high yield market can increase the effective yield, and may be appropriate in certain situations.

For U.S. taxpayers, high yield municipals are a compelling opportunity: The tax-equivalent yield is well above other areas of the market. To be sure, there is meaningful risk, given that COVID-19 restrictions and decreased mobility have impaired tax revenues. But we feel that an active manager with a robust underwriting process can find value. Preferred equities also provide taxable equivalent yields of around 5.5%, and bank capital levels are solid. Similarly, select EM bonds offer a meaningful yield premium to risk-free rates. We are focused on high-quality corporate issuers with diversified revenue streams. Finally, investors ought to consider expanding their toolkits beyond traditional fixed income by considering private credit, real estate and infrastructure assets.

Select areas of the fixed income market still offer relatively high income

Tax-equivalent yield to worst %



Source: Bloomberg Finance L.P., Barclays, J.P. Morgan Corporate & Investment Bank. November 27, 2020.

Harness megatrends

Which stocks are most likely to double, triple, quadruple or more in the next few years? We think the best place to look are in these three megatrends: digital transformation, healthcare innovation and sustainability.

Why these three? Consider this—over the last five years, more than 1,700 stocks have contributed to the return of the MSCI World Index. Yet only 42 stocks increased their market capitalization by more than 4x when they were part of the index. Of those big winners, over 60% came from the technology and healthcare sectors. Moreover, the winners from the other sectors had a decidedly digital aura. Also, those 42 stocks (2% of the securities) contributed 25% of the index's returns.

Meanwhile, 2020 was a breakout year for investing in sustainability. Just take one look at the performance of clean energy and next gen/electric vehicle stocks: They were up nearly 100% and 33%, respectively.

These megatrends may not only boost portfolios, but can also drive markets for the next several years. These trends are likely to generate superior earnings growth that is not as reliant on cyclical tailwinds. The pandemic is forcing the world to operate in the digital economy. It is also catalyzing new ways to diagnose and treat disease. The Biden administration is likely to pursue policies that support the development of clean technologies and infrastructure. We believe these megatrends still have room to run.



Digital transformation

The future is rushing at us

Digital transformation was the defining market trend of 2020. Businesses, consumers and families learned how to live in an online world. Yet we are at just the beginning of a long-term shift to digital. To understand why, consider the implications of the 5G infrastructure upgrade, just one of many transformations underway. In 2021, we expect the number of 5G smartphones purchased by consumers to double to 450 million. But, as significant as 5G is for the consumer market, the real opportunity could lie in enterprise applications. Manufacturing is expected to account for 19% of 5G-enabled revenue opportunity by 2030, the second-largest contributor behind healthcare.⁵

Imagine a 5G-enabled factory of the (not-so-distant) future. Products could be designed virtually, assembled by 5G-connected untethered and collaborative robots (“cobots”). Employees could use 5G-enabled augmented reality (AR) capabilities to quickly learn and execute assembly tasks. Production processes could be digitally supervised. Artificial intelligence might predict when a product needs maintenance.

The factory’s output might be customized. Real-time customer order data could inform the manufacturing process. A consumer may be able to order the right color or perfect size, and the producer might not have to charge a fee. The factory of the future could also be local. Technology could reduce the barriers imposed by labor force skill mismatches or costs.

⁵ “5G for business: a 2030 market compass,” Ericsson, October 2019.

⁶ PwC U.S. CFO Pulse Survey, June 15, 2020.

This future factory may be a reality sooner than you might think. Here’s why:

- The pandemic accelerated our move to automation, as robots do not get sick or spread viruses. Automation can also drive cost savings and increase productivity, which are key to profit recovery.
- Global capex is likely to increase, including in investments in automation. A recent CFO survey found that industry leaders are continuing to focus on investing in technology—including automation—for growth instead of cost reductions.⁶
- The recent trade tensions between the United States and China have incentivized producers to localize supply chains.

19%

Manufacturing share
of 5G revenue
opportunity expected by 2030

Even though your life probably got more digital throughout 2020, we are just beginning to see the degree to which technology will transform production and consumption. Investors should not ignore the opportunity.





Healthcare innovation

The demand is acute

The pandemic has painfully demonstrated the world's need for quick and scalable medical testing and improved diagnostic capabilities. Imagine if we could test whole cities or countries at once? This future, too, is coming at us quickly.

Indeed, significant investment opportunity lies in testing and diagnostics, for COVID-19 and many other diseases. Even before the pandemic, laboratory testing was the single-highest-volume medical activity in the United States, with an estimated 13 billion tests performed each year.⁷ As much as the coronavirus has stressed healthcare systems this year, the demand for healthcare innovation has long been clear and ubiquitous. For example, according to the World Health Organization, one in five people globally will face a cancer diagnosis at some point during their lives; one in six deaths globally are due to cancer.⁸

Now, advances made in coronavirus-testing technology and manufacturing should enable other testing capabilities (for the flu, pregnancies and beyond) that will be available at home, the airport or at the point-of-care. Liquid biopsies are groundbreaking medical diagnostic tools that take plasma from a patient and provide essential information for cancer and the potential treatments. Liquid biopsies can cost as little as a few hundred dollars, and they allow doctors to detect some forms of cancer up to a year before other tests can. The ease of sampling a patient through liquid biopsies might allow oncologists to make more thoroughly informed, precise treatments.⁹

⁷ "The Healthcare Diagnostics Value Game," KPMG, 2018.

⁸ "WHO Report on Cancer: Setting Priorities, Investing Wisely and Providing Care for All," World Health Organization, 2020.

⁹ Anastasia Amoroso, "Precision medicine: The next trend in healthcare innovation," J.P. Morgan, August 20, 2020.

Sustainability

The movement is now mainstream

Why is a circular economy so important?¹⁰ With today's global population of 7.8 billion set to increase by another 2 billion by 2050, the strain on our planet's resources is going to grow exponentially. In fact, if we continue on this path, by 2050, global demand for resources will overuse the planet's capacity by more than 400%.¹¹

2021 could well be a tipping point for adopting new ways to maximize resources. For example, the European Union's ban on single-use plastics is set to go into effect in 2021. Meanwhile, pandemic-related lockdowns and joblessness exacerbated concerns about food insecurity and underscored the need to increase access and reduce waste.

To make food production more sustainable, the world is turning to agriculture technology (AgTech) and using modern technology to improve traditional food production's yield, efficiency and sustainability. Vertical farming (growing food indoors in stacked vertical layers) is getting a lot of attention, and its market is expected to increase almost 6x globally between 2018 and 2026.¹² With this revolution, food producers can grow more food on the same amount of land, and they can recreate any climate on earth. You can even grow basil in conditions based on the summer of 1997 in Genoa, Italy, which is widely regarded as the perfect summer for the herb. A circular economy is not only possible, it is already happening.

¹⁰ "What is a circular economy and how can you invest in it?," J.P. Morgan, January 15, 2020.

¹¹ "Circular Advantage," Accenture Strategy, May 2015.

¹² "Global Vertical Farming Market to Reach \$12.77 Billion by 2026 at 24.6% CAGR." Allied Market Research. February 25, 2020.



Momentum for renewable energy looks to continue in 2021. We are finding significant opportunities along the clean energy supply chain and see a global drive toward developing a more circular economy, especially in the food industry. A circular economy is one in which there is no waste because all leftovers from production are fed back into the system and used to create new useable products.

Our top trade ideas for 2021

Beyond our key themes, we are constantly looking for opportunities within markets for investors to generate compelling returns in the near term. These are our top trade ideas for 2021:

● Navigate volatility ● Find yield ● Harness megatrends

Embrace the global recovery

The pandemic and the global response to it have accelerated megatrends. We also see opportunity in emerging markets equities and fixed income, and cyclical areas of the market such as industrials, materials, construction and technology hardware stocks.

Position for the risks

2020 emphasized weaknesses such as our reliance on global supply chains and cyber fragility. Supply chains are likely to shift as policymakers incentivize more domestic production and discourage reliance on outside or unfriendly sources. Some companies are well positioned to benefit from this shift. Traditional defense and technology security companies also could benefit from increased spending.

Focus on real assets

We believe central banks will be successful in stoking a modest rise in inflation (even if it takes a few years). Investors should look for “real” assets that do well when inflation is rising from low levels. There could be opportunities in equities, property, infrastructure and commodities. Investors also should position for a steeper yield curve.

Consider leverage

Central banks want you to borrow. In certain situations, we believe that investing in the upper tier of the U.S. high yield market and select high-quality emerging-market corporate bonds with modest leverage can enhance returns while preserving credit quality. Investors should consult with their advisor to ensure that leverage is appropriate for them.

Practice prudent currency diversification

We expect the U.S. dollar to weaken modestly as the global economy continues to heal. Investors should consider diversifying their portfolios to gain exposure to assets denominated in other currencies.

Find the diamonds in the rough

Overlooked markets could provide opportunity for outsized returns. Despite the risks surrounding municipal finances, we are positive on select high yield municipal bonds in the United States, given attractive valuations and compelling relative yields. Note too that the global gaming industry continues to grow and the market is due for an upgrade cycle. And, many REITs are still trading at distressed levels and may present opportunities for some investors.

What does this mean for you?



BOTTOM LINE

We are optimistic about the outlook, despite the risks. But before you act on this kind of optimism, make sure you have a solid, long-range investment strategy that aligns with the goals you have for yourself and your family. Planning holistically is the only way you can truly build and have full confidence in your portfolio as you weather whatever volatility and other surprises 2021 may bring.

Perhaps the most reassuring view for long-term investors is that the chaos of 2020 did not break the basic building blocks of portfolios. Equities can provide long-term capital appreciation. Bonds can provide a ballast to offset the volatility inherent in equity investing.

While there are challenges for investors, we are prepared to meet them. Volatility is likely to persist as we exit the crisis, and we are committed to finding efficient buffers for portfolios. Core fixed income may not provide the same income as it has historically, but investors can increase their risk or expand their toolkits to help close the gap. Equities may not deliver the same stellar returns in the coming decade as they did in the last, but a focus on megatrends could help investors outperform.

And as you look for opportunity and meet the challenges that 2021 will bring, we will be there to help you and your family achieve your financial goals.

AUTHOR
NOTE

The J.P. Morgan Private Bank Outlook 2021 was written by the Private Bank Global Markets Council, a team of senior economists, portfolio managers and strategists from across the Private Bank.

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The **MSCI World Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The index consists of 23 developed market country indexes.

The **S&P Global Clean Energy Index** provides liquid and tradable exposure to 30 companies from around the world that are involved in clean energy related businesses. The index comprises a diversified mix of clean energy production and clean energy equipment & technology companies.

The **S&P U.S. High Yield Corporate Bond BB Index** is designed to track the performance of U.S. dollar-denominated, high-yield corporate bonds issued by companies in countries with an official G-10 currency, excluding Eastern Europe.

The **J.P. Morgan Global Aggregate Bond Index** consists of the JPM GABI US, a U.S. dollar denominated, investment-grade index spanning asset classes from developed to emerging markets, and the JPM GABI extends the U.S. index to also include multi-currency, investment-grade instruments.

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