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Bird’s Eye View for Q1 2024

1. 2023 performance review
2. Current state of markets
3. Looking ahead

ANNOTATED CHARTS

2023 Better Than Expected; Growth Style Dominated

2023 was a surprisingly strong year despite concerns about the economy and the stock market recovered a good percentage of its prior-year losses. In U.S. equities, the growth style dramatically outperformed the value style, but returns were strong across the board. In interest rates, the 10-year Treasury hit a high in the fourth quarter and then ended the year lower; this drop fueled a strong recovery in the bond market as bond yields and prices move inversely.

U.S. Stock Returns		Trailing 1 Yr	Q4 2023
U.S.			
Large-Cap	S&P 500	26.3%	11.7%
Growth	Russell 3000 Growth	41.2%	14.1%
Value	Russell 3000 Value	11.6%	9.8%
Small-Cap	S&P 600	15.9%	15.1%

International Stock Returns		
International Developed MSCI Europe Australasia & Far East	18.9%	10.5%
Emerging Market MSCI Emerging Markets	10.1%	7.8%

Interest rates		29-Dec-2023	30-Sep-23
Federal Funds	Upper Target	5.50%	5.50%
Prime		8.50%	8.50%
2-Year Treasury		4.25%	5.05%
10-Year Treasury		3.88%	4.57%
30-Year Fixed Mortgage		6.99%	7.74%

Bond returns	Trailing 1 Yr	Q4 2023
Taxable Bloomberg Barclays Aggregate	5.5%	6.8%
Municipal Bloomberg Municipal Bond	6.4%	7.9%

Sources: Bloomberg, 12/30/2023

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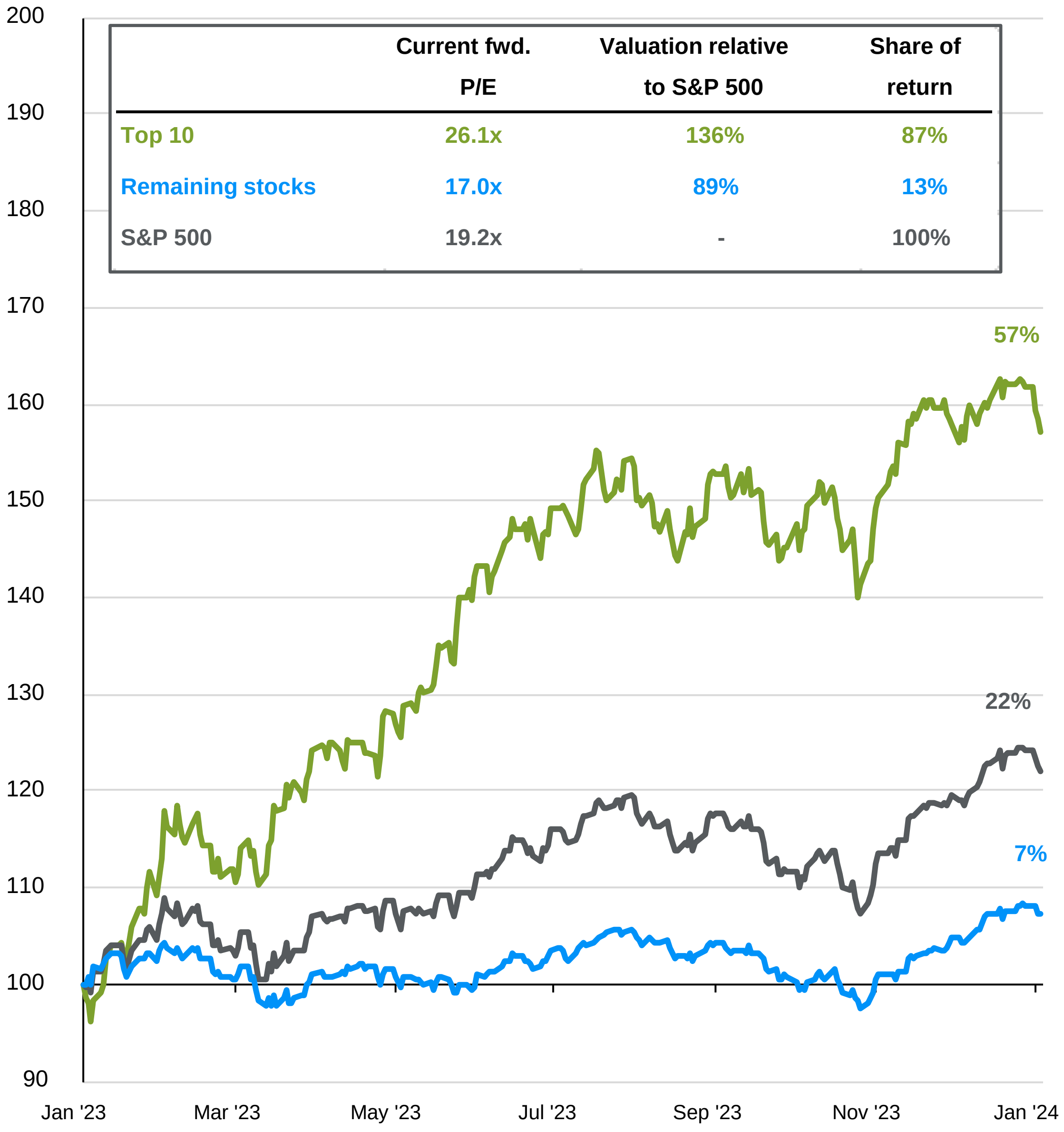
Market Returns Very Concentrated in 2023

87% of the returns of the S&P 500 Index came from the top ten stocks. Those top ten stocks, which represent 2% of the Index, amount to over 30% of the weight of the index. But they don't nearly contribute that a percentage in terms of overall earnings growth.

Performance of the top 10 stocks in the S&P 500

Indexed to 100 on 1/1/2023, price return, top 10 held constant



	Current fwd. P/E	Valuation relative to S&P 500	Share of return
Top 10	26.1x	136%	87%
Remaining stocks	17.0x	89%	13%
S&P 500	19.2x	-	100%

Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500

Earnings contribution of the top 10 in the S&P 500

Based on last 12 months' earnings

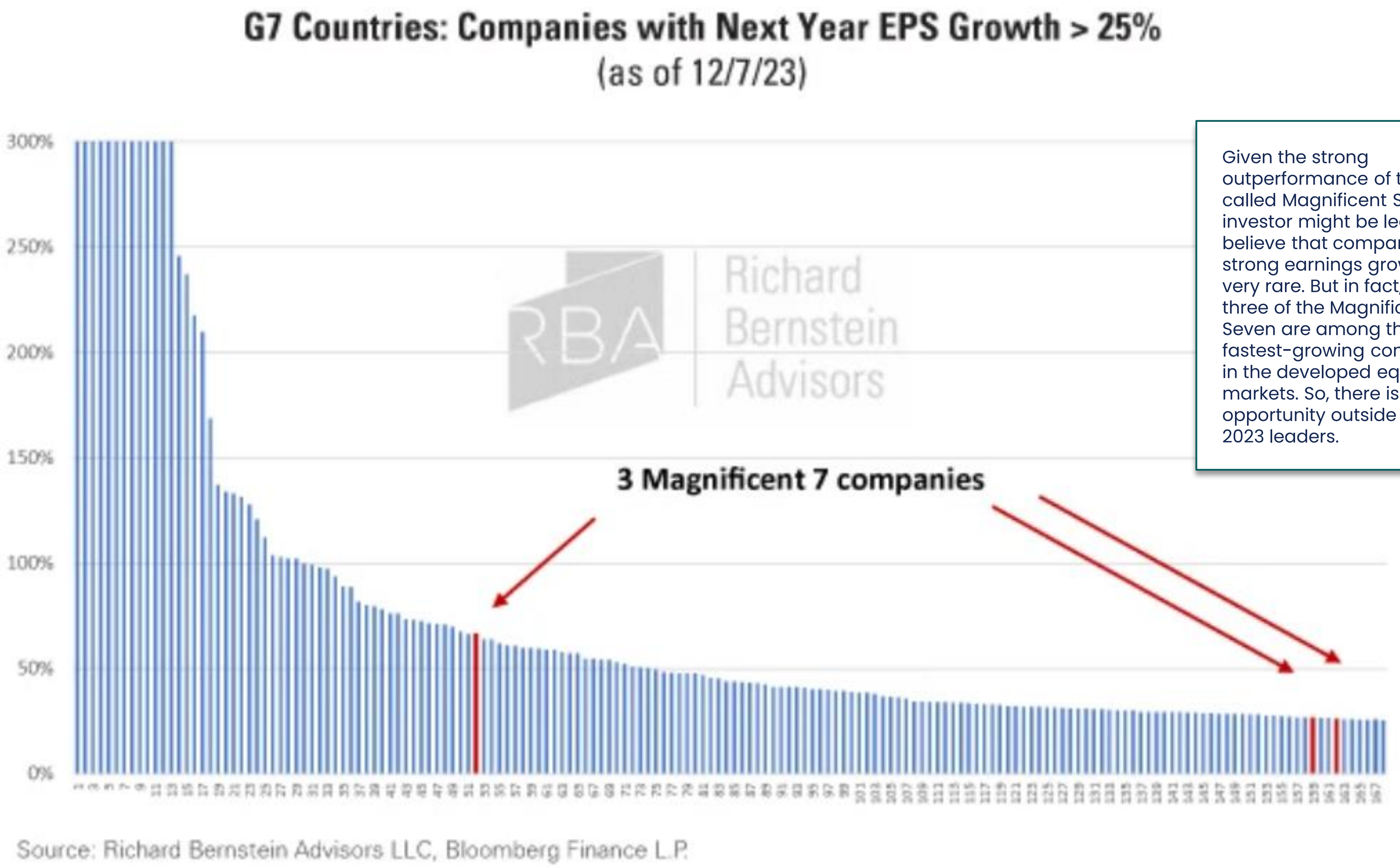
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

(Left) The top 10 companies used for this analysis are held constant and represent the S&P 500's 10 largest index constituents at the start of 2023.

The top 10 stocks are: AAPL, MSFT, AMZN, NVDA, GOOGL, BRK.B, GOOG, META, XOM, UNH, and TSLA. The remaining stocks represent the rest of the 494 companies in the S&P 500. (Right) The top 10 companies used for these two analyses are updated monthly and are based on the 10 largest index constituents at the beginning of each month. As of 12/31/2023, the top 10 companies in the index were AAPL (7.0%), MSFT (6.9%), AMZN (3.5%), NVDA (3.0%), GOOGL (2.1%), META (2.0%), GOOG (1.8%), TSLA (1.8%), BRK.B (1.6%), AVGO (1.2%) and JPM (1.2%).

Guide to the Markets – U.S. Data are as of January 4, 2024.

Valuations Across Equity Markets



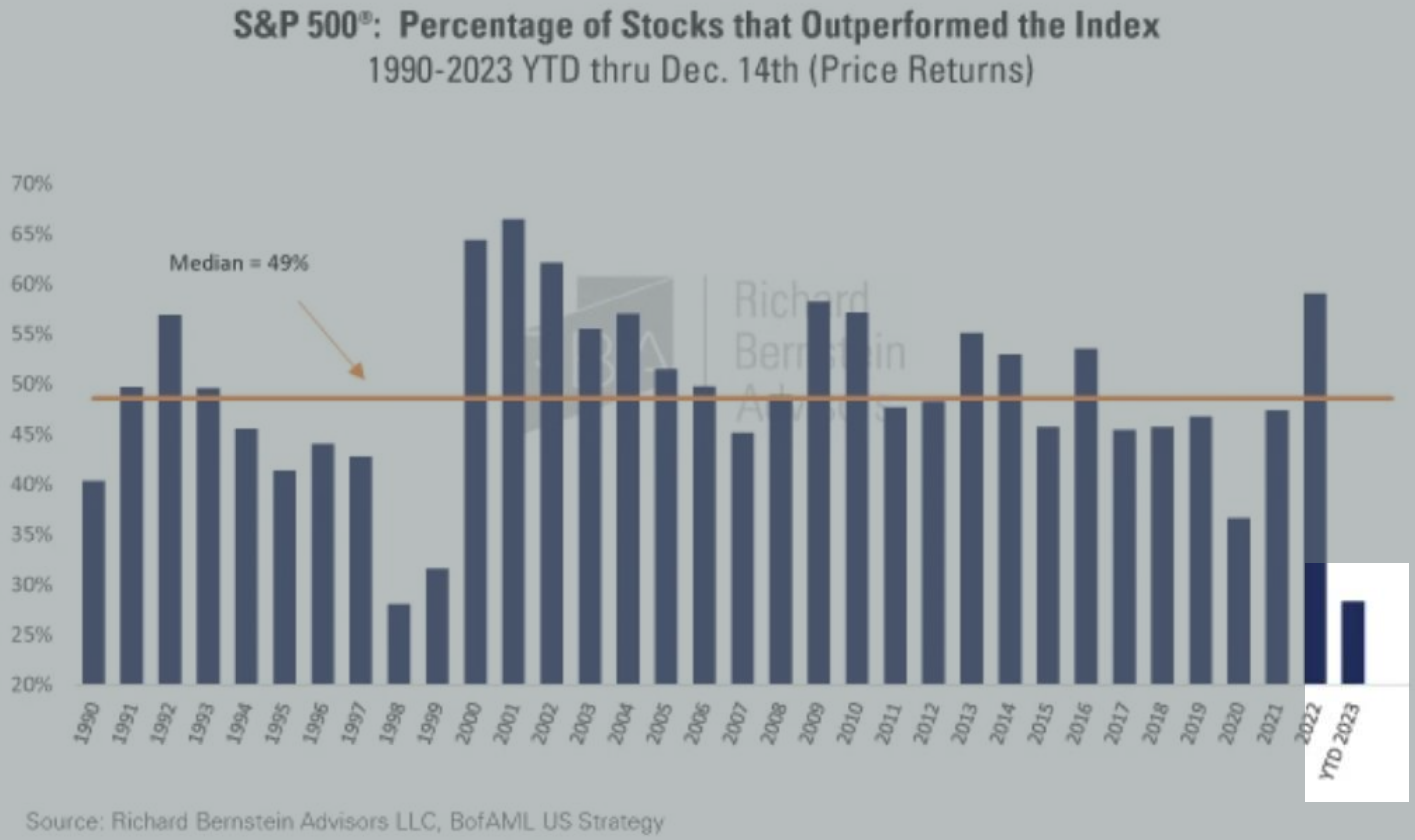
Given the strong outperformance of the so-called Magnificent Seven, an investor might be led to believe that companies with strong earnings growth are very rare. But in fact, only three of the Magnificent Seven are among the fastest-growing companies in the developed equity markets. So, there is a lot of opportunity outside these 2023 leaders.

Source Bloomberg, Bloomberg Finance L.P.,

Valuations Across Equity Markets

Here we see the percentage of individual constituents of the S&P 500 Index that have outperformed the benchmark.

Usually, this percentage hovers right around 49%. In 2023, it was dramatically lower than that, reflecting market concentration.



Source Bloomberg, Bloomberg Finance L.P.,

Distribution of Stock Market Returns

There are two takeaways in this display of years in which the stock market generated returns of various magnitudes. First, it pays to be a long-term investor because the positive years strongly outnumber the negative years. Second, that in some past periods of highly concentrated market leadership—such as the late ‘90s (see entries at right)—were followed by periods of poorer performance (see early ‘00s entries at left).

<-20%	-20%-10	-10%-0	0-10%	10-20%	>20%
6	6	14	14	21	37
1930	1941	1929	1947	1926	1927
1931	1957	1932	1948	1944	1928
1937	1966	1934	1956	1949	1933
1974	1973	1939	1960	1952	1935
2002	2001	1940	1970	1959	1936
2008	2022	1946	1978	1964	1938
		1953	1984	1965	1942
		1962	1987	1968	1943
		1969	1992	1971	1945
		1977	1994	1972	1950
		1981	2005	1979	1951
		1990	2007	1986	1954
		2000	2011	1988	1955
		2018	2015	1993	1958
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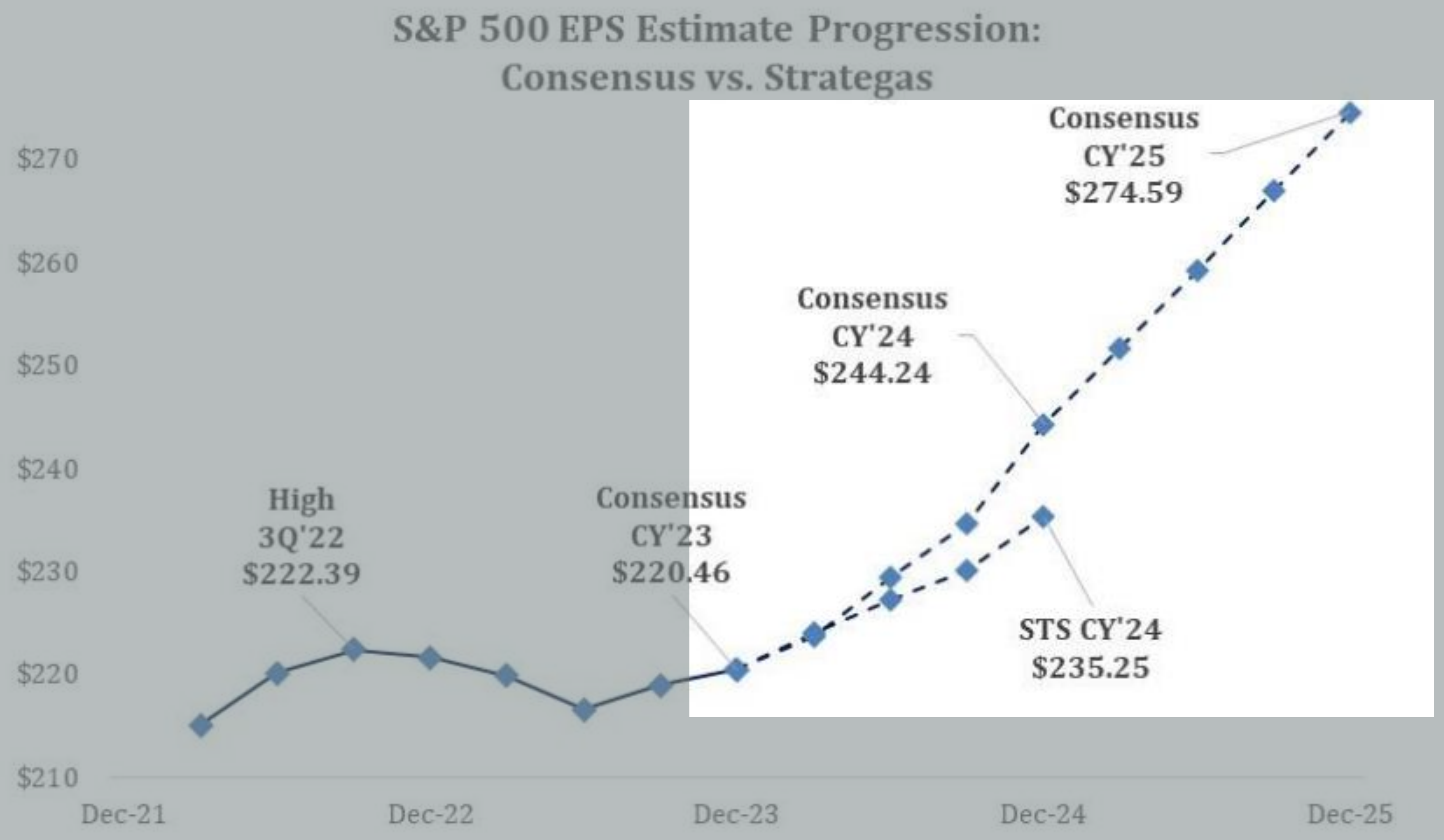
					2021
					2023

Source: Strategas, 1/5/2024

Earnings Trajectory Is Turning Higher

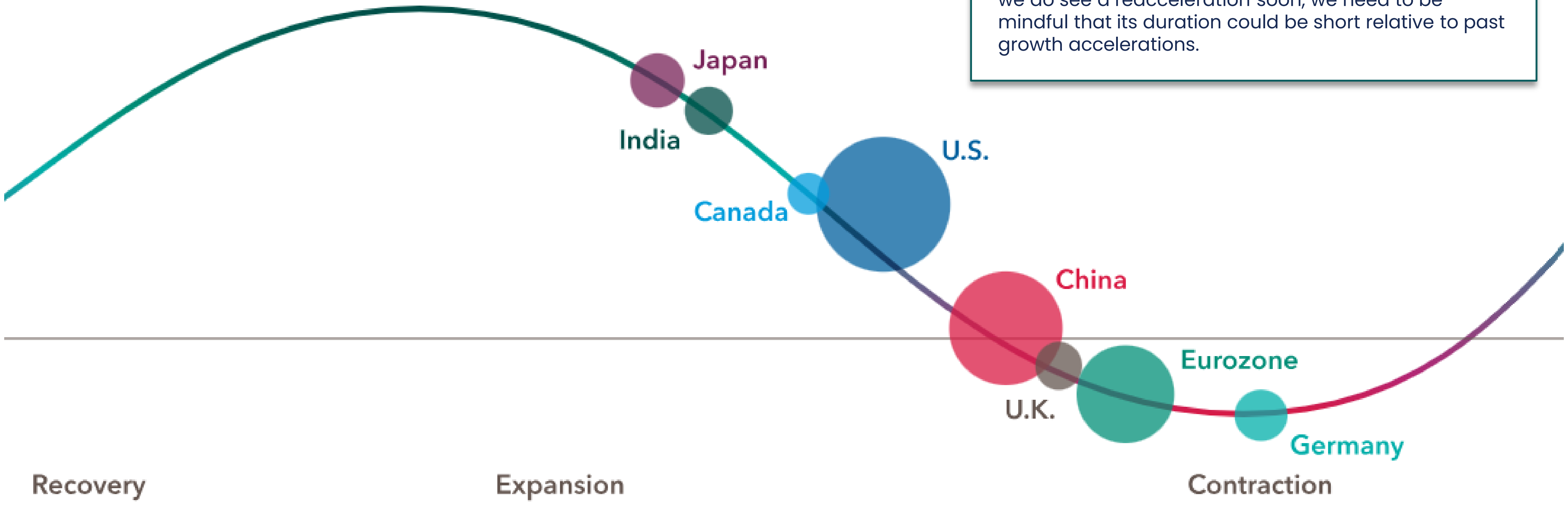
Looking ahead, we can consider the strength of the economy by looking at corporate earnings expectations. Earnings expectations were down last year, and earnings growth was negative. However, we did see corner turned at the end of 2023. Now we're watching closely to see if earnings will reaccelerate and the hope for a soft landing will actually materialize.



Source: Strategas, 1/5/2024

We Are in the Later Stages of the Economic Cycle

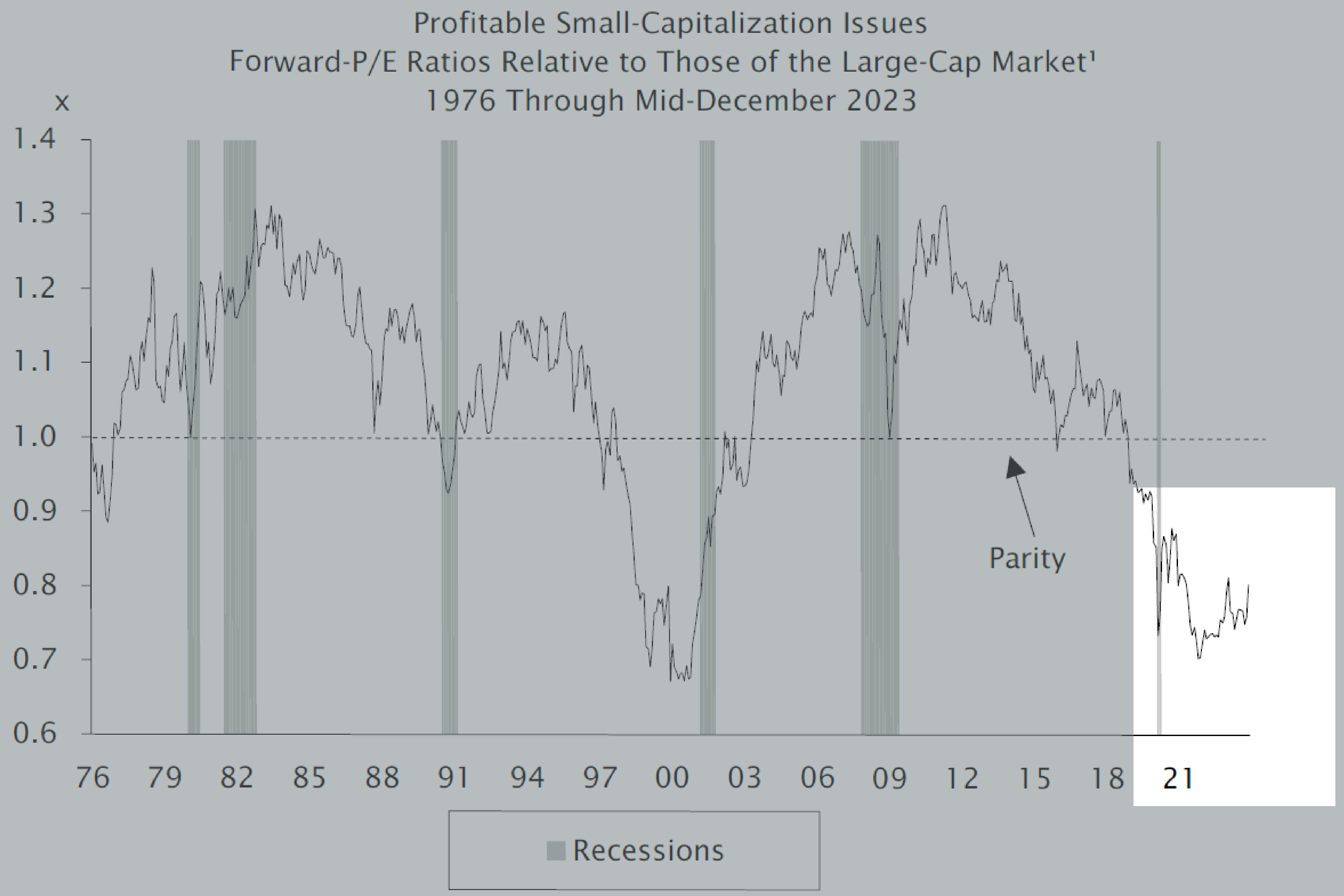
Any consideration of "soft landing" or other economic direction needs consideration in context of where we are in the economic cycle. The economy is by its nature cyclical, and we're still in the later stages. So, if we do see a reacceleration soon, we need to be mindful that its duration could be short relative to past growth accelerations.



Source: Capital Group. Country positions within the business cycle are forward-looking estimates by Capital Group economists as of October 2023. The size of the bubbles are used to approximate the relative size of each economy and are for illustrative purposes only.

Small Caps Are Relatively Attractive

If the economy stays on firm footing, one area we're excited about is profitable small cap companies. Profitable small cap companies relative to large cap companies are as inexpensive as they've been in almost a 40-year history.

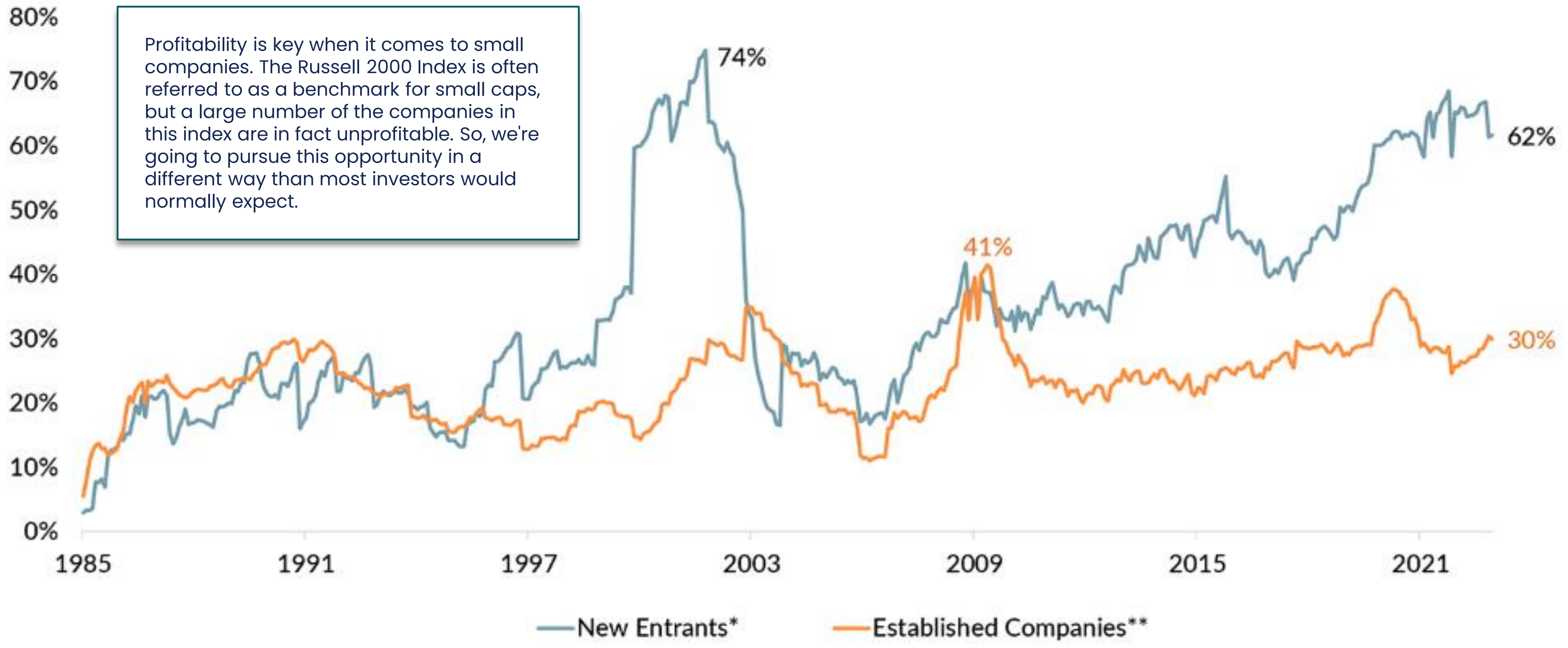


Source Empiricial Research Partners Analysis, National Bureasu of Economic Research, Capitalization Weihtted Data

Which Small Cap Index Matters

Exhibit 2: Russell 2000 Index: Percent Negative Earnings - New Entrants vs. Established Companies

Profitability is key when it comes to small companies. The Russell 2000 Index is often referred to as a benchmark for small caps, but a large number of the companies in this index are in fact unprofitable. So, we're going to pursue this opportunity in a different way than most investors would normally expect.



Sources: Glenmede Investment Management, FactSet, and Compustat Snapshot
**New Entrants are companies without trading records or index weight 3 years prior to measurement.*
***Established companies are firms with at least 36 months in the Russell 2000 Index at time of measurement.*
As of 7/31/2023. Returns represent past performance and are not guarantees of future results.

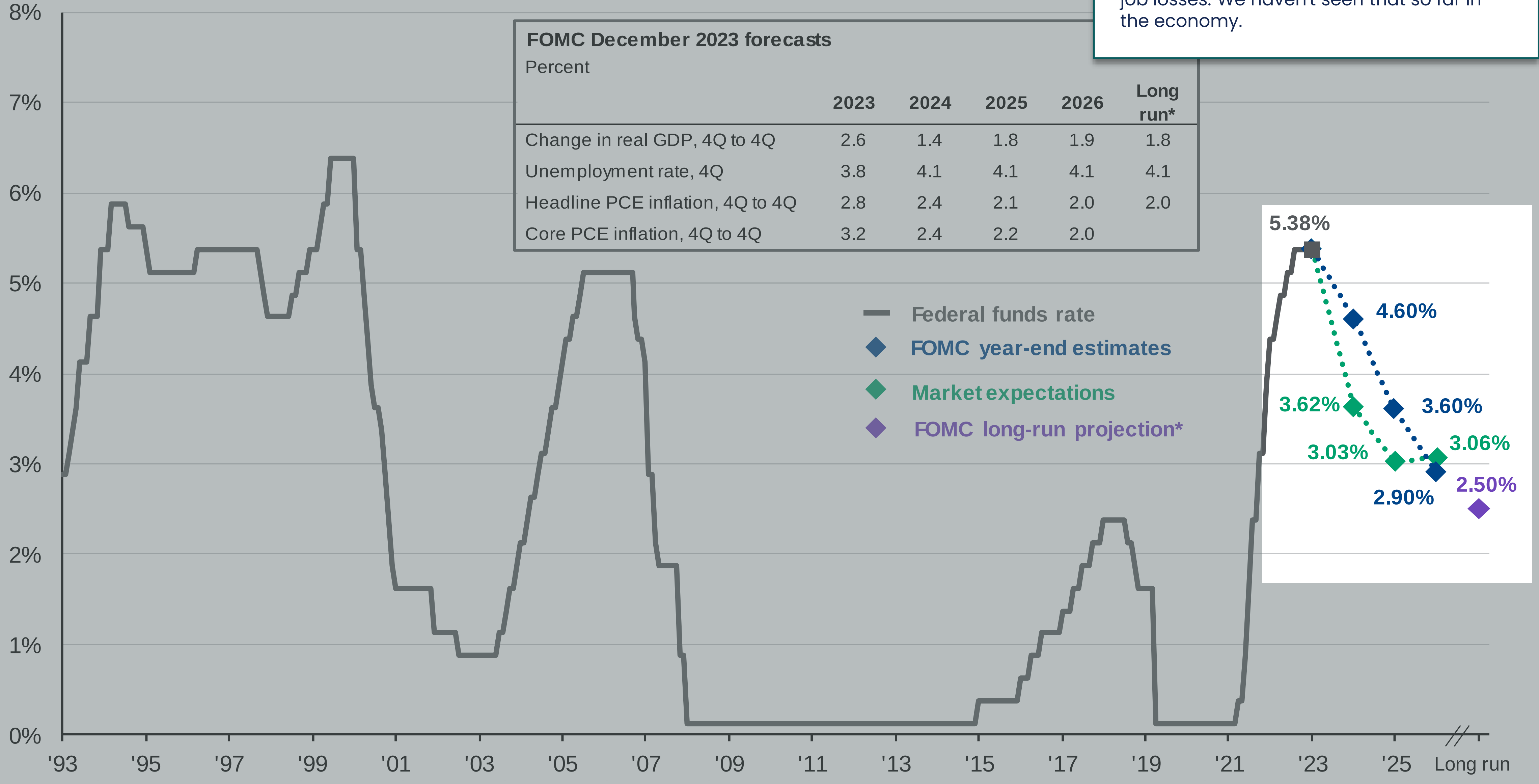
Source Glenmede Investment Management, Factset, and Compustat

Have We Seen the Peak in Interest Rates?

Turning to the bond market: the Federal Reserve in its December meeting made some statements about expecting rates to drop in 2024, and the market quickly priced in that information. Lower rates in 2024 would be unprecedented because historically the Federal Reserve does not start reducing interest rates until we see job losses. We haven't seen that so far in the economy.

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



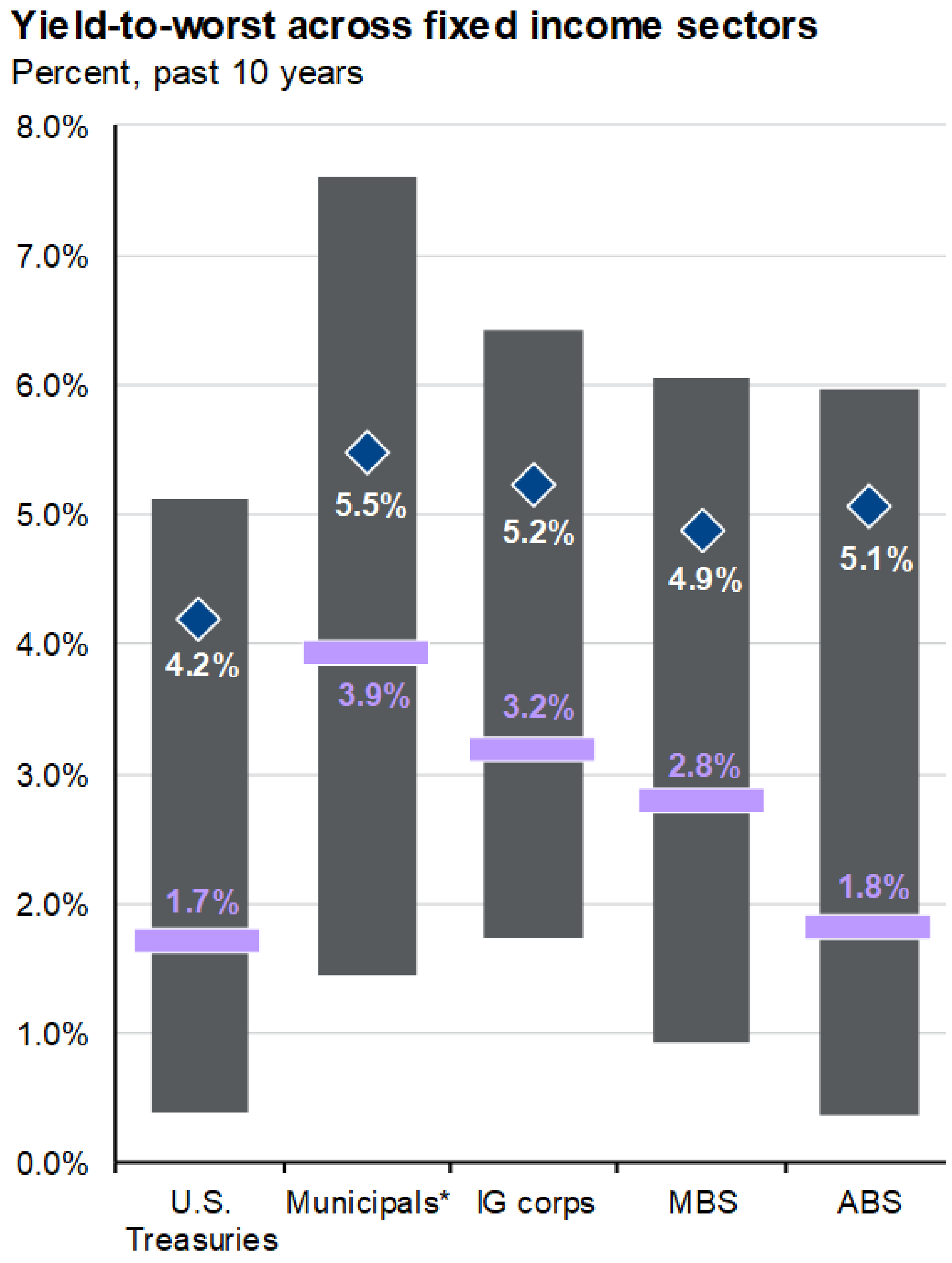
FOMC December 2023 forecasts

Percent

	2023	2024	2025	2026	Long run*
Change in real GDP, 4Q to 4Q	2.6	1.4	1.8	1.9	1.8
Unemployment rate, 4Q	3.8	4.1	4.1	4.1	4.1
Headline PCE inflation, 4Q to 4Q	2.8	2.4	2.1	2.0	2.0
Core PCE inflation, 4Q to 4Q	3.2	2.4	2.2	2.0	

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are based off of USD Overnight Index Swaps. *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. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
Guide to the Markets – U.S. Data are as of January 4, 2024.

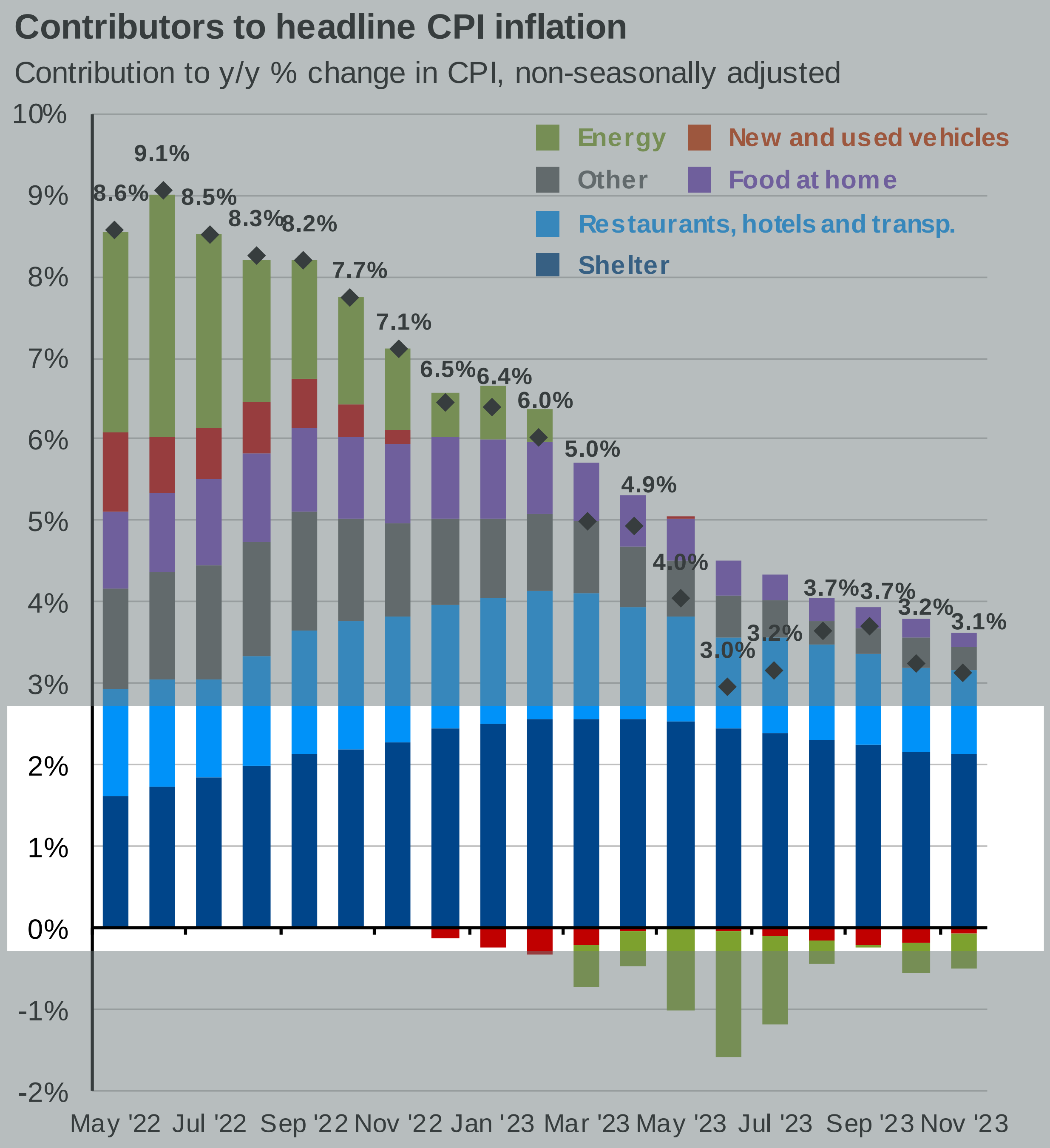
Fixed Income Yields Off Highs ... But Still Attractive



Was the fourth quarter of 2023 the peak in interest rates? That's going to depend on inflation expectations versus future growth. Whether it proves so or not, interest rates are still very attractive relative to history, supporting bonds as an important part of clients' overall portfolio.

Source: Bloomberg, FactSet, J.P. Morgan Credit Research, J.P. Morgan Asset Management. Indices used are Bloomberg except for emerging market debt and leveraged loans: EMD (USD): J.P. Morgan EMIGLOBAL Diversified Index; EMD (LCL): J.P. Morgan GBI-EM Global Diversified Index; EM Corp.: J.P. Morgan CEMBI Broad Diversified; Leveraged Loans: JPM Leveraged Loan Index; Euro IG: Bloomberg Euro Aggregate Corporate Index; Euro HY: Bloomberg Pan-European High Yield Index. Yield-to-worst is the lowest possible yield that can be received on a bond apart from the company defaulting and considers factors like call provisions, prepayments and other features that may affect the bonds cash flows. *All sectors shown are yield-to-worst except for Municipals, which is based on the tax-equivalent yield-to-worst assuming a top-income tax bracket rate of 37% plus a Medicare tax rate of 3.8%. Guide to the Markets – U.S. Data are as of January 4, 2024.

Balancing Act Between Inflation and Economic Weakness



As for inflation, here we see the Federal Reserve's rate hikes and quantitative tightening has made quite a difference, taking inflation down from the 9% range to the 3% range. What's been sticky is the dark blue line, which is house prices. If those house prices come down further and the economy is able to maintain itself, we'd say that the peak of interest rates are probably behind us. But if inflation does rear its ugly head, that could come as a by-product product of a stronger economy. Then interest rates would probably stay at current levels.

Source: BLS, FactSet, J.P. Morgan Asset Management. Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. *Core services ex-shelter CPI is a custom index using CPI components created by J.P. Morgan Asset Management. (Left) "Shelter" includes owners' equivalent rent and rent of primary residence; "Other" primarily reflects household furnishings, apparel, education and communication services, medical care services and other personal services. (Right) "Transportation services" primarily includes leased cars and trucks, motor vehicle insurance and motor vehicle maintenance and repair. Airline fares are broken out from transportation services. Guide to the Markets – U.S. Data are as of January 4, 2024.

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