J.P.Morgan

Global Markets Strategy
12 July 2021

The J.P. Morgan View – Global Asset Allocation

Position for a resumption of the reopening/reflation trade

Cross-Asset Strategy: We maintain our pro-risk view given the ongoing recovery from the pandemic, accommodative monetary policy, and still moderate positioning in risky asset classes. We look for global GDP to surge in 2H as the laggards join in a more synchronized growth boom, as widespread vaccination allows for a sustained rise in mobility and economic activity. We view the recent reversal of the reopening/reflation trade as driven by a combination of technicals (i.e., position unwinds and systematic strategy flows in an environment of low liquidity) and overblown fears around the Delta variant's impact on growth and mobility (see here). In our view it is far too early to fade reopening/reflation trends, as we are in the early stages of the post-pandemic recovery (the world hasn't reopened yet) not late-cycle, and inflation is likely to continue to realize above market expectations. The pullback thus creates a strong opportunity for investors to position for the outperformance of cyclical and value assets over bonds, defensives and growth. As such, we retain large OWs in equities (tilted towards value and cyclicals) and commodities, funded by a large UW in government bonds.

JPM Clients' View: Click here to take this week's survey. In addition to our running questions on equity sentiment and near-term portfolio changes, this week we poll investors on their perceptions around the recent reversal of the reopening trade and bond rally. Last week's survey results indicated: (1) equity exposure/sentiment among respondents is ~62nd percentile on average; (2) 57% planned to increase equity exposure, and 89% to decrease bond duration near-term; (3) the median respondent expected US infrastructure bill(s) worth $1-1.5Tr to be passed this year, funded by a hike in both the corporate tax rate to 25% and top individual income tax rate.

Who caused the bond rally? Momentum traders such as CTAs, retail investors and pension funds have likely been behind the recent bond rally, rather than tactical institutional bond investors, in our view. The decline in bond yields in recent weeks does not signal a change in the medium-term fundamental picture, which in our mind is a picture of strong growth, continued inflation surprises and of a shift to central bank tapering towards the end of the year.

Asset Allocation

Major Asset Classes	Active Weights	Prior Month	Δ	UW | OW
Equities	10%	10%		
Govt. Bonds	-13%	-13%		
Corp. Bonds	-2%	-2%		
Commodities	7%	7%		
Cash	-2%	-2%		

Source: J.P. Morgan.

Global Markets Strategy

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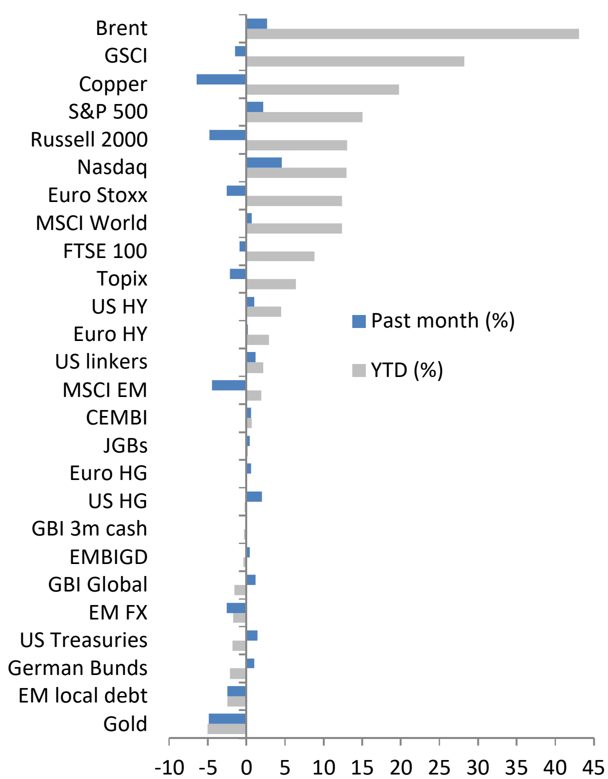
Cross Asset Strategy

Market Recap

Performance was mixed across markets the past month, with a moderate reversal in several parts of the reflation/reopening trade. Growth-oriented markets (e.g., Nasdaq) and bonds outperformed and more cyclical/value-oriented markets underperformed (e.g., EM, Russell 2000), but bucking this trend, Energy also outperformed (Figure 1). Last month we maintained a strong pro-risk stance in our model portfolio, with large OWs in equities and commodities (mainly in Energy), funded by an UW in bonds. Our long-only portfolio was up moderately but slightly underperformed its benchmark over the past month, due to our reopening/reflation tilt.

Figure 1: Performance across asset classes
Asset class return (%), ranked by YTD return



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

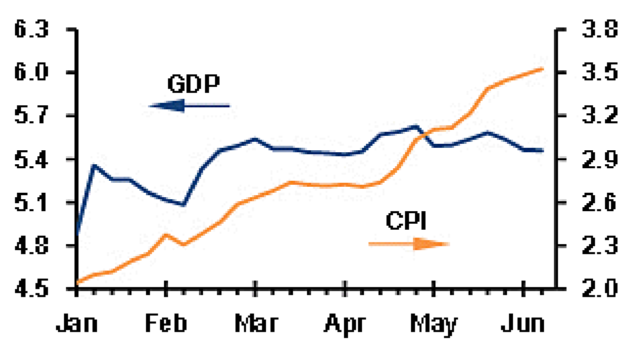
Macroeconomic Outlook

In 2H21 we look for global GDP to surge as the laggards join in a more synchronized growth boom, amid sustained elevated inflation. Asia and LatAm should join Europe and the US in delivering widespread vaccinations that allow for a sustained rise in mobility and economic activity. Divergent policy impulses underlie the view that the 1H21 rotation in growth leadership from China to the US will persist. However, we expect the heavy lifting in 2H21 growth to come from a move to sever the link between the COVID-19 virus and mobility. Buoyed by accelerating vaccination rates, Europe, Japan, and EM ex. China are all projected to unleash substantial pent-up consumer demand that sharply accelerates global growth to a 6.7%ar in 2H21 (*Global Data Watch*, Jun 25th and *Breaking the waves*, Jul 7th).

Fading drags from supply constraints and the virus will generate different impulses on inflation. As bottleneck pressures ease, the intense upward pressure on goods price inflation should moderate. However, the removal of a negative supply shock should be accompanied by a positive demand shock and generate upward pressure on service prices, which remain depressed. In all, our forecast has global core CPI inflation running close to its near-3% first-half pace, an outcome that would deliver the highest annual core inflation gain in a quarter century.

The biggest risk to the outlook is that the spread of new variants will short-circuit the pickup, but we remain confident that global growth will accelerate in 2H21. This is based in large part on a judgment that targeted vaccination at an accelerating pace will limit the health care consequences of this wave and contain the appetite for governments to impose new restrictions (*Global Data Watch*, Jul 10th).

Figure 2: Global 2021 forecast by date
% 4Q/4Q; both scales



Source: J.P. Morgan Global Economics

Asset Allocation

We maintain our pro-risk view given the ongoing recovery from the pandemic, accommodative monetary policy, and still below-average positioning in risky asset classes. We look for global GDP to surge in 2H as the laggards join in a more synchronized growth boom, as widespread vaccination allows for a sustained rise in mobility and economic activity. We view the recent reversal of the reopening/reflation trade as driven by a combination of technicals (i.e., position unwinds and systematic strategy flows in an environment of low liquidity) and overblown fears around the Delta variant's impact on growth and mobility (more on this below). In our view it is far too early to fade reopening/reflation trends, as we are in the early stages of the post-pandemic recovery (the world hasn't reopened yet) not late-cycle, and inflation is likely to continue to realize above market expectations. The pullback thus creates a strong opportunity for investors to position for the outperformance of cyclical and value assets over defensives, growth and bonds. As such, we retain large OWs in equities (tilted towards value and cyclicals) and commodities, funded by a large UW in government bonds.

Fears around the Delta variant are contributing to the decline in yields and value stocks, similar to what we saw in February with the B.1.1.7 strain. When the market properly assessed the risk of B.1.1.7, yields and value staged a strong rally from mid-February to mid-March, while growth stocks (often perceived as beneficiaries of lockdowns) sold off. Vaccines are effective against the Delta variant, and the increase in Delta cases is resulting in 5-10x smaller fatality rates compared to B.1.1.7, due to high vaccination rates. Thus, we see a similar setup to February, and expect reflation, cyclical and value trades to resume their outperformance (vs. growth and defensives). The Delta variant should not have significant repercussions for the pandemic situation in the US/Europe due to the level of population immunity, and hence positioning in markets should not be driven by this or any other subsequent variant of COVID-19 for which current vaccines are effective, in our view (*Market and Volatility Commentary*, Jun 30th).

Equities

We maintain a large equity OW and continue to favor segments linked to reflation and reopening, such as Value and Cyclicals.

Equities risk-reward remains positive for 2H. Bond yields should bottom out and move higher in the coming months, which will allow for a rebound in beta sectors. Commodity equities could also show some better performance, after European Mining and Energy have each lost 10-15% relative since March. On key drivers: first, positioning, technical and sentiment indicators do not appear stretched and short interest has picked up from low levels. Second, the peak in EPS revisions and in a number of activity momentum indicators is now behind us, and the market is likely to get comfortable that growth will remain above trend in 2H, supported by both consumer and capex. Within this, earnings for Cyclicals should stay healthy vs Defensives, in contrast to the stalling price relatives over the past 3 months. Third, the Fed shift to a more hawkish stance is now behind us, and the Fed is likely to stay credible with the "inflation is transitory" view. Regionally, Eurozone still screens attractive, and tactical pressures on EM should start to fade (*July Chartbook*, Jul 5th).

We have a constructive view on the consumer spending outlook over the next few quarters driven by consumer health, re-opening, and pent-up demand. Based on our business cycle indicator (QMI), growth is poised to accelerate further with international re-opening and service-based consumption gaining traction. This setup looks ideal going into 2021 summer/holiday and back-to-school season, which we believe will be one of the strongest on record due to robust demand and pricing environment (*The US Consumer*, Jun 21st).

Last month, we also turned more bullish on Japanese equities. Corporate earnings continue to improve, and while earnings forecast revisions have recently lost some momentum, they remain in positive territory. We think Japanese equities still have room to rise to a TOPIX level of 2,100-2,200 as they price in future earnings improvement. Given the current number of COVID-19 cases and vaccinations gaining momentum in Japan, we think the Japanese economy will catch up with the global economy. The global monetary environment after the June FOMC meeting should be a tailwind for Japanese equities as TOPIX tends to outperform when US real yields rise. Further, weaker JPY could also be a support (*Japan Equity Strategy*, Jun 17th and *Best Equity Ideas – Japan*, Jun 30th).

In EM we see three possible drivers to make the relative case of EM/DM equities more compelling into 2H21: (1) the phase-out of US exceptional strength; (2) higher commodity price tailwind for EM exporters through stronger growth and improvement in fiscal and current account balances; and (3) favorable positioning, as a reversion to historical average allocation of global investors to EM would drive large flow of funds. In EM, we also think the 2Q21 earnings season will bring important messages: (a) significant expansion on the books with both top line and EBITDA seeing double-digit growth; (b) LatAm to deliver the highest yoy earnings growth, EM Asia to lag and CEEMEA in the middle; (c) most sectors are expected to deliver strong positive 2Q21 yoy earnings growth which is skewed towards global cyclical ones: Materials, Energy and Industrials (*Key Trades & Risks*, Jun 17th and *EM Equity Strategy*, Jul 5th).

June leaves with some key takeaways but doesn't change the main drivers for SMid Caps. 2021 and at least 1Q22 should continue to see very easy comps, with real GDP growth driving corporate margins higher, and EPS growth returning to double digits for the first time in 4 years—a dynamic that, with valuations still showcasing SMid-Caps as the cheapest market at present, should continue to provide plenty of opportunities for investors. We expect the strength of balance sheets to become more of a driver, with rising volatility and discount rates likely to reward Value above all else (*The SMid View*, Jul 8th).

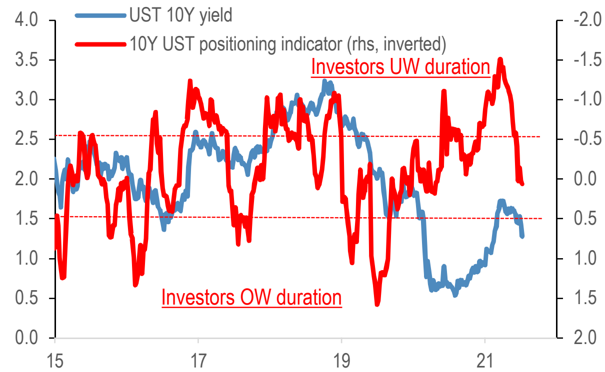
Bonds

We maintain a large UW in government bonds on the belief that the recent rally was technically-driven and likely to reverse near-term. We expect higher yields and inflation over the balance of the year, and use our large bond UW to finance our equity and commodity OWs.

Bonds rallied with yield curves bull-flattening amid an ongoing unwind of bearish exposure via steepeners as well as some concerns over the spread of the Delta COVID-19 variant. We continue to see a robust outlook even as growth slows from a pace of nearly 9.5% annualized in mid-2021 towards a still well-above trend pace of 3.7% through end-2022. Positions are cleaner and yields are ~25bp (>2 standard deviations) below our rates strategists' fair value model, though we recognize that a catalyst such as a resumption in labor market tightening or a renewed push for the bipartisan infrastructure package may be needed to push yields higher. We stay short 10Y USTs and hold 3s/7s steepeners as well as long 5Yx5Y inflation swaps.

In the **Euro area**, the release of the results of the ECB's strategy review this week was a surprise more in terms of timing than outcome, and the immediate implications for policy are limited. Incoming activity data continue to point to a strong activity bounce across the region, and we continue to see yields gradually grinding higher in 2H21. We have a bearish bias and keep greens/15Yx5Y forward EUR swap curve steepeners as a carry-efficient medium-term bearish proxy. Intra-EMU, we keep spread tightening exposure via OW 10Y Spain and France vs. Germany. In the **UK**, the rally looks overdone from a valuations standpoint and we shift to a bearish bias on 10y gilts and add reds/greens SONIA steepeners as a low-beta bearish proxy.

Figure 3: Treasury yield and positioning



Source: J.P. Morgan.

In **EM**, the higher-frequency data point to an improvement in growth momentum in EMEA EM, though the Delta variant remains a key risk for EM growth as the pace of vaccine rollout has only picked up in a handful of EM countries. The EM reflation theme remains the more lasting theme to position for, and our strategists stay UW local bond duration given EM central bank hawkishness. They are UW in EMEA EM, via UW Czech and Poland partially offset by OW South Africa, and Latam, via UW Chile. In EM Asia, they are now modestly OW, via Indonesia and Thailand partially offset by UW Malaysia (*EMOS*, Jul 8th).

Credit

We maintain a moderate UW in Credit given limited room for compression with spreads already at/near our strategists' year-end targets, and on expectations of a rebound in government bond yields.

It feels like summer 2021 has all the makings of summers past, i.e., low-liquidity and a low-volatility grind tighter in spreads and it doesn't feel like there's anyone taking the other side of this view right now. At times, such an overwhelming consensus and high position replication can itself be a cause for concern, but we don't feel concerned. No one seems to be over their proverbial skis, and the dual excesses of leverage and complexity seem to be absent, as do the 'tourists' from other asset classes (*Credit Watch*, Jun 30th).

Last month we published our Mid-year outlooks: In US HG we see little value in spreads here, but nothing to push them much wider either; we thus keep our YE spread forecast unchanged at 110bp, which is near the current level of spreads. In US HY we believe leveraged credit spreads can tighten in 2H21 and carry trades should continue to be rewarded, and we lowered our year-end 2021 HY spread target to 360bp. In Europe we expect range-bound spreads for HG, as the market remains trapped in a tug-of-war between overwhelmingly strong technical conditions and historically expensive valuations, while we think HY is set for a period of ultra-low default rates and revise down our spread target to 275bp. In EM Corporates, we maintain our 225bp end-2021 spread target for CEMBI Broad, with HY expected to lead the compression by tightening to 425bp.

Mid-year outlook conversations with clients revealed some interesting takeaways: In **US HG**, discussions indicate a wide consensus that spreads would remain tight, even while it is recognized that the risk-return tradeoff in HG credit is poor. Risks discussed include inflation, Fed tapering, corporate taxes, M&A/LBOs, geopolitics, changes in overseas demand and the small cushion for spread widening. In **US HY**, a broad consensus emerged that default risk is extremely low for the foreseeable future, 1H21's elevated supply would extend into 2H21 and that this backdrop warranted a continued reach for yield. There was consensus positioning in CCC/B vs BB-rated bonds. Discussions surrounding fallen angels vs BBBs and reopening plays remained popular. Investors remain highly-focused on the yield pick-up in primary versus secondary. In **Europe**, our view that the current low-volatility environment will persist is broadly shared and most investors are in compression trades. The main areas of concern are Fed tapering, even as the ECB moves in the opposite direction, and positioning. In **EM Corporates** discussions reveal broad comfort on their fundamental resilience and further improvement in credit metrics. Questions were raised on what risks could derail the relatively favorable backdrop, with the main point of concern being the perceived tightness in spreads. That said, investors recognized that valuations relative to DM credit are still not stretched.

Commodities

We maintain a large commodity OW, focused on Energy, as a hedge for rising inflation and given our expectations of a commodity up-cycle driven by the post-pandemic recovery.

While the last OPEC+ meeting was the most challenging since last December, we think the most likely outcome is for an eventual agreement to boost production by 400 kbd per month for the balance of the year as initially proposed. Going into the meeting, our base case assumed 500 kbd increments of supply additions added back in August, September and October for a total of 1.5 mbd. We have now factored in a new base case that production will rise by 400 kbd per month for the balance of the year, and with largely unchanged balances, we maintain our price forecasts for Brent that see it exceeding $80/bbl by Q4.

However, the potential for continued failure to come to an agreement adds downside risk to our oil price view. OPEC+'s discipline and market management has been a driving force behind the recovery in prices so far. While on paper no increase in quotas would lead to an extremely tight forward-looking market, it also raises the potential for noncompliance, a major concern with upwards of 5+ mbd OPEC+ production still offline. Moreover, our balances indicate that the window for OPEC and its allies to manage prices is closing. While we expect the global crude oil market to remain tight through the rest of the summer, pressures from both the supply and demand sides of the balance should slow inventory draws through the end of 2021 (*Oil Markets Weekly*, Jul 6th).

We believe base metal prices peaked in 2Q and will ease into the second half of the year as we are near the end of a supply-demand mismatch. Tracking for underlying ex-China demand over 1H21 has not only somewhat disappointed our expectations but is also struggling to pull ahead of a more normalized 2019 baseline level. Critical to our cautious outlook on these metals over the balance of the year is a view that despite still pretty hefty forecasted demand growth trajectories for ex-China over 2H21, we are likely moving beyond the tightest period of the year for global S&D balances as Chinese demand in particular remains constrained and, crucially, supply improves. Moreover, with global manufacturing PMIs in June downshifting and global consumption spending increasingly moving from goods to services, we continue to remain keenly focused on the 2H21 trajectory of still-fledgling ex-China metals consumption. Any stumbles here without China picking up the slack would likely leave copper and aluminum balances a bit looser than expected (*Copper Outlook*, Jun 21st and *Base Metals*, Jul 2nd).

Currencies

Global growth momentum has neutralized while regional divergences have intensified with Asia lagging. This has culminated in a broad risk reduction in reflation trades heading into the summer months. Position unwinds have informed FX returns and market depth has declined modestly. Moderating data surprises warrant keeping high-beta FX exposure light until clarity emerges. In G10, CAD, NOK and GBP longs were cut intra-month and in EM, we stay neutral on FX. Focus is on RV around central bank divergence and the commodity bloc. Bias is to emphasize the reflation theme. Central banks are becoming increasingly more hawkish with a few notable exceptions (ECB, BoJ, PBoC) and monetary policy divergence remains a tradable theme both in G10 and EM. In the portfolio, we stay long USD vs. EUR, JPY, CHF; overweight CZK vs. RON; overweight BRL, MXN vs COP, CLP. The impact on CNH from the PBoC cut is likely to be limited.

Taken together, the USD outlook is still relatively range-bound from current spot. In G10, we made some intra-month upgrades to USD projections against low-yielders—our EUR/USD 1y target reverts to 1.16 after a brief spell at 1.18, USD/JPY shifts from 1y 107 to 112, and USD/CHF gets upgraded from 0.94 to 0.96 while G10 high-beta forecast changes are somewhat more varied, with the majority of EM downgraded and USD/CNY forecast is flattened to 6.45. MXN is the sole upgrade, following Banxico's surprise hike (21.3 from 21.5) (*Key Currency Views*, Jul 9th).

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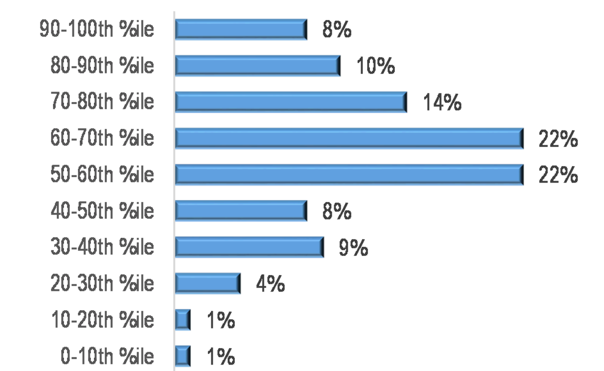
JPM Clients' View

Click here to take this week's survey

This week, in addition to our running survey questions on equity positioning/sentiment, and intentions for near-term changes to equity allocation and bond duration, we poll investors on perceptions around the recent reversal of the reopening trade and bond rally.

The results from last week's survey are shown in the charts below[1].

Figure 4: What is your current equity positioning or sentiment in historical terms, expressed from most bearish (0th percentile) to most bullish (100th percentile)?

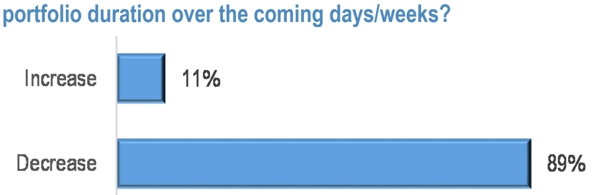


Source: J.P. Morgan.

Figure 5: Are you more likely to increase or decrease equity exposure over the coming days/weeks?

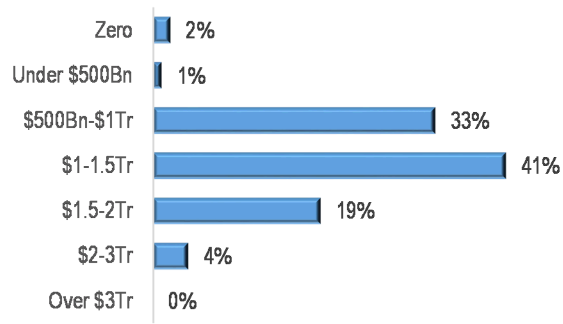
Source: J.P. Morgan.

Figure 6: Are you more likely to increase or decrease bond portfolio duration over the coming days/weeks?



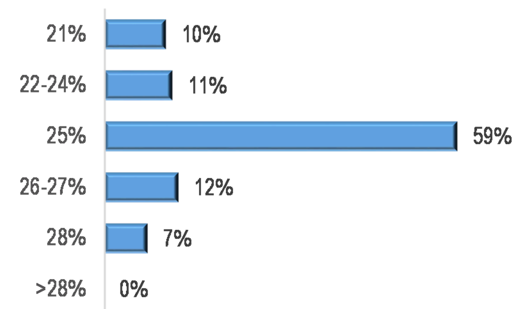
Source: J.P. Morgan.

Figure 7: How large of total US infrastructure bill(s) do you expect US Congress to approve this year (i.e. the sum of any bipartisan and reconciliation bills)?



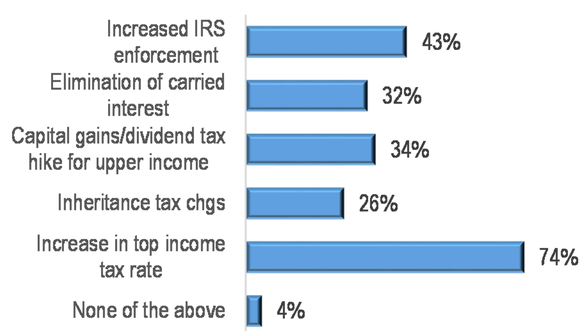
Source: J.P. Morgan.

Figure 8: What level of corporate tax rate will be put into place to fund the infrastructure bill(s)?



Source: J.P. Morgan.

Figure 9: What changes do you expect to individual taxation to fund the infrastructure bill(s)? (select all that apply)



Source: J.P. Morgan.

Click here to enter text.

[1] Results are based on 98 responses received from clients in our survey conducted June 28th-July 12th

Who caused the bond rally?

There is little doubt that the further decline in bond yields, which caught many market participants including ourselves by surprise, represents the key market event of the past few weeks with major implications for other asset classes.

Who has been driving this relentless rally in bonds? It is often mentioned that the last three payroll reports, including the weakness in the participation rate in the July 2nd report, have given the fundamental excuse to bond investors to raise duration exposures. From our conversations with clients, we do not sense that tactical bond investors including hedge funds changed or abandoned their views that bond yields are too low. This is consistent with our findings from our sister publication Flows & Liquidity (see *F&L*, Jul 7th) which suggest that momentum traders such as CTAs, retail investors and pension funds have likely been behind the recent bond rally rather than tactical institutional bond investors. The motivation by pension funds is clear: their much improved funding status naturally increases their incentive to de-risk by shifting their allocation to longer-dated bonds. The shift by momentum traders such as CTAs is also clear. Their objective is to follow and thus amplify trends and the trend of the past couple of months has been progressively inducing momentum traders to not only cover previous short duration exposures but also to build up long duration exposures. In fact Figure 10 suggests that the shift by momentum traders such as CTAs has been rather dramatic in recent months, shifting from an extreme short position in bonds in April to what is approaching an extreme long position currently. In particular on July 8th the short-term momentum signal for the 10y UST in Figure 10 was back to overbought levels seen at the end of last year. In other words, over the past week we approached bond yield levels where the overhang of long duration positions by momentum traders could mechanically trigger mean reversion flows.

The motivation by retail investors to increase their duration impulse over the past month by shifting their bond fund buying towards longer-dated bond funds is less clear. It is possible that, similar to momentum traders, the change in momentum and a perception that bond yields have peaked might have induced retail investors to buy more longer-dated funds in recent weeks.

In our opinion, the above evidence implies that the decline in bond yields in recent weeks does not signal a change in the medium-term fundamental picture, which in our mind is a picture of strong growth, continued inflation surprises and of a shift to central bank tapering towards the end of the year. We acknowledge that there are some weak spots in the global growth picture, namely China. But the recent weakness in Chinese domestic demand, perhaps caused by credit tightening during the first half of the year is already triggering a change in monetary policy stance as signaled by the July 7th State Council standing committee meeting. This change in Chinese monetary policy stance is very significant and supportive of the reflation trade, especially in commodities, the positioning backdrop of which has become a lot cleaner in recent weeks (Figure 11).

This week's ECB policy review, which effectively raised its inflation target, should be also supportive of the reflation trade and a re-steepening of core bond yield curves over the medium to long term, but the immediate market implications are admittedly more limited given the review contained little detail on how it would reach the new target.

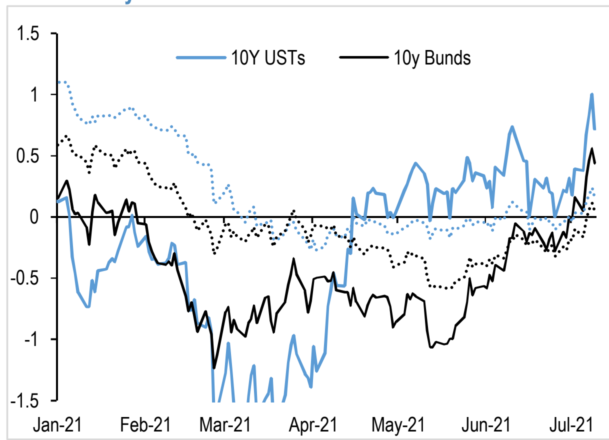
What about equities? Triggered by the decline in bond yields, both Value and Momentum factors appear to be reversing since mid-May led by financials, commodity equities and industrials. Is the simultaneous reversal of Value and Momentum factors a worrisome signal? We do not think so. In late March, we noted that as last year's market trough and subsequent outperformance of growth and defensive stocks begins to roll out of 12-month rolling periods, the composition of momentum baskets constructed over these periods should start to change. Specifically, the share of growth and tech stocks that outperformed in the initial recovery should begin to fall and the share of value stocks that began to outperform in 2H20 should start to increase. Indeed, this shift does appear to be underway. As Figure 12 shows, the Dow Jones Market Neutral Value and Momentum baskets that tended to perform inversely for much of the past few years have shown signs of a shift from mid-May onwards with the correlation in daily returns shifting sharply to positive territory, as both the value and momentum factors have both experienced some drawdown amid the decline in bond yields. Therefore, the simultaneous reversal of Value and Momentum factors should not come as surprise given the higher share of value stocks in momentum baskets. And again assuming that the recent decline in bond yields does not embed a change in the medium-term fundamental backdrop, it would be a matter of time until the Value and Momentum factors reverse their recent declines.

This week's correction in equity markets and the rise in equity vol should be viewed as temporary and through the lens of the above-mentioned rotation away from value-oriented stocks and regions which caught certain equity investors by surprise, thus inducing some position reduction. We see a low risk of this equity position reduction evolving to something more systemic given its trigger, i.e. the past week's decline in bond yields, had little fundamental justification, and given the strength of the retail impulse into equities which reached record highs in June (see *F&L*, Jul 7th).

The decline in bond yields did not leave currency markets unaffected. Up until the June FOMC meeting the dollar trajectory had tracked the 2yr rate US-Euro differential pretty closely (Figure 13). Over the past two weeks however there has been a disconnect as the dollar stayed strong despite the narrowing of the 2yr rate differential. What could explain this apparent divergence? One potential explanation is the relative underperformance of value vs. growth stocks, which may have prompted outflows from more value-oriented regions such as the euro area toward more growth-oriented regions like the US. Speculative flows may also have played a role, as net speculative investor position indicators including momentum traders have turned somewhat more dollar-bullish.

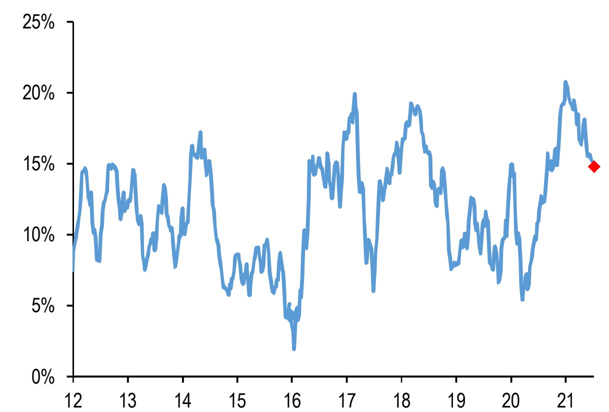
Finally, we continue to believe that growth concerns emanating from the Delta variant are overstated. The Delta variant is spreading fast but the economic consequences are likely to be limited given progress on vaccinations across major economies and given limited impact on hospitalizations and fatalities. The lesson from the UK and Israel is that there is little appetite by governments, especially in countries where vaccination rates are well advanced, to reverse previous relaxation of restrictions. Any new restrictions are likely to be minor such as wearing of face coverings, with few implications for overall mobility. We admit however that the spreading of the Delta variant could delay the recovery in countries where the pace of vaccination is not high enough to offset rates of transmission. These countries are mostly in EM and thus for investors fearful of the Delta variant becoming a bigger problem, unweighting countries most vulnerable to this variant, such as the Philippines, Peru, Colombia, S. Africa, Thailand, and Mexico, could prove a good hedge.

Figure 10: Shorter- and longer-term momentum signals for 10y USTs and 10y Bunds



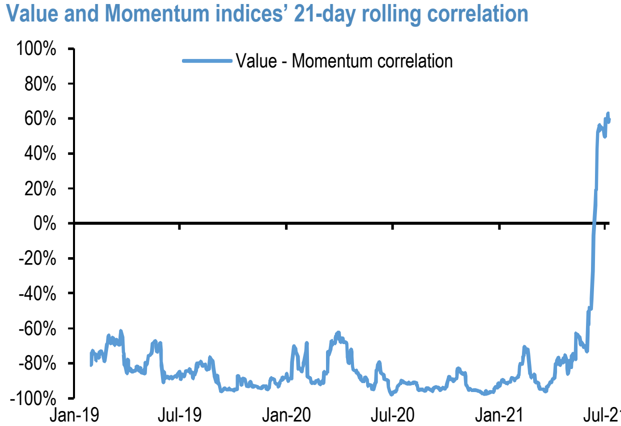
Source: J.P. Morgan Global Markets Strategy.

Figure 11: Spec Position as a % of Open Interest aggregated across commodity futures contracts excluding Gold



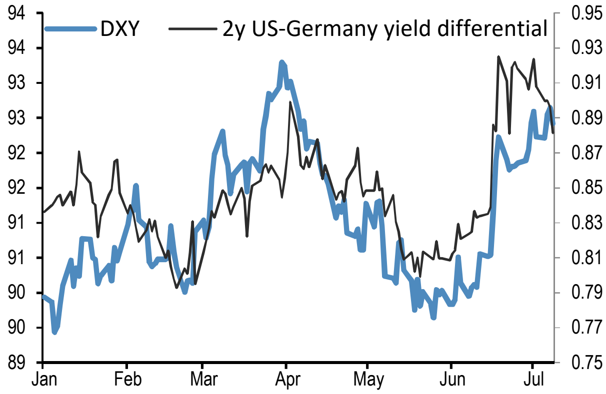
Source: J.P. Morgan Global Markets Strategy, Bloomberg Finance L.P., CFTC.

Figure 12: Correlation in daily return on the DJ market neutral Value and Momentum indices' 21-day rolling correlation



Source: J.P. Morgan Global Markets Strategy.

Figure 13: US dollar vs US-Euro 2yr rate differential



Source: J.P. Morgan Global Markets Strategy, Bloomberg Finance L.P.

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Long-Only Asset Allocation

Major Asset Classes			Active Weights	Prior Month	Δ
Equities			10%	10%	
Govt. Bonds			-13%	-13%	
Corp. Bonds			-2%	-2%	
Commodities			7%	7%	
Cash			-2%	-2%	
Major Sectors within each Asset Class			**Active Weights**	**Prior Month**	**Δ**
Equities	Countries	US	-2.0%	-2.0%	
		EMU	1.0%	1.0%	
		Japan	1.0%	1.0%	
		UK	-2.0%	-2.0%	
		EM	2.0%	2.0%	
		Other	0.0%	0.0%	
Govt. Bonds	Countries	US Nominal	-1.0%	-1.0%	
		US TIPs	-1.0%	-1.0%	
		Europe Core	-2.0%	-2.0%	
		Europe Periphery	2.0%	2.0%	
		Japan	2.0%	2.0%	
		UK	0.0%	0.0%	
		EM Local	0.0%	0.0%	
		Australia	0.0%	0.0%	
		Other	0.0%	0.0%	
Corp. Bonds	HG	US	-1.0%	-1.0%	
		Europe	-1.0%	-1.0%	
		UK	0.0%	0.0%	
	HY	US	1.0%	1.0%	
		Europe	1.0%	1.0%	
		US Loans	0.0%	0.0%	
	EM	Sovereigns	0.0%	0.0%	
		Corporates	0.0%	0.0%	
Commodities		Energy	4.0%	4.0%	
		Industrial metals	-1.0%	-1.0%	
		Agriculture	0.0%	0.0%	
		Precious metals	-3.0%	-3.0%	
		Livestock	0.0%	0.0%	

vs. US Benchmark		
Note	Tracking Error (%)	2.04%
vs. Benchmark		
Note	Yield (bp)	-4.2
	Dur (months)	-2.66
	Tracking Error (%)	0.29%
vs. Benchmark		
Note	Yield (bp)	4.7
	Duration (months)	-0.6
	Tracking Error (%)	1.48%
vs. Benchmark		
Note	Tracking Error (%)	1.66%

Source: J.P. Morgan.

Long-Only Portfolio Performance

Performance for June 2021 GAA Long-only portfolio

In bps.

This image cannot currently be displayed.

Source: J.P. Morgan.

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Trade Recommendations

Cross Asset	Trade Inception Date
Long Global equities vs Govt Bonds	Apr'20
Equities	
Strategies to Position for a Pick-up of KOSPI2 Downside Volatility	Jul'21
Buy XIN9I Call Spread Collars on Recovering Mutual Fund Issuance in China	Jul'21
Position for Japan Upside in a Value-driven Market	Jul'21
OW Cons. Discretionary, Financial, Industrials and Materials vs. UW Cons. Staples, Healthcare and Utilities	Jul'21
OW Brazil, Indonesia, Mexico, Russia, Taiwan and Thailand vs. UW Argentina, Colombia, Malaysia, Peru and Saudi Arabia	Jul'21
Long Telecoms (SXKP Index vs. SXXP Index)	Jun'21
Long COVID-19 Recovery International Basket (JPAMCRIB <Index>) vs. SPX	May'21
Opportunistically Buying Quality in Asia	Mar'21
Long Banks vs Asia ex Japan	Mar'21
Long Mexico x Short Peru	Mar'21
Stay Long Consumer Reopening trade (JPDEUVAC Index vs MSDLE15X Index and JPDUKVAC Index vs MSDLUK Index)	Mar'21
Keep FTSE 100 2021 Dividend Futures	Feb'21
Russell 2000 up-var vs. S&P 500 variance spread	Dec'20
Sell volatility and skew via bullish SX5E option structure	Dec'20
Stay Long Eurozone Equities (MSDLEMU Index vs. MXWO Index)	Dec'20
Long Banks and Insurance (SXFP Index vs. SXXP Index)	Nov'20
Buy the Russell 2000 Value vs the Russell 2000 Growth	Oct'20
Long S&P 500 dividend futures	Jun'20
Go against the grain in Pan-European SMid	May'20
Long in Euro STOXX 50 dividend futures	Apr'20
Long "Energy Recovery" vs. SPX	Dec'19
Long "5G Thematic" vs. SPX	Dec'19
Position for outperformance of China consumption stimulus beneficiaries	Mar'19
Fixed Income	
Shift short EUR gamma exposure to 3Mx30Y	Jun'21
Long 10y CAD and NZD swaps vs. EUR and GBP swaps	Jun'21
EUR 3Yx1Y/15Yx5Y forward swap curve steepener	Dec'20
3s/10s UST curve steepeners	Dec'20
10y Spain vs. Germany	Nov'20
Credit	
Short risk in iTraxx SenFin vs. iTraxx Main as a risk for systemic risk hedge	Jun'21
Long risk in iTraxx Main vs. CDX.IG as an inflation hedge	Jun'21
Long HY vs. HG in the US and Europe	Nov'20
FX	
Buy USD/CHF	Jul'21
Sell AUD/NZD in cash	Jun'21
Long vol – add EUR/USD 3m vol swap to existing EUR/AUD vol via a 1y vol swap	Jun'21
Long 1y EUR/MXN vol	Jun'21
Long USD/JPY	Mar'21
Commodities	
Stay long Agriculture commodity complex	Oct'17

Source: J.P. Morgan.

Cross-Asset Trading Themes

Stay long Global equities vs. gov't bonds

The rally in bond markets combined with some modest weakness in US economic data releases has raised some concerns over "peak growth". While we agree US GDP growth is likely to slow from an unsustainable 9.5% annualized pace in mid-2021, we see it slowing to average 3.7% through end-2022, a still well-above trend pace. In addition, euro area data also point to a strong rebound in growth as economies reopen. While the spread of the Delta variant of COVID-19 poses a risk, high vaccination rates reduce the risk of more disruptive restrictions to limit mobility, though it poses a risk of delay to recoveries in countries with slower vaccination rates mainly among EM. This means we continue to see the backdrop as supportive of risky assets, and for yields to grind higher over the second half of the year. We stay long equities vs. government bonds, though investors seeking a macro hedge may prefer to fund the equity longs via credit rather than govies.

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Equities Trading Themes

Strategies to Position for a Pickup of KOSPI2 Downside Volatility

A hawkish surprise from the Jun-21 FOMC meeting brings discussions around central bank policy normalization back into focus. Among major Asian economies, it is expected that Bank of Korea will be the first central bank to kick-start a rate hike cycle, with our economists calling for the next BoK rate hike to occur as soon as 4Q21. Normalizing central bank policies at home and abroad are likely to be a major headwind for Korean equites in the medium term. Potentially sooner-than-expected policy normalization is among the major factors leading to our strategists' recent downgrade of Korea to Neutral in the EM country allocation portfolio. More broadly, our strategists highlight that EM equities were among the biggest losers during the taper tantrum of 2013. Our expectation is for KOSPI 200 volatility to pick up gradually and to outperform countries with a slower policy normalization schedule in 2H21. Contrary to our cautious views, the KOSPI2 options market appears to be relatively complacent about a rising rate environment. KOSPI2 volatility and skew appear on the cheap side relative to peers, making strategies that benefit from an increase in downside volatility attractive. We recommend buying: (1) **KOSPI2 – SPX Dec21 (70%, 100%) CCVS as a carry-friendly way to position for the outperformance of KOSPI2 volatility on the downside**; and (2) **KOSPI2 puts contingent on NKY floored at expiry as a cost-efficient hedge** (see *Asia Pacific Equity Derivatives Highlights: The relative complacency of KOSPI 200 downside volatility, weaker yen beneficiaries* for more details).

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Buy XIN9I Call Spread Collars on Recovering Mutual Fund Issuance in China

A refresh on China A-shares flows dynamics suggests that the consolidation phase may come to an end following a range-trading in the CSI 300 in the past two months. We take rising A-shares turnover and an overall mildly positive reading in the flow indicators we track as signs that onshore trading activity has been dominated by portfolio rebalances in recent months. Following the adjustments in investors' positioning, our assessment is that fund redemption pressure is considerably relieved, and the upcoming quarterly disclosure of fund holdings is likely to confirm that ~7% outstanding shares of onshore funds was redeemed in 2Q21, putting it in the 85th%tile in the 10-year history. On the demand side, we expect fund issuance to resume its dominance versus other sources of fund flows. We think the turnaround in fund issuance is nascent. In Jun21, subscription interests are confined to a small subset of the fund offerings, which usually occur at the start of a more sustainable issuance recovery. If we are right, the average monthly equity and hybrid fund issuance should exceed the average since 2020 of CNY$180bn in 3Q21. With the expectation that onshore funds will be the main marginal buyer of A-shares, **we recommend investors accumulating longs in large-cap A-shares via call spread collar on FTSE China A50**. We think large cap names will benefit more from the flow dynamics as onshore funds exhibit a clear size preference. We expect the potential fund issuance recovery to play out in a gradual fashion as opposed to a sharp rise followed by months of declines. This suggests volatility is likely to stay unchanged or even face downward pressure in the next leg higher in A-shares. As a result, we think it is equally important to choose a carry-friendly structure to express our bullish views. A near-term catalyst for A-shares is the upcoming 1H21 earnings that start in late July (see Asia Pacific Equity Derivatives Highlights : China A-shares flow and positioning Jun21 update; Buy FTSE China A50 call spread collars for more details).

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Position for Japan Upside in a Value-driven Market

Our global strategists recently reaffirmed their pro-risk portfolio allocation and a tilt towards value and cyclical assets. If another leg of value rally plays out, Japan will likely be among major beneficiaries. To assess how volatility will likely behave as value potentially takes market leadership and design trading strategies, we look into historical patterns of a value-driven market and reflect on recent developments. We build regression models to illustrate a generalized return-volatility relationship being observed when value outperforms/underperforms. Our analysis suggests the hurdle to trigger a positive return and volatility relationship would be much higher in a value-driven market than in one that is not. In absence of major macro/flow catalysts, we expect the return and volatility relationship as captured by our regression models to hold. Current 1M realized volatility in TOPIX is slightly richer versus our regression predicted level. This suggests TOPIX realized volatility may face more downward pressure going into the summer, and we expect the same to happen to Nikkei. Looking at Nikkei implied volatility, we notice the 3M to 6M tenors are more bid up in recent weeks driven by better buying demand in options. These moves improve the entry level of entering option structures with negative Vega exposure. **We recommend**

investors buy Nikkei Oct21 call spread collars to position for a near-term rebound (see *Asia Pacific Equity Derivatives Highlights: Japan equities volatility behavior in a value-driven market; Buy NKY vs SX5E outperformance options* for more details).

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EM Equities – Reopening, Reflation & Value

We see three possible drivers to make the relative case of EM/DM equities more compelling into 2H21: (1) the phase-out of US exceptional strength—on J.P. Morgan estimates, EM restores GDP growth premium versus US GDP by 4Q21; (2) high commodity price tailwind for EM exporters through stronger growth and improvement in fiscal and current account balances; and (3) favorable positioning as a reversion to historical average allocation of global investors to EM would represent additional flow of funds of US$442 billion. **OW Reopening, Reflation and Value.** We upgrade Brazil to OW (EPS growth and valuation multiple optionality on high commodity prices, stronger growth and improvement in fiscal and current account balances), Mexico to OW (the USD-MXN remains well supported despite political risks and medium-term downgrade concerns) and downgrade South Korea to Neutral (the core is to take profit and to diversify our semiconductors exposure into commodities) and Real Estate to Neutral (higher interest rates should gradually clog the demand and performance of the EM real estate). **Rounding our EM model portfolio as follows:** (1) OW Brazil, Indonesia, Mexico, Russia, Taiwan and Thailand vs. UW Argentina, Colombia, Malaysia, Peru and Saudi Arabia; (2) OW Cons. Discretionary, Financial, Industrials and Materials vs. UW Cons. Staples, Healthcare and Utilities.

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Long Telecoms (SXKP Index vs. SXXP Index)

Telecoms are the best-performing Defensive sector ytd, and we maintain our tactical OW from earlier this year, given: 1) The sector is record cheap and driving an increase in PE interest, minority buyouts and infrastructure deals. It is also a big EU recovery fund beneficiary. 2) The sector's poor FCF could likely return to a rising trend benefitting from modest EBITDA growth of 1-2% annually, interest & working capital cost reductions, and a potential capex cliff by 2023. Balance sheets are poor; however, credit markets are holding up well, and ongoing asset monetization efforts and potential capex cliff should help Telecom operators further deleverage their balance sheets in the coming years. 3) Growth is improving, both volumes and pricing, and the sector is an indirect play on reopening

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Long COVID-19 International Basket (JPAMCRIB <Index>) vs. SPX

This basket is designed to benefit as the economy reopens and there is progress in containment of the virus. Our screening methodology for COVID-19 Recovery International stocks is based on S&P 500 companies that became considerably cheaper during the pandemic compared to the pre-COVID-19 period (Q2'20 vs Q4'19) based on our Value composite score (sector-neutral equal weight combination of price-to-forward-earnings, price-to-book-value and price-to-sales). The list is then filtered to select only International candidates based on their Revenue exposure. The list is reviewed and further revised to incorporate fundamental Stock Analysts' feedback. See Market Update, Conditions Increasingly Favor COVID-19 Recovery Candidates and US Equity Outlook.

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Opportunistically Buying Quality in Asia

Our first structural call of the year was upgrading Value to a core OW due to an improvement in the macro and market environment for Value catalyzed by the shift toward sustained fiscal easing in the US. Also, over the course of the year, two other factors may contribute to Value's outperformance: increased regulation on tech platforms globally and a faster-than-expected return to inflation may tighten liquidity. We continue to structurally like Quality as investors prefer resilience over efficiency post the pandemic. We highlight a screen of High-Quality Value stocks in our Quantamental Insights (January 2021) for sustained outperformance.

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Long Banks vs Asia ex Japan

The impact of improving growth, lower risk aversion, rising inflation prospects, and a likely asset class rotation support a further increase in bond yields. This should be overall positive for a macro-exposed sector like Banks and aligns well with our call for Value outperformance in 2021. The fundamental outlook for banks looks attractive on all fronts—with NIMs improving, NPLs falling, and credit growth recovering. Also, Banks have underperformed the benchmark significantly in the last decade. The MXASJBK index is outperforming the regional benchmark by +4.0% YTD.

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Position for Outperformance of China Consumption Stimulus Beneficiaries

We think China's consumption stimulus beneficiaries are a segment that benefits from a combination of structural growth via consumption/service upgrades, premiumization, and a new retail ecosystem. A robust domestic consumption economy remains critical to China's dual loop policy, as outlined in their 14th FYP. Global demand for goods has picked up post COVID-19, and a consumer recovery in China is also under way. Investors can gain diversified exposure to the theme via our basket of China consumption stimulus beneficiaries (JPHCHCSB <Index>) vs. the MSCI Asia ex-Japan index. The basket has outperformed the regional benchmark (MXASJ Index) by +1.4% YTD.

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Long Mexico x Short Peru

Our OW in an optionality to the US growth story, at the same time that economic policy management gives us a good degree of comfort vis-à-vis the MXN, while the current and fiscal accounts remain in good territory, pushing further down the line a possible rating downgrade. The mid-term election results attenuated the risk of Morena's hegemony. In Peru, the uncertainty that is being brought by a likely confirmation of Pedro Castillo's victory in the presidential elections leads us to assume a derating, even though valuations are undemanding. Regulatory noise for the mining and possibly banking sectors should lead to negative performance going forward, at the same time that the PEN was less supported than we have thought in the past.

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Stay Long Consumer Reopening trade (JPDEUVAC Index vs MSDLE15X Index and JPDUKVAC Index vs MSDLUK Index)

We believe that the Consumer reopening trade will pick up again, after stalling since March. Household balance sheets are fundamentally in a strong position, with elevated savings rates and a positive wealth effect from the move higher in house and financial asset prices. Labour markets are healing, wage growth bottoming out and fiscal cliff fears are likely to keep pushing out with consumer being the main beneficiary. Sectorwise, the trade should favour Aerospace, Airlines, Hotels, Restaurants and Leisure, Beverages, Transport Infrastructure, Multi-line Retail, among others, and be negative for Online Retail, Technology, Healthcare, Food Producers and Household Products. (See European consumer reopening).

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Stay Long Banks and Insurance (SXFP Index vs. SXXP Index)

Banks are the key play on rising yields and on the steepening of the yield curve. They still look very cheap, on 0.7x P/B, their balance sheets are resilient this time around, with no need for dilution, dividends could be reinstated and earnings are moving higher. Peripheral spreads also remain well behaved. Insurance sector is also among the most positively correlated of all the sectors to both bond yields and PMIs. The sector is well capitalized to start paying dividends again. Credit spreads are holding up well, which should be a support for Insurance.

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Stay Long Eurozone Equities (MSDLEMU Index vs. MXWO Index)

Eurozone is among the best-performing regions ytd, and we expect this trend to continue. Eurozone is a global Cycle and Value play, trading cheap, is a beneficiary of stable peripheral spreads. Vaccinations are catching up, EU recovery fund implementation could start as early as summer, and political headwinds could ease with Italy in particular benefitting from Draghi's proposed reforms. Crucially, rising bond yields and Value style leadership is likely to help the region.

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Keep Long Positions in 2021 Dividend Futures and Roll Euro STOXX 50 2022 into 2023

We maintain exposure to FTSE 2021, which we recommended five months ago, and which are up by ~13% since inception. We recommend rolling Euro STOXX 50 2022 dividend futures, which are up ~65% since our initial recommendation in April 2020, into 2023 contracts. In our view Euro STOXX 50 2023 dividends offer a better risk-reward than 2022 contracts at present, partly due to the strong outperformance of 2022 dividends earlier in the year and their limited residual upside to bottom-up estimates (~4.2% vs IBES). We expect FTSE 100 and Euro STOXX 50 dividend futures to continue benefitting from positive revisions in dividend estimates and to a limited extent from further risk premia compression. Based on our latest bottom-up estimates, Euro STOXX 50 2023 dividend futures offer ~11.6% upside to IBES consensus estimates, while FTSE 100 2021 dividend futures are trading close to par with a 0.2% discount to IBES consensus and a 2.1% discount to JPM estimates.

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Stay Long Russell 2000 Up-Var vs. Short S&P 500 Variance

We stay long Russell 2000 Dec'23 50% up-var vs. short S&P 500 Dec'23 vanilla variance, initiated in Dec'20 to generate strong carry and exploit the term structure dislocation between these indices, structured product supply/demand dynamics, and expensive downside wings/convexity. The Russell 2000 less S&P 500 volatility spread was also one of the few popular volatility spread trades that performed well during the pandemic, as the Russell reasserted itself as a higher-beta index and its volatility is supported by style and cyclical rotation trades. The Russell continues to realize, recording a ~7 point realized volatility premium over the past month. Since our trade inception, the Russell 2000 realized ~10 points higher volatility than the S&P 500 (vs. the implied/strike entry level of -0.75v), while rallying away from the up-var strike, delivering significant gains to our trade. We maintain the trade to continue collecting carry, and since the term structure and convexity dislocations remain, as discussed in our recent Volatility Review notes (here, here).

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Stay Long S&P 500 Dividend Futures

We stay long S&P 500 dividend futures given strong fundamentals: US corporate balance sheets appear healthy, corporate profits are rebounding strongly, and dividend estimates are being revised higher. We expect bottom-up dividend estimates to continue to drift higher over the coming weeks as banks analysts continue to update their models post-CCAR and the Q2 earnings season likely spurs broader dividend upgrades (see S&P 500 Dividend Weekly, Jun 30th). S&P 500 dividend futures are up over the past month, largely driven by banks announcing positive dividend surprises after the Fed's pandemic restrictions were lifted post-CCAR. Our trade now has a cumulative positive mark-to-market gain of +19% on the 2022s, and +5% on the 2023 contracts (in addition to capturing +8% profit on the 2020 contracts when we rolled them to 2022 last October and +27% P/L on the 2021s when we rolled them to 2023 in January). We recommend staying long 2022 and 2023 S&P 500 dividend futures to position for a continued recovery.

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Maintain SX5E bullish risk reversal structures

We maintain the bullish, short-skew Euro STOXX 50 trades recommended first in February and roll maturities out from August to September. We recommend investors buy 2.7x SX5E Sep-21 105% Call and sell 1x SX5E Sep-21 95% Put at close to zero cost. Alternatively, into year-end we recommended here SX5E Dec-21 105% call vs. short Dec-21 95% put with KI at 73% (~2,967, continuously monitored) as a cost effective way to get long. Fundamentally, we also like periphery markets in Europe and recommended here a congruent short skew structure into year-end on FTSEMIB buying Dec-21 103-110 Call Spread fully funded by selling Dec-21 87 Put. For shorter-dated exposure we recommend outright calls as recommended here, buying FTSEMIB Aug-21 103% Calls at approximately 0.9%.

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Stay Long Energy Recovery (JPAMEVAL <Index>) vs. SPX

Energy is our highest risk/reward OW for this year given short positioning and depressed valuation. SMid E&Ps, in particular, are among the most hated names in the sector, trading at a fraction of book value. However, we hold a more constructive outlook for the sector and expect fundamentals to improve in the coming quarters. The Energy Recovery Basket identifies the top 30 Energy stocks that we think would benefit from a recovery in the business cycle and oil prices. The composite rankings were selected for the basket and further vetted by stock analysts. The weighted Composite Ranking was based on Value score, Quality score, Correlation to Oil and Consensus Price Target Upside.

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Stay Long 5G Thematic (JPAMFIVG <Index>) vs. SPX

The 5G Thematic basket is composed of stocks that are most closely tied to the ongoing 5G rollout. Using textual analysis of corporate earnings, conferences, and other call transcripts, we identified the top 30 names in the S&P 1500 most strongly associated with the 5G theme based on level and type of discussion. JPM analyst feedback was also incorporated to further refine the list of stocks.

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Buy the Russell 2000 Value vs the Russell 2000 Growth

Historical evidence suggests that, within SMid-Caps, value tends to outperform growth significantly and consistently. The two SMid indices with the longest history are the Russell 2000 value and growth indices, which go back to Dec 1978. Since then, the value index has outperformed the growth index by a whopping 4,431% (total return), with only two periods of sustained underperformance that were the Tech bubble and the most recent equity market cycle (i.e., since 2007). In fact, one can say that the growth index has NEVER outperformed the value index as strongly as it has done since 2007. With this in mind, we feel compelled to turn OW on value for the following reasons: 1) valuation dispersion is near record highs, at levels not seen since the tech bubble, which ended with the growth index underperforming the value index by 100% in the following 2 years; 2) the most expensive quintile of the US SMid universe at this juncture is sporting P/E multiples that discount close to a decade of growth before such multiples will fall below the historical average valuation of US SMid-Caps (with the Russell 2000 Growth sporting very similar premiums); 3) the stocks commanding such multiples are those with the highest consensus expectations of EPS growth… one of the most consistent contrarian indicators of 12-mth forward performance we can find; and 4) because the common belief that growth is worth buying at almost any price when faced with a low economic growth environment is simply not true… empirical evidence shows a perfect inverse relationship between consensus estimated EPS growth and 12-mth forward returns among Japanese SMid-Caps during the last 20+ years (i.e., since 1998), with the highest decile of FCF Yield, Div Yield, and the lowest decile of P/E, P/B, or EV/EBITDA having delivered close to 1,000 bps of yearly alpha vs the top decile of consensus 12-mth fwd EPS growth estimates. This pair trade has delivered a total return of 2067 bps since we launched it on Oct 8th, 2020.

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Pan-European SMid Trade: This recession will be shorter lived than what the market thinks… go against the grain (buy what the market has sold out of and sell what it has held on to)

Having gone into 2020 with a cautious stance, we adopted a contrarian constructive view on Mar 17th, arguing that the market trough was not far and one had to start building positions among those stocks that had been most sold off during the correction. As we mentioned in our note, some of these underperformers had sold off huge, and offered “tremendous opportunities” within a market correction that, in our opinion, differed from past such recession-linked sell-offs in 3 key ways: a) it was far more temporary (dealing with COVID-19 will be a matter of months, not years), b) far less fundamental (i.e., equities were being driven by passive trend-following AUM more than ever before), and c) with a far more certain outlook as the world knew this time around what the end result would be (i.e., once COVID-19 is behind us, we will be back to a world we all have had a decade to understand… a world of low growth, low inflation, low interest rates, low returns). This view has delivered tremendous alpha, with SMid indices up >90% since our Mar 2020 upgrade, and with the sold-off stocks we favoured vastly outperforming the rest (the worst decile of performing SMid Caps during the downturn has delivered an average gain of 188% since the Mar market low, while the best decile of performers during the downturn is up just 60%). As a result, we stick to our pair trade, going long the worst decile of performers among Pan-European SMid-Caps from the Feb 19th market peak to its Mar 18th low, while shorting the best-performing decile during that downturn. This pair trade has delivered a return of 6131 bps since we launched it on Apr 7th, 2020.

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S&P 500 Asymmetric Delta Exposure via KI Risk Reversals Expired at a Profit

A year ago we recommended trading 1Y knock-in risk reversals on the S&P 500 (i.e., selling KI puts to fund vanilla calls) to obtain asymmetric market exposure while monetizing the elevated long-dated skew. Our costless trade expired at a profit of +31% of notional given the significant market rally since Jun'20.

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Credit Trading Themes

Stay long HY vs. HG in the US and Europe

The fundamental backdrop remains supportive for risky assets as economies reopen and growth picks up through 2Q/3Q. While we see a slowing in US growth from mid-2021 onward, this is from an unsustainable 9.5% annualize pace in mid-2021 to a still above trend 3.7% through end-2022. And euro area data also point to a strong rebound in growth as economies reopen. The Delta variant of COVID-19 poses a potential risk, but high vaccination rates reduce the risk of more disruptive restrictions to limit mobility in both regions. Combined with ongoing support from monetary and fiscal policy, along with a benign backdrop on defaults, this means we continue to see the environment as conducive to earning carry, with some potential for gains from further spread compression.

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Maintain hedges in credit via 1) short risk in iTraxx SenFin vs. iTraxx Main as a risk for systemic risk hedge; and 2) long risk in iTraxx Main vs. CDX.IG as an inflation hedge

1) A 'catch-all' trade for such a systemic risk is to short risk in iTraxx Senior Financials vs. iTraxx Main. While the banking sector may be unlikely to be at the center of a future crisis, given greatly deleveraged balance sheets and increased regulation over the past decade, it still tends to be the hedge of choice for investors during episodes of elevated uncertainty. Moreover, sustained period of upside inflation surprises could start to raise questions over systemic risk, imposing losses on holders of longer-duration fixed income assets that could see leveraged investors unwind positions.

2) With the current inflation impulse being more of a US phenomenon, a sustained period of upside inflation surprises could see a more marked divergence in monetary policies. Our economists' base case is for the Federal Reserve to start tapering around the turn of the year, while they see the ECB providing continued stimulus. As a result, we would expect CDX.IG to underperform iTraxx Main in the event of more sustained upside surprises in inflation.

For further detail, see *Pump it up: Credit in an inflationary world*, Bailey et al, May 25th.

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Fixed Income Trading Themes

Keep 3s/10s UST curve steepeners

The bond market rally in recent weeks has had some fundamental drivers, including modestly weaker than expected economic data, along with an unwind of steepeners acting as an amplifier. While the economic data flow has been softer and there have been some concerns over 'peak growth', we see the growth outlook remaining robust even as growth slows from an unsustainable pace of nearly 9.5% annualized in mid-2021 towards a still well-above trend pace of 3.7% through end-2022. In addition, valuations are quite rich and the positioning backdrop likely cleaner. As a result, we retain a bearish medium-term outlook on yields. That said, a catalyst such as a resumption in labor market tightening or a renewed push for the bipartisan infrastructure plan in Congress is likely required to push yields meaningfully higher. As a result, we prefer curve steepeners as a more carry-efficient way to express a bearish duration view.

P&L: -27bp for 3s/10s steepeners since Jun21 GAA; +34bp since inception in Dec20 GAA.

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Hold EUR 3Yx1Y/15Yx5Y swap curve steepener

The release of the results of the ECB's strategy review this week was a surprise more in terms of timing than outcome, and the immediate implications for policy are limited. Despite the recent rally in yields, in large part due to the retracement in US yields discussed above and some concern over the spread of the Delta variant of COVID-19, we see the broader macro backdrop as little changed. Incoming data continues to suggest a strong rebound in activity, boosted by lifting of restrictions, and high vaccination rates reduce the risk of more disruptive restrictions to limit mobility. This means we continue to see yields grinding higher over the second half of the year, though the lack of a near-term catalyst means we continue to prefer to express a bearish duration view via carry-efficient forward curve steepeners.

P&L: -9bp since Jun 21 GAA; +34bp since inception in Dec20 GAA.

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Stay short 3Mx30Y EUR gamma

Given the ECB's commitment to maintain easy financing conditions, we continue to see intermediate- to long-term yields relatively range bound. While the recent rise in US yields and spillover into EUR rates has pushed implied volatilities higher, we expect this to be largely temporary and see the risk reward favouring lower implied vols. At current levels, 3Mx30Y implied vols are close to their recent highs, and we stay short gamma.

P&L: +118bp of notional since inception in Jun21 GAA.

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Stay long 10y Spain vs. Germany

We retain a constructive outlook for periphery spreads into 3Q and see spreads grinding lower amid ongoing negative net issuance after ECB purchases and relatively low positioning. Indeed, our *European Client Survey* suggests real money investors' periphery positions are at the lower end of their range since the beginning of PEPP purchases. While a continuation of the recent heightened DM yield volatility poses a key near-term risk, the potential widening pressure should be limited by ongoing ECB support, cleaner positioning and spreads remaining in the upper half of their YTD ranges. We stay long 10y Spain vs. Germany.

P&L: +1bp since May21 GAA; +1bp since inception in Nov20 GAA.

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Cross-market rule-based signals: long 10y CAD and NZD swaps vs. EUR and GBP swaps

We update our regular suite of rule-based signals for outright and cross-market fixed income trading in the Appendix.

Bonds rallied in June with North American and Antipodean markets outperforming. That said, the changes in relative rankings were somewhat modest given the starting point in the curve slopes and real yields in these markets was higher and the changes in relative rankings were relatively modest. The change in slope signal saw the largest shift with EUR and SEK swaps replacing NZD and USD swaps as the top two markets in terms steepening relative to their 6-month averages, with USD swaps now ranking the third-lowest.

We continue to exercise discretion by excluding JPY swaps given the BoJ's explicit 10y yield target. This month, this means replacing JPY swaps with CHF, EUR and USD swaps as the short pairs for the outright carry, carry-to-risk and change in slope signals, respectively. Overall, our signals remain long CAD and NZD swaps vs. EUR and GBP swaps.

P&L: +0.2% since Jun21 GAA; cumulative return since Feb18: +6.3% at an annualized information ratio of 0.5.

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FX Trading Themes

Global growth momentum has neutralized, taking with it the only silver lining on the FX landscape. Regional divergences have intensified with Asia lagging. This has culminated in a broad risk reduction in reflation trades heading into the summer months. Position unwinds have informed FX returns and market depth has declined modestly. Moderating data surprises warrant keeping high-beta FX exposure light until clarity emerges. In G10, CAD, NOK and GBP longs were cut intra-month. Central banks are becoming increasingly more hawkish with few notable exceptions (ECB, BoJ, PBoC). Monetary policy divergence remains a tradable theme both in G10 and EM, particularly in the wake of the June FOMC, and we stay long dollars against EUR, JPY and CHF. We have also sold AUD/NZD.

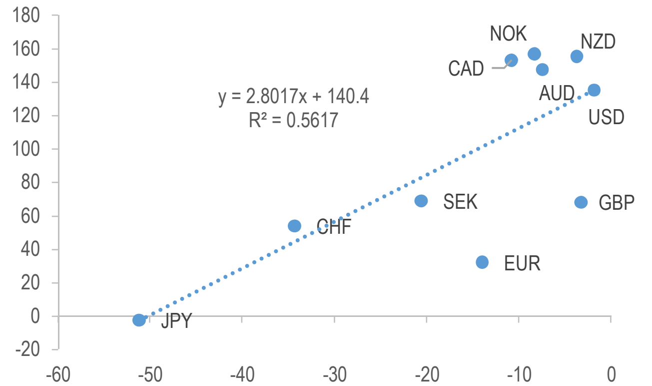
Stay short EUR/USD outright. Buy USD/CHF. Hold EUR/AUD 1y vol swap

The market had over-egged the medium-term consequences for US monetary policy of the Fed's switch to FAIT and is now having to reconsider quite how passive the Fed will be during the fastest economic recovery in history overlaid with the strongest price pressures in three decades (a reversal in inflation that neatly bookends this analyst's career in markets). At the same time, we believe the market has over-estimated the consequences for ECB policy of the re-opening in the region's economy. The ECB faced a chronic inflation shortfall pre-pandemic and will have to return to address this issue post-pandemic, especially with the pending conclusion to the ECB's strategic policy review, which we expect to result in a shift to a symmetric 2% CPI objective. Short EUR/USD is a high-conviction, policy divergence trade in our view, and the forthcoming keynote events—the Fed at Jackson Hole on August 27-28 and the ECB at Sintra on September 28-29—could very much underscore the parting of the ways between the Fed and the ECB to reflect the parting of the ways in their respective inflation trends since the GFC (Exhibit 2). **We have been inclined to add to the short EUR/USD position and, de facto, do so through a long position in USD/CHF.** The SNB has presided over the most anemic (in fact non-existent) inflation trends of any country bar Japan, and will rightly have little reason to contemplate any form of monetary tightening for a good few years yet. As such, CHF is an attractive funding currency for long USD exposure predicated on prospects for less-permissive US monetary policy.

- **Buy USD/CHF at 0.9243. Marked at -1.11%**
- **Short EUR/USD from 1.1875. Marked at +0.04%.**
- **Hold 1y vol swap on EUR/AUD at 8.155 vol pts. Marked at 7.32 vol pts.**

Exhibit 2: History is likely to inform the future as far as relative inflation is concerned. This is serving to anchor policy expectations in historically low inflation countries vs. high-inflation peers

X-axis: cumulative 20Y CPI undershoot, ppt, Y-axis: policy tightening priced over the next 4Y, bp



Source: J.P. Morgan

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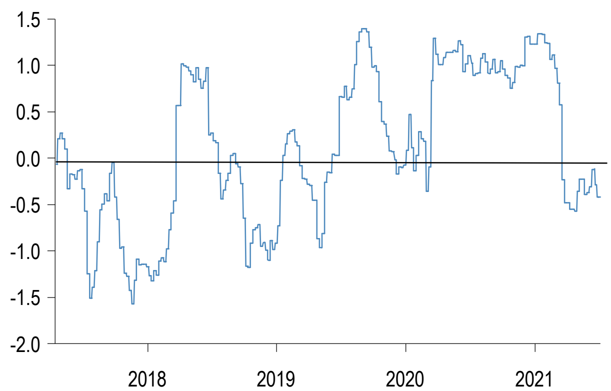
Stay long USD/JPY but optionalize exposure

We have held long USD/JPY for the entirety of 2Q, but called time on the cash position, booking profit and rotating into USD/JPY call spreads. We maintain that the June FOMC was a watershed moment for the dollar, but the adverse reaction in Treasuries has made the pass-through to USD/JPY decidedly more obstinate. Indeed, the tactical outlook for JPY is improving; while the immediate catalyst for JPY resilience has been a narrowing in US-Japan 10Y yield differentials—the yen is the best performing G10 currency versus the USD since early June, just as UST 10Y yields have fallen almost 45bp from their peak—there are other forces at work that also look incrementally more favorable for JPY. The most obvious of these is what appears to be a retreat from peak reflation. Of course, the Fed's hawkish pivot last month was the proximate catalyst, but a creeping transition toward mid-cycle dynamics has likely also weighed on reflationary plays (and yen shorts), as has a correction in crude oil, concerns over the delta variant, and a Japanese portfolio flow backdrop now marginally tilted toward yen purchases. We continue to like the dollar's prospects against low-yielders, but holding limited-loss structures against JPY at these levels is prudent in our view.

- **Take profits on long USD/JPY cash position. Opened at 108.28, closed at +2.94%.**
- **Buy a 3m 35d/15d USD/JPY call spread (112.31-114.54). Premium paid of 48bp (spot 111.19). Marked at 26bps.**

Exhibit 1: Investors are net short JPY

Net non commercial shorts in JPY; 5y zscore



Source: J.P. Morgan

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Sell AUD/NZD

Expectations for monetary policy in the antipodeans have turned considerably more hawkish in the past month, particularly in New Zealand where OIS markets now price a ~80% chance of a rate hike by November 2021. The market's reaction to the RBA's shift earlier this week has been rightfully less extreme, resulting in an even widener NZ-AU 12mx1m OIS spread (Exhibit 3). November 2021 is clearly early to be moving vs the rest of DM, but the repricing in NZD has nevertheless propagated further out too, meaning that not only are rate hikes being priced sooner, but expectations for the terminal rate (2Yx1Y for example) have not suffered. Given the RBA has retained the 10bp yield cap on the Apr-24 ACGB and has outlined clear macro-parameters for hiking (i.e. inflation sustainably between 2%-3% for "a number of quarters"), there are relatively more constraints for markets to price RBA rate hikes on quite the same timeline as the RBNZ.

Despite these moves in front-end rates, the spillover to AUD/NZD has been muted, with the cross one standard deviation rich relative to market-based cash rate expectations (Exhibit 2). A lower AUD/NZD is consistent with our current FX forecasts which had already implied further depreciation in the cross, targeting 1.04 at year-end. AUD/NZD depreciation also fits within our broadly bullish USD view, given the negative correlation exhibited vs the broad dollar, and also sidesteps existential questions on global yield curves, as the cross has historically shown little correlation with US term rates. We enter a short AUD/NZD position in cash at 1.0700 (stop-loss: 1.085, target 1.04).

- **Sold AUD/NZD. Spot ref. 1.07. Target 1.04; stop-loss 1.0850.**

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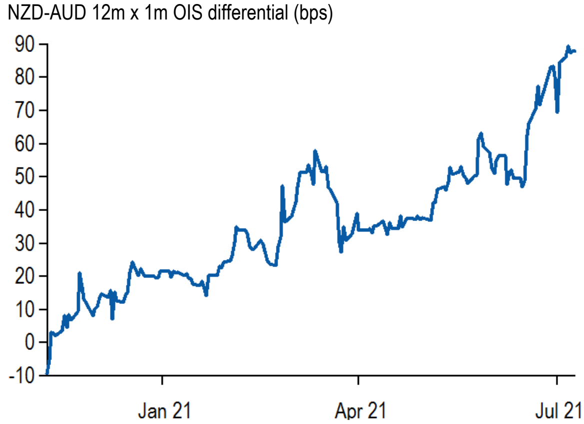
Exhibit 3: Market pricing indicates a significantly more aggressive hiking cycle in New Zealand

NZD-AUD 12m x 1m OIS differential (bps)



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

Long NOK/SEK in options expired at a loss

NOK should have on paper had a stellar few weeks—the Norges Bank has penciled in a possibility of 25bp hike per quarter for a year starting September, NOK screens cheap, Brent prices continues to head higher and domestic data has stayed strong as was evident in PMIs this week as well. Nonetheless, NOK performance has been mediocre relative to SEK where the central bank has actually delivered dovishly (they should be on hold at zero until 3Q24). Our risk bias is still to be long NOK, preferably expressed via other currencies where the central bank is not in play (JPY, CHF, SEK) but we stay on the sidelines for now as the position overhang seems to be large judging from price action and since no domestic catalyst is imminent. There is also uncertainty stemming from the OPEC meeting but the expectation is to stay tactical around longs in the coming weeks. Our residual NOK/SEK call spread expired worthless intra-week.

— **NOK/SEK call spread expired OTM for a net loss of 28 bps.**

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Take losses on long 3mo GBP/JPY and CAD/JPY call spread

We had recommended a GBP/JPY call spread on the idea that potential policy divergence was a sufficiently strong factor to allow modest currency differentiation even in a slightly stronger USD environment. As it is, the BoE has rather disappointed optimism that it was willing to quickly embrace the economic re-opening and signal a willingness to ease up on policy stimulus bearing in mind the UK's historic propensity to generate higher rates of inflation than most other G10 countries (governor Bailey advocated against a hasty response to what he believes to be temporary inflation pressures in his Mansion House address this week). As such, we elect to turn neutral now on GBP and will only contemplate a renewed risk position as and when it becomes clearer how the UK economy (labour and housing markets) are coping with the phased removal in coming weeks of key government support (September brings the curtain down on the furlough scheme and the stamp duty holiday).

We have held strategic core CAD longs since January, expressed versus various funding currencies, as a recommended best expression of global reflation, given Canada's exposure to crude oil and its likelihood to disproportionately benefit from spillovers from US stimulus-fueled growth. The surprising early hawkish shift by BoC to become the first to unwind pandemic-era policy via the tapering delivered in April and to signal forthcoming rate normalization, helped drive CAD strength that outperformed all other G10 peers this year. By mid-May we recognized that while the shift in policy-pricing driving CAD strength was mature, it was yet not over-done, and CAD would still be able to perform versus an outlier low-yielder like JPY, hence the switch from cash CAD longs into a 3m CAD/JPY call spread. Although oil prices have continued to grind higher, spot CAD/JPY has moved sideways, as long CAD positioning in the market has been a hurdle while the hawkish Fed did not deliver sufficient spillover into higher CAD yields, and so the position has bled from time decay. CAD fundamentals remain supportive and the forthcoming BoC meeting which should deliver the next round of tapering is still an outstanding potential CAD-positive catalyst. But this is offset by greater tail risks for the risk environment and hence JPY retracement stronger, and so we close our call spread to recover the majority of our premium spent

— **Bought a 3m 35d/15d GBP/JPY call spread (k=157.95 vs 161.78) for 61bps May 28th. Closed at 13bps.**

— **Bought a 3m CAD/JPY 90.25/92.25 call spread for 82bps. Unwind at 56bps.**

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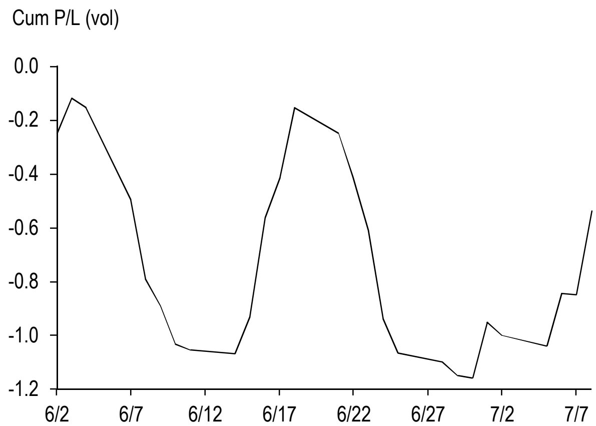
Long 1y EUR/MXN vol as an inflation hedge

We maintain the bullish, short-skew Euro STOXX 50 trades recommended first in February and roll maturities out from August to September. We recommend investors buy 2.7x SX5E Sep-21 105% Call and sell 1x SX5E Sep-21 95% Put at close to zero cost. Alternatively, into year-end we recommended here SX5E Dec-21 105% call vs. short Dec-21 95% put with KI at 73% (~2,967, continuously monitored) as a cost effective way to get long. Fundamentally, we also like periphery markets in Europe and recommended here a congruent short skew structure into year-end on FTSEMIB buying Dec-21 103-110 Call Spread fully funded by selling Dec-21 87 Put. For shorter-dated exposure we recommend outright calls as recommended here, buying FTSEMIB Aug-21 103% Calls at approximately 0.9%.

– **Hold 1Y EUR/MXN delta-hedged straddle bought @ 11.25 vol, MTM at -0.5vol after b/o.**

Exhibit 4: 1Y EUR/MXN delta hedged straddle cumulative P/L

Delta-hedged daily at smile delta with expiry matched forwards.



Source: J.P. Morgan.

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Risk-on hybrid structure for cheapening the cost of hedging GBP higher – expired

On 9 March, we had recommended entering a 18 June dual-digi FTSE 100 Index >4% OTMS, EUR/GBP <1.5% OTMS structure offered @ 15% GBP (spot refs. 6730.34, EUR/GBP 0.856). The purpose of the hybrid structure was that of cheapening the cost for hedging moves higher in GBP, assuming a positive correlation dynamics between UK Equities and FX. While the FTSE 100 Index did reprice higher since inception, allowing the Equity leg to end ITM, the FX leg did not move significantly from the initial level, meaning the structure has expired worthless on 18 June.

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Commodities Trading Themes

Stay long the agri commodity complex

(First published in Trade Ideas for Long-Term Investors, Panigirtzoglou et al, 18 October 2017).

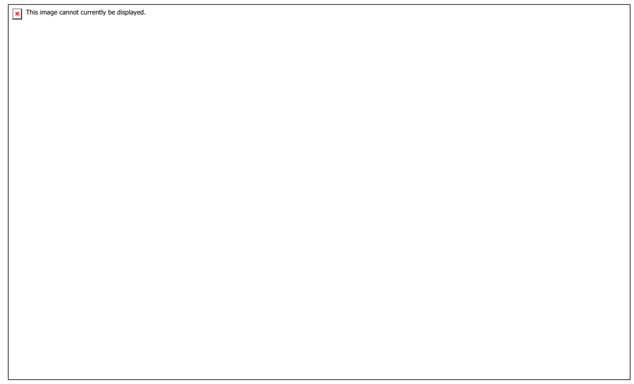
The J.P. Morgan JPMCCI Ex-Front Month Agriculture Excess Return Index plunged by 8% MOM as uncertainty over crop prospects, US biofuel waivers and China's grain purchases weighed on investors' risk appetite. Dryness persists across the key Northern US crop belt where crop conditions continue to deteriorate, posing yield-based risks as crops progress to critical stages of growth. Furthermore, Brazilian corn remains exposed to yield penalties, with the recent frost across the Southwestern states exacerbating losses. On the demand side, a 7% MOM decline in China's live hog futures has pushed the pig-feed price ratio in China to seasonal lows, sparking fears of culling with consequences on feed-grain demand. However, there are no reports of culling yet and our sector experts continue to expect an increase in China's hog supply going forward (see China Agriculture: Window of recovery for hog prices in 2H21, Addison et al, June 29).

Non-Commercial net long position across the US traded agri commodities plummeted by some 30% MOM to over a 9-month low of ~517,130 (June 29, -49% YTD). Much of this plunge was driven by an outright decline in Non-Commercial gross longs across grain and oilseeds, though softs also contributed (see Agri CFTC, Allen, July 2). With this decline, the notional net investor position has fallen towards early-November levels, down 22% YTD, further opening room for the discretionary investors to add length in a constructive fundamentals backdrop.

Went long the agri commodity complex via a proxy index, J.P. Morgan JPMCCI Ex-Front Excess Return Index at 75.45 points on 18 October 2017. Trade is marked to market at a profit of +10.8 points or +14.3% on July 8.

The J.P. Morgan JPMCCI Ex-Front Month Agriculture Excess Return Index plunged by 8% MOM as uncertainty over crop prospects, biofuel waivers and China's grain purchases weighed on investors' risk appetite

J.P. Morgan JPMCCI Ex-Front Month Agriculture Excess Return Index



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

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Global Research Digest

Macro & Cross-Asset Views

2021 Mid-Year Outlook: How vulnerable are risk markets in 2H?, Joyce Chang

The outlook remains positive for risky asset classes as growth momentum has not yet peaked and pent-up demand should contribute to global growth. A number of cross currents are in play as a more synchronized global growth cycle should materialize alongside a quicker tapering of Fed asset purchases and an eventual Fed liftoff in 2023. We take a strong view that it is too early to position for mid-cycle dynamics as the Fed's reaction function remains significantly more dovish than other easing cycles with a geographic broadening of the global business cycle taking hold as vaccination rates ramp up and reopening accelerates.

Market and Volatility Commentary: Delta variant does not pose risk for markets – yields and value should move higher, Marko Kolanovic, PhD

We reiterate our view to go long reflation, cyclical and value trades, and sell growth and defensive positions. The Delta variant should not have significant repercussions for developed markets due to the level of population immunity, and hence positioning in markets should not be driven by this or any other subsequent variant of COVID-19 for which current vaccines are effective. The spread of the Delta variant has on average coincided with an improvement of the overall COVID-19 situation in affected countries.

Flows & Liquidity: What if the rise in inflation volatility proves persistent?, Nikolaos Panigirtzoglou

In the risk scenario that the rise in inflation volatility proves to be persistent, it could present a headwind to equity markets and make further price gains more reliant on continued earnings growth. Our base case remains that equities should be able to look through the rise in inflation volatility provided it proves to be more transitory in nature. Retail investors, pension funds and CTAs were likely behind the recent bond rally.

Global Economics and the Recovery from COVID-19

Breaking the waves: Vaccines pave the way for normalization, Bruce Kasman

Vaccination progress is expected to unleash pent-up demand, turning uneven 1H21 growth to stronger and convergent 2H21. Buoyed by rising mobility and an increasing pace of vaccination, boomy growth in Europe, Japan, and EM ex. China drives our forecast that global GDP growth will accelerate to a 6.7%ar in 2H21. Core inflation remains elevated, but bottleneck pressures should moderate while services price normalization picks up. We also embrace a reflationary tilt in 2022 due to monetary policy that will be more supportive of growth and rising inflation.

Euro area fiscal policy in 2022 and the debate on the SGP, Marco Protopapa

Policymakers are aware that premature removal of fiscal support could short-circuit the recovery. After a large structural easing in 2020, Recovery fund allows further easing of 0.6% of GDP in 2021. Fiscal policy would ease again in 2022 in order to stimulate a weaker-than-expected recovery. Fundamental shifts in hawkish vs dovish camps make relatively dovish revision of fiscal rules likely. 60% debt rule likely to be relaxed materially, as parts of the Recovery fund become permanent.

China: From post-pandemic recovery to sustainable growth, Haibin Zhu

China will continue policy normalization, weighing on near-term momentum before growth stabilizes at trend as policy aims to support sustainable long-run growth. China's potential growth should slow from 6% to 5% in 2021-25, from 5% to 4% in 2026-30, and below 3% by 2035 as major challenges include a debt problem, a population problem, and the ongoing US-China relationship. Based on our forecasts of China's potential growth along with a stable USD/CNY exchange rate, China will likely match the size of the US around 2030.

The Delta variant in the UK: how is it going?, David Mackie

The July 19 easing is expected to have a large positive shock to the reproduction number, from an already high level. The Delta variant arrived in the UK in early March and within 14 weeks it accounted for almost all new COVID-19 infections. The reproduction number in the UK has risen from 0.74 in early March to 1.49 in late June. New infections will continue to rise for as long as the reproduction number is above one. The easiest way to mitigate the third wave is a pick-up in the pace of second vaccinations.

Global Market Implications

Oil Markets Weekly: OPEC+ rift ill-timed as market management window is narrowing, JPM Commodities Research

After talks fell apart over the UAE's insistence around rebasing its production quota, we still think the most likely outcome is for OPEC+ to eventually agree in the coming weeks to boost production by 400 kbd per month.

While the rising possibility of no deal and flat August quotas is at face value a bullish short-term scenario amid the summer demand surge, it also likely significantly increases the potential for noncompliance and overproduction going forward. Significant quantities of Iranian oil will likely hit the market in September or October, and we forecast US production will also begin to rise.

EM Commodity Credits: Cycle tailwind long enough + bond yields high enough = a trade good enough, EM Credit Research Team

At current levels, we think the EM Commodity space looks attractive, trading at a healthy pick-up to historical tights and also versus US HY credits. This is partially reflective of our positive stance on respective underlying commodities, and partially as valuations still look fairly reasonable compared to the other more defensive sectors as well as DM peers. Within the EM Commodity complex, we see better value in the EM single-B commodity space in Asia and CEEMEA regions while in Latin America, our top picks are in the BB-rated segment where we think risk-reward looks most favorable currently.

High Yield Energy: 2021 ESG Roadmap; Early Days in a Likely Decades-Long Journey, Tarek Hamid

Company reporting remains incomplete, and the scope of reporting is at times inconsistent, but we suspect that will change and improve over time. The US is headed to a much more "ESG integrative" approach than the more exclusionary approach in Europe. But despite the constant and likely growing buzz on ESG (and a major proxy fight), we see little actual market evidence of an ESG impact on Energy spread levels or issuance (which is poised to set a record this year). We think ESG engagement is critically important for issuers. Our concern is less about the creation of an "ESG beta" in US HY Energy and more about the sector successfully doing enough to improve itself to avoid outright exclusion as has befallen thermal coal. Over time we believe investors will be rewarded by focusing on those companies that are ahead of the curve.

Incorporating ESG into automated fixed income portfolios: Machine learning–based ESG model portfolio allocation, Veronica Mejia Bustamante & Joshua Younger

We extend our automated fixed income allocation framework to incorporate ESG investments and build classifiers to predict the relative performance of these ESG baskets to Treasuries. The resulting portfolios achieve statistically significant annualized returns of 4.6% and 5%, against 4.2% observed in a passive allocation method during our quarantine period. This simple machine learning application incorporates ESG into a larger portfolio without sacrificing returns and generating additional alpha relative to non-ESG strategies.

Sector Level Views

Cryptocurrency Market: A Primer on Staking – The Fast Growing Opportunity for Cryptocurrency Intermediaries and Their Clients, Kenneth B. Worthington, CFA

We see staking as a growing revenue stream for cryptocurrency intermediaries such as Coinbase and a source of income for retail and commercial owners of cryptocurrencies utilizing the proof-of-stake protocol. We estimate that staking is currently a $9bn business for the crypto economy which will likely grow to $20bn following the Ethereum merge, and could get to $40bn by 2025 should proof-of-stake grow to the dominant protocol.

The New Kids on the Block: Ultrafast grocery delivery redefining traditional Convenience – OW Delivery Hero vs UW Sainsbury, Marcus Diebel, Borja Olcese, and Doug Anmuth

The grocery landscape is changing, with on-demand, ultrafast grocery delivery gaining significant traction in Europe and beyond. We explore in detail the business models of the new kids on the block vs convenience incumbents, assess unit economics and importantly the implications of this emerging trend on the industry and listed players.

China's e-CNY: CBDC update: planning big, implementing carefully, Katherine Lei and Alex Yao

Updating the progress of China's central bank digital currency (CBDC) project has been slower than expected, and Big Tech participation is essential to increasing circulation of CBDC. Based on our assessment, CBDC is unlikely to lead to a material change in the competitive landscape of the digital payments market.

APPENDIX: Forecasts & Strategy

Rates	Current	Sep-21	Dec-21	Mar-22	Jun-22
US (Fed funds)	0.10	0.00	0.00	0.00	0.00
10-year yields	1.35	1.85	1.95	2.05	2.10
Euro area (depo)	-0.50	-0.50	-0.50	-0.50	-0.50
10-year yields	-0.29	-0.20	-0.10	0.00	0.05
Italy-Germany 10Y (bp)	106	90	100	100	100
Spain-Germany 10Y (bp)	65	55	60	60	60
United Kingdom (repo)	0.10	0.10	0.10	0.10	0.10
10-year yields	0.66	0.95	1.15	1.25	1.35
Japan (call rate)	-0.10	-0.10	-0.10	-0.10	-0.10
10-year yields	0.03	0.10	0.15	0.15	0.15
EM Local (GBI-EM yield)	4.98		4.95		
Currencies	**Current**	**Sep-21**	**Dec-21**	**Mar-22**	**Jun-22**
JPM USD Index	120	120	120	121	121
EUR/USD	1.19	1.18	1.17	1.16	1.16
USD/JPY	110	110	111	112	112
GBP/USD	1.38	1.39	1.38	1.38	1.38
AUD/USD	0.75	0.75	0.74	0.73	0.74
USD/CNY	6.48	6.45	6.45	6.45	6.45
USD/KRW	1149	1135	1130	1130	1130
USD/MXN	19.88	20.25	20.50	21.00	21.30
USD/BRL	5.26	5.25	5.40	5.35	5.50
USD/TRY	8.66	9.00	9.50	10.00	10.50
USD/ZAR	14.26	14.00	14.25	14.50	14.50
Commodities	**Current**	**Sep-21**	**Dec-21**	**Mar-22**	**Jun-22**
Brent ($/bbl, qtr end)	75	80	83	79	72
WTI ($/bbl, qtr end)	74	77	80	75	68
Gold ($/oz, qtr avg)	1,809	1,590	1,550	1,500	1,400
Copper ($/ton, qtr avg)	9,295	8,180	7,550	7,550	8,100
Aluminum ($/ton, qtr avg)	2,429	2,050	1,965	1,925	1,985
Iron ore (US$/dt, qtr avg)	215	188	172	160	150
Wheat ($/bu, qtr avg)	6.1	6.0	6.3		
Soybeans ($/bu, qtr avg)	14.0	10.5	10.5		

Source: J.P. Morgan flagship weekly/monthly strategy publications.

Credit		Current	Dec-21
US High Grade (bp over UST)	JPM JULI	110	110
Euro High Grade (bp over Bunds)	iBoxx HG	96	90
US High Yield (bp vs. UST)	JPM HY	376	360
US Lev Loans (bp vs. 3Y Index)	JPM Lev Loans	423	450
Euro High Yield (bp over Bunds)	iBoxx HY	315	275
EM Sovereigns (bp vs. UST)	JPM EMBIGD	352	325
EM Corporates (bp vs. UST)	JPM CEMBI	262	225
Equities		**Current**	**Dec-21**
S&P 500		4,361	4,400
MSCI Europe		1,812	1,830
MSCI Eurozone		257	268
FTSE 100		7,122	7,100
TOPIX		1,912	2,000
MSCI EM ($)		1,316	1,550
MSCI China		101	125
MSCI Korea		1,000	1,100
MSCI Taiwan		687	755
MSCI India		1,820	1,800
Brazil (Ibovespa)		125,428	134,000
Mexico (MEXBOL)		49,860	46,300
MSCI South Africa		479	628

Equity sector recommendations & year-to-date returns

	US		Europe		Japan		EM	
Energy	39%	OW	17%	N	30%	N	12%	N
Materials	13%	N	17%	N	4%	N	17%	OW
Industrials	15%	N	19%	N	10%	OW	15%	OW
Discretionary	12%	OW	17%	N	11%	OW	-9%	OW
Staples	5%	UW	12%	UW	1%	N	-1%	UW
Healthcare	14%	OW	15%	N	-5%	UW	2%	UW
Financials	22%	OW	15%	OW	15%	OW	5%	OW
Technology	15%	OW	22%	N	12%	N	6%	N
Comm Services	20%	N	14%	OW	1%	UW	0%	N
Utilities	4%	UW	2%	OW	-2%	UW	1%	UW
Real Estate	25%	UW	10%	UW	19%	N	-5%	N
Overall	**15.5%**		**15.5%**		**7.8%**		**3.1%**	

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

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Global Economic Outlook Summary

	Real GDP			Real GDP						Consumer prices			
	% over a year ago			% over previous period, saar						% over a year ago			
	2020	2021	2022	1Q21	2Q21	3Q21	4Q21	1Q22	1Q22	4Q20	2Q21	4Q21	2Q22
United States	-3.5	6.5 ↓	4.0 ↓	6.4	9.0 ↓	8.3	3.0	3.5	3.0	1.2	4.7 ↑	4.7 ↑	4.7 ↑
Canada	-5.3	6.3 ↓	4.0 ↓	5.6	3.0 ↓	7.5	5.5	3.5	3.0	0.8	3.5 ↑	3.4 ↑	3.4 ↑
Latin America	-6.6	6.4 ↑	2.7	5.6 ↑	0.0 ↑	3.6 ↑	3.5 ↑	2.7 ↓	2.5	3.6	6.2 ↑	5.9 ↑	5.9 ↑
Argentina	-9.9	6.3 ↑	1.9	11.0 ↑	-13.0	5.0	4.0	2.5	1.4	36.2	48.3 ↓	48.9 ↓	48.9 ↓
Brazil	-4.1	5.5 ↑	2.0 ↑	4.9	0.4 ↑	3.3 ↑	2.5	2.2	2.0	4.3	7.8 ↑	7.2 ↑	7.2 ↑
Chile	-5.8	8.0 ↑	2.8	13.4	-1.7 ↑	6.1 ↑	3.4 ↓	2.5 ↑	2.0	2.9	4.0	3.8	3.8
Colombia	-6.8	7.5	3.6	11.9	-6.5 ↓	4.0 ↓	5.5 ↑	3.0 ↑	3.0	1.6	3.0 ↑	3.8 ↑	3.8 ↑
Ecuador	-7.8	2.0	3.5 ↑	2.7 ↓	2.5	4.5 ↑	4.0	4.0 ↑	3.5	-1.1	-1.0 ↑	0.9 ↑	0.9 ↑
Mexico	-8.3	6.8 ↑	3.3 ↓	3.1	7.5 ↑	3.2 ↓	4.0 ↑	2.6 ↓	3.2	3.5	6.0 ↑	5.6 ↑	5.6 ↑
Peru	-11.1	10.8 ↓	4.1 ↓	-1.0	-8.0 ↓	2.0 ↑	5.0 ↓	7.0 ↓	4.0	1.9	2.6 ↑	2.9 ↑	2.9 ↑
Uruguay	2.5 ↓	3.3 ↑	3.3 ↑	-2.2 ↓	-1.0 ↓	3.0 ↑	5.0 ↑	3.5 ↓	3.0	9.6	6.9	7.2 ↑	7.2 ↑
Asia/Pacific	-1.1	6.8 ↓	5.1 ↓	5.5 ↑	0.0 ↓	6.3 ↓	7.5 ↑	5.2 ↑	4.4	0.7	1.8	2.3	2.3
Japan	-4.7	2.6 ↓	3.9 ↑	-3.9 ↑	-1.0 ↓	3.0 ↓	15.0 ↑	2.0	1.0	-0.8	0.1	0.3	0.3
Australia	-2.4	5.0 ↓	2.7 ↓	7.3	2.0 ↓	3.1 ↓	2.7 ↑	2.5 ↑	2.6	0.9	3.5	2.1	2.1
New Zealand	-2.9 ↑	5.7 ↑	3.5 ↓	6.8 ↑	2.6 ↓	3.3	3.6 ↓	3.8 ↓	3.1	1.4	2.1	1.9	1.9
EM Asia	-0.2	7.9 ↓	5.6	7.5 ↑	0.1 ↓	7.2 ↓	6.2 ↑	6.1 ↑	5.3	1.0	2.0 ↓	2.7 ↓	2.7 ↓
China	2.3	8.8 ↓	5.5 ↓	4.3	5.3 ↓	4.5 ↓	5.5 ↑	5.5	5.5	0.1	1.1 ↓	2.4 ↓	2.4 ↓
India	-7.3	9.0	6.8	20.9	-25.5	21.5	11.0	8.0	5.0	6.4	5.6 ↑	5.0 ↑	5.0 ↑
Ex China/India	-2.8	5.1 ↓	5.1 ↑	8.3 ↑	0.6 ↓	6.6 ↑	5.2 ↓	6.5 ↑	5.1	0.5	2.4	2.4 ↓	2.4 ↓
Hong Kong	-6.1	7.2 ↓	2.8	23.4	-3.0 ↓	5.0	3.5	2.3	2.3	-0.3	1.1	2.6	2.6
Indonesia	-2.1	5.0	4.8	6.2	6.0	5.0	5.0	5.5	5.0	1.6	1.7	2.4	2.4
Korea	-0.9 ↑	5.0 ↑	4.2 ↑	7.1 ↑	4.0 ↑	8.0 ↑	5.0	4.0	3.0	0.4	2.3	2.3	2.3
Malaysia	-5.6	3.7 ↓	6.4 ↑	11.3	-14.5 ↓	9.0 ↑	1.0 ↓	10.0 ↑	10.0	-1.5	4.3	3.4	3.4
Philippines	-9.5	5.3	6.5	1.1	3.6	6.5	9.0	6.6	5.5	3.1	4.3 ↓	3.2 ↓	3.2 ↓
Singapore	-5.4	7.0	5.9	13.1	-5.0	6.0	5.0	10.0	5.0	-0.1	2.0	2.2	2.2
Taiwan	3.1	6.8 ↓	4.5 ↑	12.8 ↓	-3.5 ↓	5.2	8.0 ↑	4.5 ↑	3.6	0.0	2.2 ↑	2.0 ↓	2.0 ↓
Thailand	-6.1	2.4 ↓	8.4 ↑	0.7	-1.5 ↓	7.0 ↑	5.0	16.0	12.0	-0.4	3.0	2.3	2.3
Western Europe	-7.0	5.7 ↑	5.1	-2.0 ↑	9.5 ↓	13.3 ↓	6.0 ↑	3.6 ↓	2.4	-0.1	1.9 ↑	2.9 ↑	2.9 ↑
Euro area	-6.7	5.4 ↑	5.0	-1.3 ↑	7.5	13.5	5.5	4.0	2.5	-0.3	1.9 ↑	3.0 ↑	3.0 ↑
Germany	-5.1	3.8	5.1	-7.0	8.0	16.0	4.0	4.0	2.5	-0.6	2.2 ↑	4.0 ↑	4.0 ↑
France	-8.0	6.1	4.6	-0.4	4.0	11.5	5.0	4.0	3.0	0.1	1.8	2.3 ↑	2.3 ↑
Italy	-8.9	6.2	5.4	0.6	9.0	12.5	6.0	4.5	3.0	-0.4	1.2 ↓	2.1 ↓	2.1 ↓
Spain	-10.8	6.7 ↑	7.4	-1.7 ↑	10.0	15.0	11.0	6.5	4.0	-0.8	2.3 ↑	3.5 ↑	3.5 ↑
Norway	-3.1	3.8 ↑	3.9	-4.1	6.0 ↑	9.5 ↓	4.0	3.0	2.5	1.3	2.8	2.5 ↓	2.5 ↓
Sweden	-2.9	4.3 ↓	3.6 ↑	3.4	3.0 ↓	9.0 ↑	3.5	3.0	2.5	0.6	1.8 ↑	1.4 ↑	1.4 ↑
United Kingdom	-9.8	7.4 ↓	5.7 ↓	-6.2 ↓	20.8 ↓	13.6 ↓	8.9 ↑	2.2 ↓	2.0	0.6	1.9 ↑	3.2 ↑	3.2 ↑
EMEA EM	-2.7	5.3 ↑	3.9	4.5 ↑	3.9 ↑	4.0 ↓	4.0 ↑	3.5 ↓	3.8	4.9	6.8 ↑	7.0 ↑	7.0 ↑
Czech Republic	-5.8 ↓	4.0	5.5	-1.4 ↓	5.0	11.0	7.0	4.5	3.8	2.6	2.9	3.1	3.1
Hungary	-5.0	6.9	5.3 ↓	8.3	2.8	8.0 ↓	5.0 ↓	5.3	5.3	2.8	5.0	4.7	4.7
Israel	-2.5	4.8	5.4	-6.2 ↑	10.4	10.0	4.9	4.5	4.5	-0.7	1.3	1.7 ↑	1.7 ↑
Poland	-2.7	4.9 ↑	5.7 ↓	4.5 ↑	7.3 ↑	8.3 ↓	6.8 ↓	5.0	4.8	2.8	4.4	4.6	4.6
Romania	-3.9	8.0	6.5	11.7	2.8	8.7	6.1	4.9	7.0	2.1	3.7 ↑	5.4 ↑	5.4 ↑
Russia	-3.0	4.5 ↑	2.6 ↓	5.4 ↑	4.0 ↑	2.0 ↓	3.0 ↑	2.8	2.5	4.5	6.0 ↑	6.5 ↑	6.5 ↑
South Africa	-7.0 ↑	4.9 ↓	2.5	4.6 ↑	3.6 ↓	-0.5 ↓	4.8 ↑	2.0 ↓	2.5	3.2	4.8	5.1 ↑	5.1 ↑
Turkey	1.8	6.8 ↑	3.4	7.1	-2.0	-0.6 ↓	1.2 ↑	3.2 ↓	4.9	13.5	17.1	16.1 ↑	16.1 ↑
Global	-3.5 ↑	6.4	4.6	4.0 ↑	4.9 ↓	8.1 ↓	5.5 ↑	4.1	3.4	1.1	3.2 ↑	3.6 ↑	3.6 ↑
Developed markets	-4.9 ↑	5.7 ↓	4.3 ↓	2.2 ↑	7.7 ↓	9.3 ↓	5.5 ↑	3.4	2.6	0.5	3.1 ↑	3.4 ↑	3.4 ↑
Emerging markets	-1.5	7.3 ↓	4.9	6.8 ↑	0.7 ↓	6.2 ↓	5.5 ↑	5.2	4.7	1.9	3.2 ↓	3.8 ↑	3.8 ↑

Source: J.P. Morgan.

Central Bank Policy Rate Watch

	Official rate	Current rate (%pa)	4-qrtr change (bp) Last	Next	Last change	Next meeting	Forecast next change	Forecast (%pa) Jun 21	Sep 21	Dec 21	Mar 22	Jun 22
Global		1.27	6	13				1.28	1.37	1.40	1.40	1.39
excluding US		1.66	51	18				1.68	1.79	1.84	1.84	1.83
Developed		-0.02	-16	1				-0.02	-0.02	-0.02	-0.01	-0.01
Emerging		3.26	35	32				3.29	3.50	3.58	3.59	3.57
Latin America		3.54	64	199				3.54	4.47	5.23	5.53	5.60
EMEA EM		5.57	199	36				5.76	6.37	6.15	5.93	5.70
EM Asia		2.75	-4	2				2.75	2.75	2.77	2.77	2.77
The Americas		0.73	9	29				0.73	0.86	0.97	1.02	1.03
United States	Fed funds	0.25	0	0	15 Mar 20 (-100bp)	28 Jul 21	On hold	0.25	0.25	0.25	0.25	0.25
Canada	O/N rate	0.25	0	0	27 Mar 20 (-50bp)	14 Jul 21	4Q 22 (+25bp)	0.25	0.25	0.25	0.25	0.25
Brazil	SELIC O/N	**4.25**	200	325	16 Jun 21 (+75bp)	4 Aug 21	**Aug 21 (+75bp)**	4.25	**5.75**	**7.00**	**7.50**	**7.50**
Mexico	Repo rate	**4.25**	-72	75	25 Jun 21 (+25bp)	12 Aug 21	**Aug 21 (+25bp)**	**4.25**	**4.75**	**5.00**	**5.00**	**5.00**
Chile	Disc rate	0.50	0	150	31 Mar 20 (-50bp)	14 Jul 21	**Jul 21 (+25bp)**	0.50	**1.00**	**1.50**	**2.00**	**2.50**
Colombia	Repo rate	1.75	-75	75	25 Sep 20 (-25bp)	30 Jul 21	3Q 21 (+25bp)	1.75	2.00	2.50	2.50	2.75
Peru	Reference	0.25	0	100	9 Apr 20 (-100bp)	12 Aug 21	**3Q 21 (+25bp)**	**0.25**	**0.50**	**0.75**	**1.25**	**1.50**
Europe/Africa		0.86	15	9				0.90	1.02	0.98	0.94	0.90
Euro area	Depo rate	-0.50	0	0	12 Sep 19 (-10bp)	22 Jul 21	On hold	-0.50	-0.50	-0.50	-0.50	-0.50
United Kingdom	Bank rate	0.10	0	0	19 Mar 20 (-15bp)	5 Aug 21	**4Q22 (+15bp)**	0.10	0.10	0.10	0.10	0.10
Norway	Dep rate	0.00	0	75	7 May 20 (-25bp)	19 Aug 21	3Q21 (+25bp)	0.00	0.25	**0.50**	**0.75**	**1.00**
Sweden	Repo rate	0.00	0	0	19 Dec 19 (+25bp)	21 Sep 21	On hold	0.00	0.00	0.00	0.00	0.00
Czech Republic	2-wk repo	**0.50**	25	50	23 Jun 21 (+50bp)	5 Aug 21	3Q 21 (+25bp)	**0.50**	**0.75**	**1.00**	**1.00**	**1.25**
Hungary	3-m dep	**0.90**	15	60	22 Jun 21 (+30bp)	27 Jul 21	**3Q 21 (+30bp)**	**0.90**	**1.35**	**1.50**	**1.50**	**1.50**
Israel	Base rate	0.10	0	0	6 Apr 20 (-15bp)	23 Aug 21	On hold	0.10	0.10	0.10	0.10	0.10
Poland	7-day interv	0.10	0	0	28 May 20 (-40bp)	24 Aug 21	**4Q 22 (+15bp)**	0.10	0.10	0.10	0.10	0.10
Romania	Base rate	1.25	-50	25	15 Jan 21 (-25bp)	6 Aug 21	1Q 22 (+25bp)	1.25	1.25	1.25	**1.50**	**1.75**
Russia	Repo rate	5.00	100	150	11 Jun 21 (+50bp)	23 Jul 21	**Jul 21 (+100bp)**	**5.50**	**7.00**	**7.00**	**7.00**	**7.00**
South Africa	Repo rate	3.50	-25	50	23 Jul 20 (-25bp)	22 Jul 21	**Nov 21 (+25bp)**	3.50	3.50	3.75	4.00	4.00
Turkey	1-wk repo	19.00	1075	-300	18 Mar 21 (+200bp)	14 Jul 21	**Oct 21 (-50bp)**	**19.00**	**19.00**	**17.50**	**16.00**	**14.50**
Asia/Pacific		2.10	-5	1				2.10	2.10	2.11	2.11	2.11
Australia	Cash rate	0.10	-15	0	4 Nov 20 (-15bp)	3 Aug 21	On hold	0.10	0.10	0.10	0.10	0.10
New Zealand	Cash rate	0.25	0	0	15 Mar 20 (-75bp)	18 Aug 21	On hold	0.25	0.25	0.25	0.25	0.25
Japan	O/N call rate	-0.10	-8	0	28 Jan 16 (-20bp)	16 Jul 21	On hold	-0.10	-0.10	-0.10	-0.10	-0.10
Hong Kong	Disc. wndw	0.50	0	0	3 Mar 20 (-50bp)	-	On hold	0.50	0.50	0.50	0.50	0.50
China	1-yr MLF	2.95	0	0	15 Apr 20 (-20bp)	-	On hold	2.95	2.95	2.95	2.95	2.95
Korea	Base rate	0.50	0	25	28 May 20 (-25bp)	15 Jul 21	4Q 21 (+25bp)	0.50	0.50	0.75	0.75	0.75
Indonesia	BI RRR	3.50	-75	0	18 Feb 21 (-25bp)	22 Jul 21	On hold	3.50	3.50	3.50	3.50	3.50
India	Repo rate	4.00	0	0	22 May 20 (-40bp)	6 Aug 21	On hold	4.00	4.00	4.00	4.00	4.00
Malaysia	O/N rate	1.75	0	0	7 Jul 20 (-25bp)	9 Sep 21	On hold	1.75	1.75	1.75	1.75	1.75
Philippines	Rev repo	2.00	-25	0	19 Nov (-25bp)	12 Aug 21	On hold	2.00	2.00	2.00	2.00	2.00
Thailand	1-day repo	0.50	0	0	20 May 20 (-25bp)	4 Aug 21	On hold	0.50	0.50	0.50	0.50	0.50
Taiwan	Official disc.	1.13	0	0	19 Mar 20 (-25bp)	23 Sep 21	**2Q 22 (+13bp)**	1.13	1.13	1.13	**1.13**	**1.25**

Source: J.P. Morgan. [1]BoJ targets ¥80tn/year expansion in monetary base and sets the IOER (O/N) as policy guidance.
Bold denotes move since last GDW and forecast changes. Underline denotes policy meeting during upcoming week.
Aggregates are GDP-weighted averages. [2]The BI rate for Indonesia reflects announced recalibration effective August 19, 2016.
[3] The Philippines introduced a recalibrated reverse repo rate effective June 3 at a level of 3.00%.
Rather than the refi rate, we now display the 1-wk dep rate, which better represents CBR policy stance and is closer to interbank market rates.

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Global Rates Forecast

		09-Jul*	Sep-21	Dec-21	Mar-22	Jun-22	YTD chg. (bp)
US	Fed funds	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	-150
	3M Libor	0.13	0.18	0.18	0.18	0.18	-178
	2Y bmk yield	0.21	0.30	0.35	0.40	0.40	-135
	5Y bmk yield	0.77	1.00	1.15	1.30	1.35	-91
	10Y bmk yield	1.34	1.85	1.95	2.05	2.10	-57
	30Y bmk yield	1.97	2.60	2.65	2.70	2.70	-40
	2s/10s bmk curve	113	155	160	165	170	78
	10s/30s bmk curve	64	75	70	65	60	17
	2s/30s bmk curve	177	230	230	230	230	95
Euro area	Refi rate	0.00	0.00	0.00	0.00	0.00	-
	Depo rate	-0.50	-0.50	-0.50	-0.50	-0.50	-
	3M Euribor	-0.54	-0.52	-0.52	-0.52	-0.52	-15
	2Y bmk yield	-0.69	-0.65	-0.65	-0.60	-0.60	-7
	5Y bmk yield	-0.61	-0.55	-0.50	-0.45	-0.40	-13
	10Y bmk yield	-0.30	-0.20	-0.10	0.00	0.05	-12
	30Y bmk yield	0.19	0.30	0.45	0.55	0.55	-16
	2s/10s bmk curve	38	45	55	60	65	-4
	10s/30s bmk curve	49	50	55	55	50	-4
	2s/30s bmk curve	87	95	110	115	115	-8
	2Y swap spread	21	22	22	20	20	-13
	5Y swap spread	31	30	28	26	24	-5
	10Y swap spread	33	30	28	26	24	-6
	30Y swap spread	19	18	18	16	16	-10
10Y spread	Austria	24	20	25	25	20	0
to Germany	Belgium	30	25	30	30	25	2
(curve adj.)	Finland	24	20	25	25	20	1
	France	33	25	35	40	25	5
	Greece	108	95	105	105	105	-62
	Ireland	38	25	30	30	25	5
	Italy	110	90	100	100	100	-49
	Netherlands	12	10	15	15	10	-1
	Portugal	62	50	55	60	60	-2
	Spain	71	55	60	60	60	6
	Wtd. peri. spread	93	74	83	83	82	-29

		09-Jul*	Sep-21	Dec-21	Mar-22	Jun-22	YTD chg. (bp)
UK	Base rate	0.10	0.10	0.10	0.10	0.10	-65
	2Y bmk yield	0.05	0.15	0.25	0.35	0.50	-47
	5Y bmk yield	0.20	0.50	0.65	0.80	1.00	-39
	10Y bmk yield	0.64	0.95	1.15	1.25	1.35	-17
	30Y bmk yield	1.16	1.45	1.55	1.65	1.70	-17
	2s/10s bmk curve	59	80	90	90	85	30
	10s/30s bmk curve	51	50	40	40	35	0
	2s/30s bmk curve	111	130	130	130	120	30
	2Y swap spread	3	0	-2	-2	0	-5
	5Y swap spread	16	12	10	7	5	10
	10Y swap spread	-3	-7	-10	-12	-15	2
	30Y swap spread	-39	-40	-42	-45	-50	9
Japan	Policy rate	-0.10	-0.10	-0.10	-0.10	-0.10	-
	10Y yield target	0.00	0.00	0.00	0.00	0.00	-
	2Y bmk yield	-0.12	-0.15	-0.15	-0.15	-0.15	1
	5Y bmk yield	-0.12	-0.10	-0.10	-0.10	-0.10	1
	10Y bmk yield	0.03	0.10	0.15	0.15	0.15	4
	20Y bmk yield	0.50	0.55	0.60	0.60	0.65	21
	30Y bmk yield	0.67	0.75	0.80	0.80	0.85	24
	2s/10s bmk curve	14	25	30	30	30	3
	10s/30s bmk curve	64	65	65	65	70	20
	2s/30s bmk curve	79	90	95	95	100	24
Australia	Cash rate	0.10	0.10	0.10	0.10	0.10	-50
	3Y bmk yield	0.17	0.50	0.50	0.50	0.50	-71
	10Y bmk yield	1.29	2.00	2.20	2.20	2.30	-3
New Zealand	Cash rate	0.25	0.25	0.25	0.25	0.25	-75
	2Y bmk yield	0.61	0.80	0.80	1.00	1.00	-58
	10Y bmk yield	1.57	2.20	2.20	2.40	2.40	-12
Sweden	Repo rate	0.00	0.00	0.00	0.00	0.00	-
	2-year govt	-0.30	-0.25	-0.20	-0.10	0.05	2
	10-year govt	0.19	0.40	0.55	0.65	0.75	3
Norway	Depo rate	0.00	0.25	0.50	0.75	1.00	-75
	2-year govt	0.64	0.75	0.95	1.05	1.20	-66
	10-year govt	1.24	1.60	1.70	1.75	1.75	-32

* Levels as of 1pm London time.

Source: J.P. Morgan.

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FX Forecasts vs. Forwards & Consensus

Exchange rates vs. U.S dollar

Majors		Current 9-Jul	Sep 21	Dec 21	Mar 22	Jun 22	JPM forecast gain/loss vs June 22* Spot	Forwards	Consensus**	Actual change in local FX vs USD Past 1mo	Past 3mo	YTD	Past 12mos
	EUR	1.19	1.18	1.17	1.16	1.16	-2.2%	-3.0%	-4.1%	-2.6%	-0.3%	-2.9%	5.1%
	JPY	110	110	111	112	112	-1.6%	-2.0%	-1.8%	-0.5%	-0.4%	-6.3%	-2.7%
	GBP	1.38	1.39	1.38	1.38	1.38	-0.2%	-0.2%	-2.7%	-2.0%	0.9%	1.2%	9.7%
	AUD	0.75	0.75 ↓	0.74	0.73	0.74	-1.1%	-2.6%	-6.4%	-3.2%	-1.8%	-2.7%	7.5%
	CAD	1.25	1.22	1.21	1.21	1.20	4.0%	4.0%	1.7%	-2.9%	0.4%	2.0%	8.9%
	NZD	0.70	0.71 ↓	0.71	0.70	0.71	1.6%	0.5%	-5.4%	-2.7%	-0.7%	-2.8%	6.3%
JPM USD index		119.7	119.5 ↑	120.1 ↑	120.8 ↑	121.0 ↑	1.1%	-0.4%	2.6%	2.1%	-0.2%	1.6%	-5.4%
DXY		92.2	92.3 ↑	92.8 ↑	93.5 ↑	93.5 ↑	1.4%	1.9%	3.1%	2.3%	0.0%	2.5%	-4.7%
Europe, Middle East & Africa													
	CHF	0.92	0.93	0.94	0.96	0.96	-4.4%	-5.3%	-2.4%	-2.1%	1.0%	-3.2%	2.7%
	ILS	3.28	3.25	3.20	3.20	3.15	4.2%	3.5%	1.9%	-1.2%	0.3%	-2.1%	5.2%
	SEK	8.58	8.56 ↓	8.55 ↓	8.62 ↓	8.62 ↓	-0.4%	-0.8%	-5.2%	-3.8%	-0.5%	-4.3%	7.6%
	NOK	8.70	8.64 ↓	8.55 ↓	8.53 ↓	8.53 ↓	1.9%	2.2%	-5.1%	-4.8%	-2.3%	-1.4%	8.9%
	CZK	21.70	21.4	21.6	21.6	21.6	0.7%	1.2%	-3.9%	-3.9%	0.7%	-1.0%	8.8%
	PLN	3.83	3.81	3.93	4.01	4.05	-5.4%	-5.3%	-10.3%	-4.1%	-0.6%	-2.6%	3.4%
	HUF	299.8	301	308	310	310	-3.4%	-2.3%	-6.8%	-5.1%	0.4%	-0.9%	4.5%
	RUB	74.26	73.0	73.0	72.0	71.0	4.6%	11.2%	0.0%	-2.6%	4.2%	0.2%	-4.5%
	TRY	8.65	9.00	9.50	10.00	10.50	-17.6%	-1.1%	-9.5%	-0.8%	-5.5%	-14.0%	-20.7%
	ZAR	14.25	14.00	14.25	14.50	14.50	-1.7%	3.0%	-1.4%	-3.6%	2.6%	3.1%	18.2%
Americas	ARS	96.0	100.0 ↑	110.0 ↑	130.0 ↑	145.0 ↑	-33.8%	-10.2%	-8.7%	-1.0%	-3.7%	-12.3%	-26.1%
	BRL	5.26	5.25 ↓	5.40	5.35 ↑	5.50	-4.4%	1.2%	-5.1%	-3.8%	8.1%	-1.2%	1.6%
	CLP	748	760 ↓	785 ↓	795 ↓	800 ↓	-6.5%	-5.3%	-10.0%	-3.8%	-5.0%	-4.8%	5.4%
	COP	3830	3750	3800	3875 ↓	3950 ↓	-3.0%	-0.1%	-6.3%	-6.2%	-5.0%	-10.5%	-5.4%
	MXN	19.88	20.25 ↑	20.50 ↑	21.00	21.30 ↑	-6.7%	-1.8%	-6.6%	-0.7%	1.4%	0.1%	13.8%
	PEN	3.95	3.98	4.00	4.05	4.10	-3.7%	-3.4%	-6.3%	-2.7%	-8.2%	-8.4%	-11.3%
LACI		43.3	42.9 ↑	41.7 ↑	40.6 ↑	39.5 ↓	-8.7%	-2.0%	-6.7%	-2.7%	1.3%	-3.5%	1.4%
Asia	CNY	6.48	6.45	6.45	6.45	6.45	0.5%	3.1%	-1.6%	-1.4%	1.1%	0.7%	7.9%
	HKD	7.77	7.79 ↓	7.80 ↓	7.80 ↓	7.80 ↓	-0.4%	-0.5%	-0.4%	-0.1%	0.1%	-0.2%	-0.2%
	IDR	14528	14350	14300	14250	14200	2.3%	6.5%	0.9%	-1.9%	0.3%	-3.3%	-0.9%
	INR	74.64	74.00 ↓	74.00 ↓	74.00 ↓	74.00 ↓	0.9%	5.3%	0.5%	-2.2%	0.2%	-2.0%	0.5%
	KRW	1149	1135 ↓	1130 ↓	1130 ↓	1130 ↓	1.7%	1.4%	-3.5%	-2.9%	-2.4%	-5.4%	4.1%
	MYR	4.19	4.12	4.12	4.10	4.10	2.2%	3.6%	-1.2%	-1.8%	-1.4%	-4.1%	1.7%
	PHP	50.08	49.75 ↓	50.00 ↓	50.25 ↓	50.50 ↓	-0.8%	1.7%	-3.8%	-4.7%	-3.1%	-4.1%	-1.3%
	SGD	1.35	1.34 ↓	1.34 ↓	1.33 ↓	1.33 ↓	1.6%	1.7%	-1.5%	-2.0%	-0.7%	-2.2%	3.0%
	TWD	28.05	27.85	27.85	27.85	27.85	0.7%	-2.2%	-0.5%	-1.0%	1.4%	0.9%	5.2%
	THB	32.61	32.25 ↓	32.50 ↓	32.50 ↓	32.50 ↓	0.3%	0.9%	-4.6%	-4.4%	-3.6%	-8.1%	-4.3%
ADXY		107.7	108.5 ↓	108.5 ↓	108.5 ↓	108.5 ↓	0.8%	2.0%	-1.6%	-1.7%	1.3%	-1.4%	4.2%
EMCI		56.42	56.51 ↓	55.61 ↓	55.18 ↓	54.72 ↓	-3.0%	1.4%	-4.2%	-3.2%	0.1%	-2.6%	2.3%
Exchange rates vs Euro										**Actual change in local FX vs EUR**			
	JPY	130.7	130	130	130	130	0.6%	0.9%	2.4%	2.2%	-0.1%	-3.5%	-7.4%
	GBP	0.86	0.850	0.845	0.840	0.840	2.1%	2.8%	1.4%	0.6%	1.3%	4.2%	4.4%
	CHF	1.09	1.10	1.10	1.11	1.11	-2.2%	-2.4%	1.8%	0.5%	1.3%	-0.4%	-2.3%
	SEK	10.18	10.10 ↓	10.00 ↓	10.00 ↓	10.00 ↓	1.8%	2.3%	-1.1%	-1.2%	-0.2%	-1.5%	2.4%
	NOK	10.32	10.20 ↓	10.00 ↓	9.90 ↓	9.90 ↓	4.2%	5.3%	-1.0%	-2.3%	-2.0%	1.6%	3.6%
	CZK	25.74	25.25	25.25	25.00	25.00	3.0%	4.3%	0.2%	-1.4%	1.1%	1.9%	3.5%
	PLN	4.55	4.50	4.60	4.65	4.70	-3.3%	-2.5%	-6.4%	-1.6%	-0.3%	0.5%	-1.7%
	HUF	356	355	360	360	360	-1.2%	0.7%	-2.8%	-2.6%	0.6%	2.1%	-0.6%
	RON	4.93	4.95	5.00	5.00	5.05	-2.4%	0.3%	-0.6%	-0.1%	-0.1%	-1.5%	-1.8%
	TRY	10.27	10.62	11.12	11.60	12.18	-15.7%	1.9%	-5.6%	1.8%	-5.2%	-11.6%	-24.6%
	RUB	88.09	86.14	85.41	83.52	82.36	7.0%	14.6%	4.3%	0.1%	4.6%	2.6%	-9.3%
	BRL	6.24	6.20 ↓	6.32	6.21 ↑	6.38	-2.2%	4.3%	-1.0%	-1.2%	8.4%	1.7%	-3.3%
	MXN	23.58	23.90 ↑	23.99 ↑	24.36	24.71 ↑	-4.6%	1.2%	-2.5%	1.9%	1.7%	2.9%	8.3%

↑ indicates a revision resulting in a stronger currency forecast, ↓ indicates a revision resulting in a weaker currency forecast. Source: J.P.Morgan
* Positive indicates JPM more bullish on local currency than spot, consensus or forward rates. ** Bloomberg *FX Consensus Forecasts*. + *SIMADI*

Source: J.P. Morgan

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Global Commodities Price Forecasts

Quarterly and annual averages

		Current													Actual change			
		Jul 8	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	2020	2021	2022	2023	Past 1mo	Past 3mos	YTD	Past 12mos
Energy																		
WTI Crude	US$/bbl	72.94	58.14	66.10	74.00	78.00	76.00	73.00	65.00	58.00	39.35	69.06	68.00		4.1%	23.0%	50.3%	78.3%
Brent Crude	US$/bbl	74.12	61.32	69.08	76.00	80.00	80.00	77.00	69.00	62.00	43.20	71.60	72.00		2.6%	17.7%	43.1%	71.2%
Natural Gas	US$/MMBtu	3.69	2.71	2.75	2.95	3.05	3.10	2.75	2.85	2.90	2.10	2.87	2.90		17.9%	46.0%	45.3%	102.2%
Newcastle Spot Thermal Coal	US$/mt	142.25	87.47	104.00	116.00	109.00	102.00	95.00	88.00	87.00	60.26	104.12	93.00	84.00	15.9%	52.8%	76.7%	170.7%
Base Metals																		
Aluminum	US$/mt	2,424	2,096	2,401	2,050	1,965	1,925	1,985	2,000	1,950	1,704	2,128	1,965	1,940	-1.2%	7.9%	22.8%	48.4%
Copper	US$/mt	9,288	8,501	9,696	8,180	7,550	7,550	8,100	8,185	7,970	6,175	8,482	7,951	6,500	-6.5%	3.9%	19.9%	49.1%
Nickel	US$/mt	18,323	17,560	17,376	16,000	15,500	15,000	14,500	14,000	14,000	13,783	16,609	14,375	14,500	2.3%	10.5%	10.7%	36.3%
Zinc	US$/mt	2,915	2,749	2,916	2,575	2,400	2,400	2,500	2,475	2,400	2,265	2,660	2,444	2,400	-2.7%	3.8%	6.8%	37.7%
Precious Metals																		
Gold	US$/t oz.	1,800	1,792	1,813	1,590	1,550	1,500	1,400	1,300	1,200	1,772	1,686	1,350	1,369	-4.9%	3.3%	-5.0%	-1.1%
Silver	US$/t oz.	25.97	26.27	26.75	23.00	22.10	20.50	18.70	16.30	15.00	20.62	24.53	17.63	16.90	-6.4%	2.5%	-1.7%	36.1%
Platinum	US$/t oz.	1,073	1,164	1,182	1,100	1,050	1,000	1,000	1,050	1,100	891	1,124	1,038	1,200	-7.7%	-11.1%	-0.2%	22.8%
Palladium	US$/t oz.	2,810	2,400	2,786	2,600	2,400	2,200	2,100	1,900	1,800	2,176	2,546	2,000	1,500	0.3%	6.6%	14.5%	45.0%
Bulk Commodities																		
Iron Ore	US$/mt	223	166	192	188	172	160	150	150	140	108	180	150	115	9.9%	29.4%	40.4%	115.0%
Hard Coking Coal	US$/mt	205	136	137	160	149	156	158	159	159	132	146	158	158	22.6%	80.7%	101.7%	76.9%

Source: J.P. Morgan.