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The J.P. Morgan View

Buy the dip - markets can handle higher yields

Cross-asset Strategy: Higher bond yields should not be disruptive for equities, but rather support our call for a Growth to Value rotation. We stay positive on equities and expect Omicron will ultimately prove a positive for risk assets, as this milder but more transmissible variant speeds the transition from pandemic to endemic with a lower human toll (see [here](#)). Near term we recommend buying the dip on US indices given oversold conditions, though medium term we favor EM/China/Europe on a regional basis on improving activity and easing headwinds, and the UK on valuation. SMid caps are attractive based on valuation and technicals, although we expect 2022 returns to be front-loaded. In Bonds, we stay short 10y USTs, despite their recent selloff, as we see further scope for higher yields given still rich valuations and the hawkish shift in Fed expectations. In the Euro area, we took profit on bearish duration proxies as Omicron concerns fade. In Credit, despite Omicron fears and rising bond yields, we see spreads grinding tighter as deals are well absorbed by the primary markets. This week's pattern is likely to repeat in 2022, offering buying opportunities on spread-widening. We remain bullish on Oil given strong demand (that should easily absorb OPEC+'s agreed nominal production increase), light positioning, and limited producer hedging. We also stay long the agriculture complex on demand recovery (particularly for biofuel feedstocks), weather risks, and inventory tightness.

JPM Clients' View: [Click here to take this week's survey](#). This week we poll investors on Fed policy, implications of Omicron and the Build Back Better plan, in addition to our running sentiment questions. The last survey's results indicated: (1) equity exposure/sentiment among respondents is ~62nd percentile on average; (2) 65% plan to increase equity exposure, and 84% to decrease bond duration near-term; (3) clients' outlooks for 2022 forecast the following levels for year-end (based on average responses): S&P 500 at ~4950, MSCI EM at ~1375, US 10Y yields at ~2.0%, Brent at ~\$85/bbl, DXY at ~98, CDX HY at ~320, Bitcoin at ~\$50k, and average VIX levels throughout 2022 of 20-24.

Markets can handle Omicron and higher yields: The pullback in risk assets in reaction to the Fed minutes is arguably overdone; policy tightening is likely to be gradual and at a pace that risk assets should be able to handle, and is occurring in an environment of strong cyclical recovery. While the Omicron wave presents some downside risk to Q1 growth, we anticipate that cases will roll over sharply in the coming weeks, providing a boost to Q2. As this wave fades, it will likely mark the end of the pandemic, as Omicron's lower severity and high transmissibility crowds out more severe variants and leads to broad natural immunity.

New Trades: bought protection on CDS indices ([Doctor](#)); took profit on long CNH/KRW ([Wang](#)); bought CHF/JPY-USD/JPY vol spread ([Sandilya](#)); took profit on long INR ([Keshvani](#)).

Upcoming catalysts: Fed speak (all-week); US CPI (1/12); US retail sales/IP/cons. sentiment & 4Q21 earning season starts (1/14).

See page 12 for analyst certification and important disclosures.

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Global Markets Strategy

Marko Kolanovic, PhD ^{AC}

(1-212) 622-3677
marko.kolanovic@jpmorgan.com
J.P. Morgan Securities LLC

Nikolaos Panigirtzoglou ^{AC}

(44-20) 7134-7815
nikolaos.panigirtzoglou@jpmorgan.com
Bloomberg JPMA FLOW <GO>

J.P. Morgan Securities plc

Bram Kaplan, CFA ^{AC}

(1-212) 272-1215
bram.kaplan@jpmorgan.com
J.P. Morgan Securities LLC

Thomas Salopek ^{AC}

(1-212) 834-5476
thomas.salopek@jpmorgan.com
J.P. Morgan Securities LLC

Federico Manicardi ^{AC}

(44-20) 7742-7008
federico.manicardi@jpmorgan.com
J.P. Morgan Securities plc

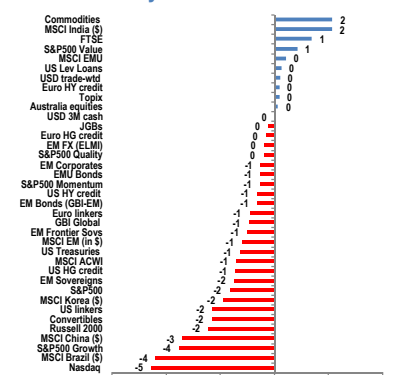
Mika Inkinen ^{AC}

(44-20) 7742 6565
mika.j.inkinen@jpmorgan.com
J.P. Morgan Securities plc

Amy Ho ^{AC}

(1-212) 622 9364
amy.ho@jpmchase.com
J.P. Morgan Securities LLC

YTD returns by asset



Source: J.P. Morgan

Cross-Asset Strategy

Macroeconomic Outlook

Global GDP and CPI inflation are each tracking close to 6% year gains for 4Q. But the latest activity readings— notably the December PMIs and our alt-indicator—point to a loss of momentum. Inflation readings have yet to turn but moderation now looks likely. In all we look for both global GDP and CPI gains to moderate to below a 3.5% year this quarter. A natural gas supply shock accounts for much of the expected swing in inflation between this quarter and last while the new Omicron wave is poised to depress growth this quarter. Gauging the magnitude of this drag is difficult as higher vaccination rates point to a more modest impact, but the rapid pace of transmission suggests that the drag will be more concentrated.

It is easy to lose sight of two strong underlying signals from the recent performance. First, the resilience of global consumers was particularly notable in 2H21 and reflects the unusually strong gains in DM labor income and healthy household balance sheets. Supports from pent-up labor demand as well as excess savings should help facilitate a rebound in global growth once the Omicron wave subsides. Second, global supply continues to grow slowly. This partly reflects pandemic-related constraints, but we believe a number of forces point to a rapid closing of the global output gap ([GDW](#), Jan 7th).

Equities

We stay bullish. Positive catalysts are not exhausted, and we look for higher yields to drive gains in beta sectors. We believe there is further upside for stocks and the dip driven by the Omicron scare should be bought into. The new variant is proving to be milder, and the adverse impact on mobility much more manageable. Fundamentally, the growth backdrop is likely to stay supportive, China activity deceleration is by now largely behind us, and economic surprises in key regions are back in positive territory. Eurozone in particular stands out, with 2022 real GDP forecast at 4.6% yoy, above the US for the first time since 2016. There are signs of supply constraints potentially passing their worst point, and of power prices surge easing. Inventories are very low and the labor market is staying strong. We continue to see gains for earnings, and believe that consensus projections for 2022 will again prove too low. Regionally, we look for a better showing from EM/China, the UK and Europe. At a sector level, a likely pickup in bond yields will lead to more Cyclical leadership entering 2022 ([January Chartbook](#), Jan 4th).

As we enter 2022, SMid Caps should benefit from what remains a very strong macro outlook. This

translates into solid fundamentals, while valuations remain undemanding, expectations appear far more realistic than in recent years, and technicals show big upside/alpha opportunities at the stock level. While some metrics are starting to show that this cycle could be longer in the tooth than one would expect, given the still early nature of the recovery, we believe it is too soon to worry. 2022 should finally be the year in which we go back to a new normal, as a) COVID-19 mortality is now very close to that caused by flu/pneumonia, and b) empirical evidence suggests COVID-19 related deaths should fall in the northern hemisphere to a tenth of what they are now with the arrival of summer. It is for this reason that we expect 2022 SMid returns to be front-end loaded. We see Value being a clear driver of alpha this year ([2022 SMid Outlook](#), Jan 7th).

Bonds

Bonds have repriced sharply higher amid more hawkish Fed and ECB outcomes. **In the US**, the pace of tightening in labor markets has brought about a faster taper, but also more hawkish commentary from the Fed on both the start of QT as well as the timing of rate hikes. We now expect the Fed to hike in March and start QT after a second hike in June ([Tighter labor supply should pull forward Fed liftoff](#), Jan 7th). Despite the sell-off, valuations remain modestly rich and we see further scope for higher yields. We stay short 10y USTs.

In the **Euro area**, yields have repriced higher amid fading concerns over the impact of the omicron variant despite high infections, expectations for better growth as well as poor liquidity conditions. We took profit on bearish duration proxies [earlier last week](#), recommend long 5Y Germany vs. US on monetary policy divergence, and stay neutral on intra-EMU spreads. In the **UK**, the market has priced in a fairly aggressive near-term path for rate hikes. If the BoE hikes in February, chances for another hike in March are low, and we receive Mar21 MPC OIS. We keep shorts in 10y real yields.

In **EM**, improving EM activity data has acted to offset concerns around the omicron variant. Easing domestic inflation should take pressure off EM central banks to keep pace with Fed hikes, particularly where hikes have been strongly frontloaded. We are neutral EM local bonds overall, with UWs in Malaysia, Thailand, Poland, Romania and Colombia offset by an OW in China and a long duration overlay ([EMOS](#), Dec 16th).

Credit

The conclusion seems to be the same. Credit's just fine. Following the pattern set in South Africa, evidence

has begun to accumulate in the UK that Omicron is much milder than its Delta predecessor and that boosters are effective. Our own take [ahead](#) of the holidays was that things were falling into place for a New Year rally, which seems to be the case. Our logic was predicated on the idea that credit markets were in a similar place to where they were in August ahead of the Labor Day and UK Bank holidays, when there was excessive focus on all the negatives, not least supply. As primary markets reopen for business and deals are well absorbed, our operating assumption is that spreads squeeze tighter. We're also not overly concerned by the backup in bond yields that we've seen in the first two trading sessions in the New Year. To the extent this remains orderly our operating assumption again is that spreads squeeze tighter ([Credit Watch](#), Jan 4th).

This week's pattern may repeat itself in 2022, providing buying opportunities for credit investors.

This week, both rates and supply surged. The supply surge was expected and has been well received so far. The move in rates was not expected, as the Fed minutes were more hawkish than markets had priced in. This led to a knee-jerk reaction lower in stocks and CDX spreads widened too. This is despite most market participants understanding and agreeing that Fed policy should be tighter given current economic conditions. The one prior example of Fed QT coincided with a period of spread widening, but we do not believe this precedent will be repeated this year. HG bond technicals have improved recently, with FX hedging costs down, dealer balance sheets very light and retail outflows reversing to inflows. This is a reversal from the situation in mid-November/early-December. We believe this positions HG bond spreads for further tightening in the weeks ahead. HG spreads have lagged HY over the past couple of months ([Credit Market Outlook & Strategy](#), Jan 7th).

Currencies

The principal driver of the macro backdrop and our FX views remains the increasingly hawkish Fed. The FOMC minutes published this week underscored Fed hawkishness as a durable macro theme by bringing quantitative tightening (QT) into the policy mix; and in doing so defied suggestions that US monetary tightening might have been fully or over-priced in the dollar. A Fed biased to move more aggressively on the balance sheet implies greater repricing in longer-end yields and specifically real-yields, areas we have flagged as ripe for repricing. More medium-term, the early and swift unwind of Fed QE could imply up to around 4% further upside on the broad dollar, based off of historical relationships with Fed relative balance sheet size and USD liquidity. Of course, these are rough benchmarks

and the 2022 outlook still anticipates a reflationary global environment which will leave pockets of relative, if not outright high-beta FX resilience. Our FX Models suggest a better backdrop for high beta FX, but is not necessarily USD-bearish, as the growth outlook is improving, but carry is worsening for non-dollar funders.

On trade recommendations, the portfolio remains long USD on the Fed (long USD/JPY in cash) and broaden exposure as real yields move higher via selling NZD/USD. We also stay long divergence trades but take profit on CHF/JPY proxy and resell EURNOK ([FXMW](#), Jan 7th).

Commodities

We remain bullish on Oil with our forecast almost \$10/bbl above market forwards across all maturities (YE target \$90/bbl). First, current strength in demand acts as a near-term tailwind as it so far proved largely immune to surging infection cases. Second, financial length in the market remains at its lowest level since December 2020. The recent rally has occurred despite minimal investor involvement, with ample dry powder to push prices higher. Third, producer hedging not only has a less significant impact on the market relative to pre-pandemic levels as a result of lower outright production, but also as underwater 2021 hedges resulted in investor backlash. Therefore, the potential for increased buying from an investor perspective is not likely to be met by as significant an amount of producer selling (hedging).

OPEC+ agreed to proceed with another nominal monthly increase of 400 kbd in February. Our reference case now assumes the alliance will fully phase out the remaining 2.96 mbd of oil production cuts by September 2022. With signs of demand withstanding the Omicron variant, low stocks and increasing market vulnerability to supply disruptions, we see the need for more OPEC+ barrels ([Oil Weekly](#), Jan 6th).

We stay long the agri complex via an index. Our price forecasts in 2022 and 2023 sit well above current futures curves, and consumers are well placed to take advantage of the backwardation across markets. Agri commodity indices opened 2022 at 7Y highs, after consecutive seasons of inventory depletion. Weather risks including the intensification of drought conditions in Argentina, far Southern Brazil and the US Plains are weighing on grain & oilseed production potential. Coupled with the demand side recovery, namely for biofuel feedstocks, we continue to project inventory tightness remaining a feature across agri commodity markets through 2021/22 ([Agricultural Markets Weekly](#), Jan 7th).

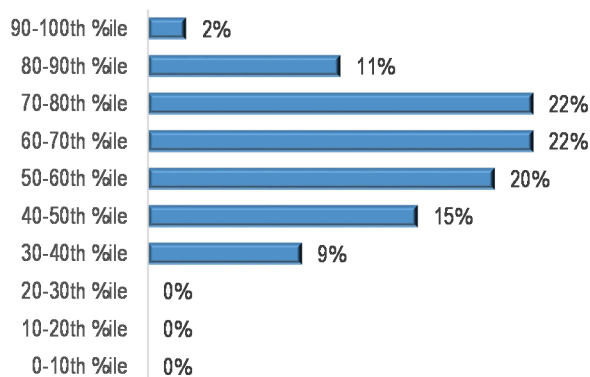
JPM Clients' View

[Click here to take this week's survey](#)

This week, we poll investors on Fed policy, implications of Omicron and the Build Back Better plan, in addition to our running survey questions on equity positioning/sentiment, and intentions for near-term changes to equity allocation and bond duration.

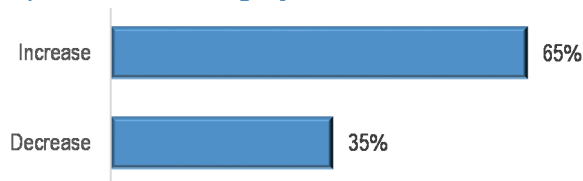
The results from the last survey on investors' 2022 outlook across asset classes are shown in the charts below¹.

Figure 1: What is your current equity positioning or sentiment in historical terms, expressed from most bearish (0th percentile) to most bullish (100th percentile)?



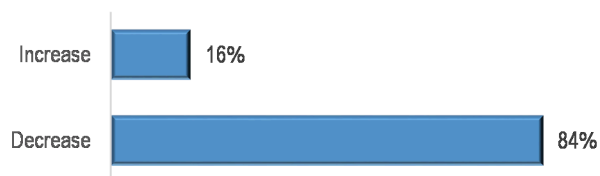
Source: J.P. Morgan.

Figure 2: Are you more likely to increase or decrease equity exposure over the coming days/weeks?



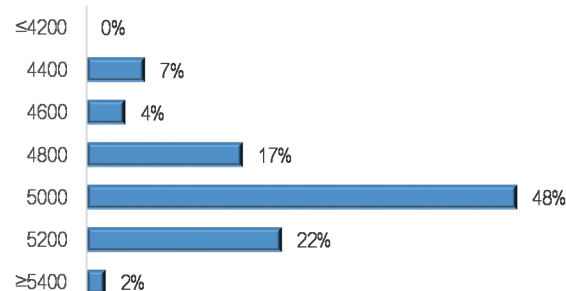
Source: J.P. Morgan.

Figure 3: Are you more likely to increase or decrease bond portfolio duration over the coming days/weeks?



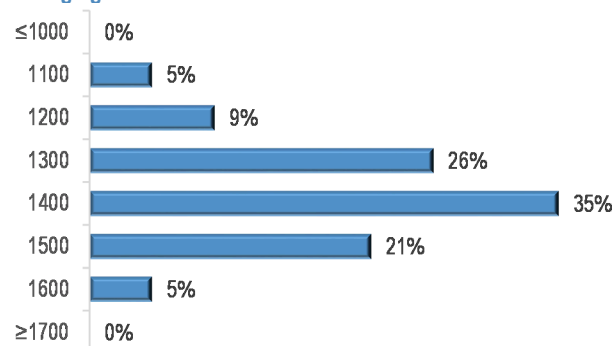
Source: J.P. Morgan.

Figure 4: What is your 2022 year-end price target for the S&P 500?



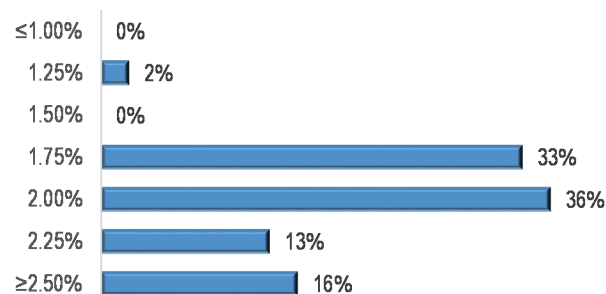
Source: J.P. Morgan.

Figure 5: What is your 2022 year-end price target for MSCI Emerging Markets?



Source: J.P. Morgan.

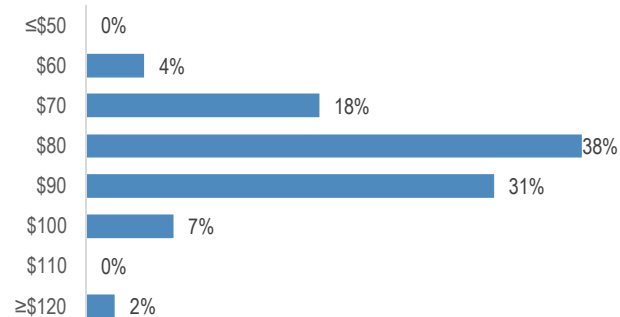
Figure 6: What is your 2022 year-end target for US 10-year yields?



Source: J.P. Morgan.

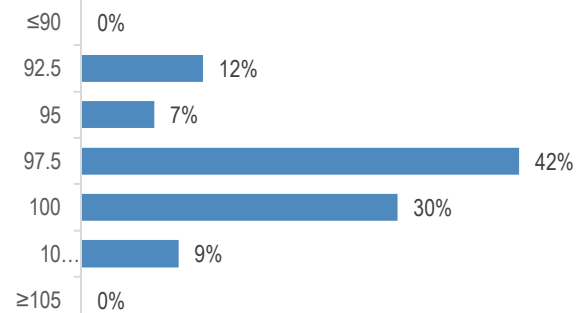
¹ Results are based on 47 responses received from clients in our survey conducted Dec 13-Jan 7th

Figure 7: What is your expectation for average Brent Oil prices in Q4 2022?



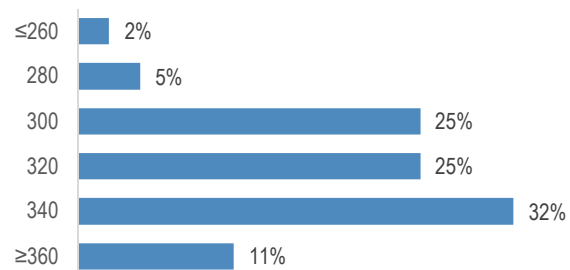
Source: J.P. Morgan.

Figure 8: What is your 2022 year-end target for the US Dollar index (DXY)?



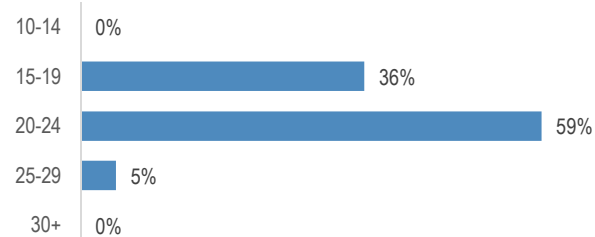
Source: J.P. Morgan.

Figure 9: What is your 2022 year-end target for US High Yield spreads (CDX HY index)?



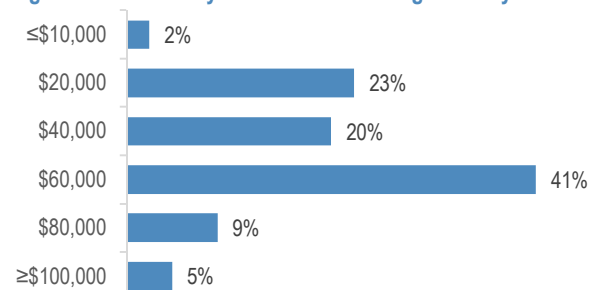
Source: J.P. Morgan.

Figure 10: What is your expectation for average VIX levels in 2022?



Source: J.P. Morgan.

Figure 11: Where do you see Bitcoin trading at 2022 year-end?



Source: J.P. Morgan.

Markets can handle Omicron and higher yields

The first trading week of 2022 started with a hawkish surprise spilling over to risk markets. 10Y UST yields rose 15bp entirely driven by real yields (+33bp) as breakevens fell while the 2s10s steepened 12bp. The [minutes](#) to the December FOMC meeting have been the hawkish surprise. While we knew already from the December “dot plot” that FOMC participants saw hikes “sooner or at a faster pace” what was new were the clues given to how balance sheet normalization would play out. FOMC participants generally thought that this runoff would occur sooner after liftoff and at a faster pace relative to the 2014-17 episode. As usually happens when real yields rise substantially over a short period of time and market depth is low (Figure 12), VIX spiked and risk markets de-rated. Within Equities, Tech, Growth and Bond-proxies suffered the most, while Cyclical/Value/Reflation outperformed.

The surprise in the Minutes aligns with our forecast that the FOMC will commence balance sheet normalization later this year, likely after the second projected rate hike in June. Moreover, once the Fed commences SOMA normalization later this year, we forecast initial runoff of \$25bn/month (\$15bn UST/\$5bn MBS) that will ramp to \$100bn/month by spring 2023. While a decision has not been made yet, we think a few reasons will make the Fed less conservative this time around. First, fundamentals are much stronger compared to 2017. During the last tightening cycle, the Fed kept the bond holdings steady for three years before gradually beginning to shrink the portfolio in the second half of 2017. This time, while the unemployment rate is similar, the economy is growing at a much faster rate and inflation is well above target (Figure 13). Second, FOMC participants could be somewhat motivated by P&L considerations. We estimate that the Fed could start running a net operating loss if it raises overnight rates to around 2.25%. This shouldn't create operational problems for the conduct of monetary policy. But at the margin, we believe the related headlines would be a little embarrassing and the reputational costs could be notable. Regardless of the motivation, producing tightening at the back end might lower urgency for tightening at the front end of the curve (see [The P&L case for an earlier start to QT](#) for more).

The pullback in risk assets in reaction to the Fed minutes is arguably overdone, but it fairly reflects the theme that the direction of travel has been towards a faster normalization. The correction is arguably excessive on the assumption that there is not enough

support for a much earlier liftoff. Markets already assume a March hike is likely (~90% implied probability), suggesting there is now more room for the Fed to surprise on the dovish than hawkish side. Further, while real yields have plenty of room to revert to rise, we don't think last week's rapid rise is indicative of how things will eventually play out. Our base case is that this process should happen in a more gradual way in the coming years and at a pace that risk assets should be able to handle.

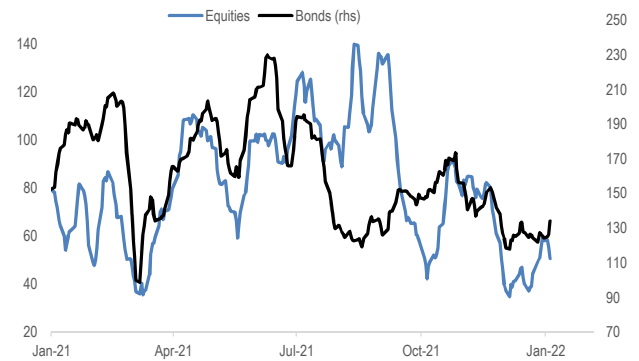
In 2022, Fixed Income will likely underperform, but this is not 2018. 2022 was going to be a difficult year for Bonds even without QT as the Fed plans to hike at least three times while terminal rate pricing remains subdued (Figure 14). QT should start in July and should have a more modest incremental impact on Treasuries in 2022 while being more impactful in 2023. Credit markets could do a bit better than Bonds but returns are likely to be low as potential spread tightening is limited. A key difference versus 2018 is that, at the time, real rates were rising to the more challenging >1% region, which was out of sync with falling PMIs, whereas now real rates should close the gap with the strong growth and inflation backdrop (Figure 15).

Equities and Commodities can still generate positive returns because the cyclical backdrop in 2022 is much stronger and policy less challenging than 2018. 2018 was a “late-cycle” backdrop defined by the US-China trade war which was driving a near-recession in global manufacturing and global growth while real yields were rising from 0.5% to more than 1% (Figure 15). By contrast, in 2022, real yields should also rise but from extremely complacent levels (i.e. -1%) to still accommodative levels of about -0.25%. Real yields will likely gradually revert to positive territory in the coming years and at a pace that risk assets should be able to handle. As a result, in 2022, we expect real yields to remain far from levels that can start challenging the expansion. At the same time, the economy in 2022 will be defined by a full global recovery and an end of the global pandemic which we believe will produce a strong cyclical recovery, a return of global mobility, and a release of pent-up demand from consumers (e.g. travel, services) and corporates (inventory, capex and buyback recovery). Furthermore, policy normalization can help some of our key calls by catalyzing some underperformance in the expensive Tech/Growth or lockdown winners complex in favor of Value/Reopening/Cyclicals/reflation segments which remain attractively dislocated from the Omicron wave.

Turning to the Omicron variant, while we recognize some possibility of downside risk to Q1 economic growth and a short-lived uptick in risk aversion, we anticipate that cases will roll over sharply in the coming weeks. While the media continues to emphasize the more frightening statistics, e.g. the record high number of cases, our core view on Omicron remains more **positive**. First, our focus is on hospitalizations/deaths, which are the more relevant inputs into various governments' reaction functions, and these compare much favorably to the precedent waves. We found particularly informative that in South Africa, which was the first country to discover the highly infectious Omicron variant, COVID related deaths have so far peaked at fraction of previous records, while cases have been falling rapidly for a few weeks (Figure 16). Somewhat similarly, in the UK, despite a rise in cases to 1.15m, hospitalizations only reached 1/3 of last winter's peak. Second, vaccines remain **effective** against this milder variant, while vaccination efforts (in the form of boosters) continue (Figure 17). The UK has released vaccine efficacy data against Omicron hospitalizations this week, showing an estimated of 88% 2 weeks after a booster dose, 72% 2 to 24 weeks post the second dose, 52% >25 weeks post the second dose, and 52% after a single dose. This compares with an efficacy of 98% against Delta after a booster or 90% after two doses. Third, we recognized the potential for the Omicron variant to become positive for markets. After all, if a less severe and more transmissible strain quickly crowds out more severe variants, it could transform a deadly pandemic into something more similar to a seasonal flu.

Whether it is Fed news or the Omicron scare, this week's moves highlight the fragility of sentiment since the onset of COVID. Generally speaking, the bouts of risk aversion that have stalled the reflation and re-opening trades have proven to be overdone, initially with Delta and now with Omicron, in addition to earlier worries about faster central bank normalization. That being said, we acknowledge a risk scenario where the pullback in large-cap stocks drags broader markets down. It would be beneficial for this pessimism to subside for the sake of having our expected Growth to Cyclical Value rotation, as it is the less painful way to produce our expected consolidation. Despite this week's volatility, there is a good chance we are coming to the end of this period of fragile sentiment, although it may take a few weeks for the market to process the Fed's incremental changes and Omicron's beneficial (yes, beneficial) impact as the more dominant, less severe strain.

Figure 12: Equity and bond market depth



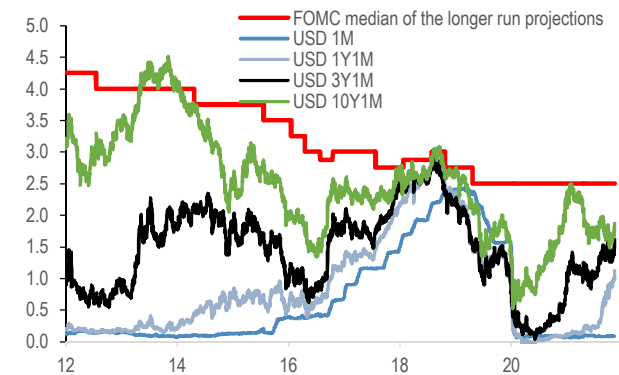
Source: J.P. Morgan

Figure 13: Growth, unemployment and inflation currently vs. 2017

	Real GDP yoy	Unemploy ment	Core CPI yoy	Headline CPI yoy
Current	4.9	4.2	4.9	6.8
June 2017	2.1	4.3	1.7	1.6

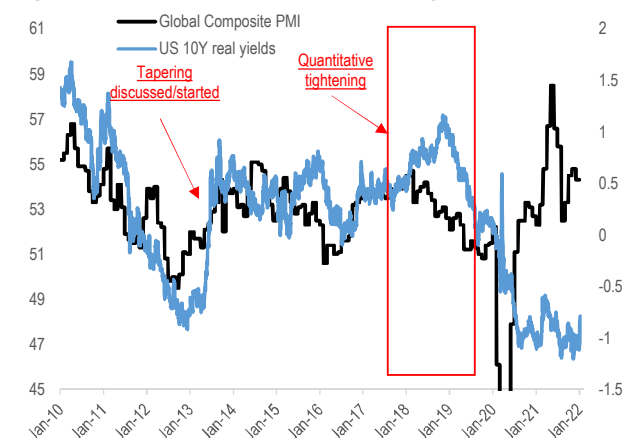
Source: J.P. Morgan.

Figure 14: Market pricing of US policy rates



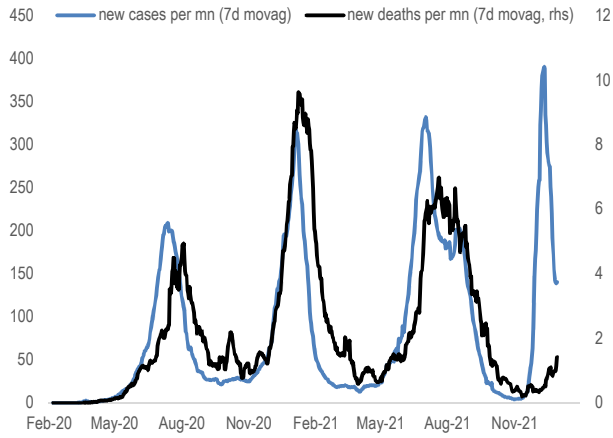
Source: J.P. Morgan, Bloomberg Finance L.P.

Figure 15: Global composite PMI vs. US real yields



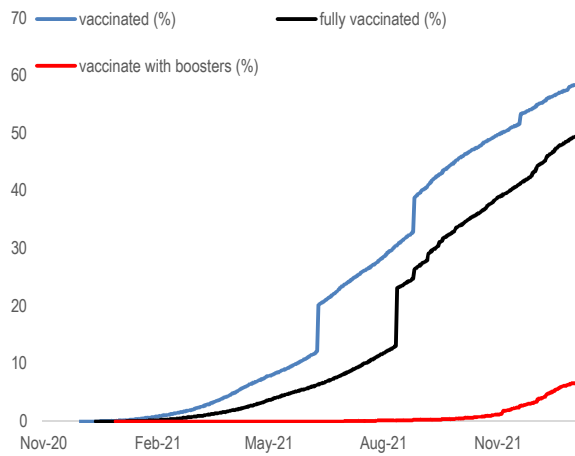
Source: J.P. Morgan, Bloomberg Finance L.P.

Figure 16: COVID-19 cases and deaths in South Africa



Source: J.P. Morgan

Figure 17: World COVID-19 vaccinations



Source: J.P. Morgan

Global Research Digest

Macro & Cross-Asset Views

[Top 10 strategic investment themes for 2022 and beyond: What to own ten years out](#), Joyce Chang and Jan Loeyes

In 2022, we expect “more of the same” from macro themes but with lower returns and greater market volatility and we expect “less of the same” from asset refraction. We see “regime change” accelerated by COVID-19 as a theme transforming the macro, market and political landscape for years to come as COVID-19 has accelerated paradigm shifts to “regime change” with the era of the Great Moderation likely over. We are entering a world of higher inflation, bigger deficits, greater macro volatility, and faster moving business cycles, while geopolitical risks remain high.

[Flows & Liquidity: Has ethereum entered a mean reversion phase?](#), Nikolaos Panigirtzoglou

The ethereum network has been losing market share in the DeFi space at a rapid pace over the past year, and the share of ethereum in DeFi will likely drop further before Sharding is implemented in 2023. Ethereum’s dominance is at risk because the scaling of the ethereum network, which is necessary for the ethereum network to maintain its dominance, might arrive too late. We are at least a year away from the full scaling of the ethereum network, and the risk is that during that period the ethereum network will lose further market share against competing networks.

Global Economics and the Recovery from COVID-19
[Expecting a somewhat softer start to 2022](#), Michael Feroli

We are lowering our projection for 1Q22 real annualized GDP growth from 2.5% to 1.5% mostly in response to pandemic-related developments. However, we expect that the Omicron headwind to consumer spending will be short-lived and we look for the recovery in outlays to lift growth further in 2Q22; we are revising up next quarter growth from 3.5% to 4.0%. On net, we expect a rather modest hit to full-year (4Q/4Q) growth, going from 3.0% previously to 2.9% now. We think the Fed will look through the downshift in growth early this year and continue to plan to normalize monetary policy.

[A large but narrow drop in global inflation this quarter](#), Bruce Kasman

We forecast core inflation to stabilize this quarter with both headline and core CPI rising at a still-

elevated 3.5%ar. A broadening of price pressures often signals a sustained upward shift in inflation but we believe it is appropriate to fade last quarter’s acceleration of 5.9%ar. In contrast to last year’s COVID waves, it is unlikely that the Omicron wave derails the gradual relaxation of global supply constraints now underway. However, its potential drag on service-sector demand poses the greatest near-term risk.

[US: Omicron likely a short-lived drag on consumer spending](#), Peter B McCrory

We suspect that the hit to economic activity from the Omicron variant will be less severe than during earlier COVID-19 waves and relatively short-lived, with much of the drag concentrated in December 2021 and January 2022. This is for a variety of reasons: (1) The Omicron variant is both highly transmissible and less virulent, limiting behavioral responses to rising cases; (2) The labor market is much tighter than it was during earlier surges, meaning that firms may opt to hoard labor and even continue hiring even as consumer demand slumps; (3) The South African experience with Omicron suggests that cases may peak by mid- to late January and fall more quickly than after previous waves, making this surge more transitory even though the magnitude of case growth is much higher.

[US: The P&L case for an earlier start to QT](#), Michael Feroli

We estimate that the Fed could start running a net operating loss if it raises overnight interest rates to around 2.25%. The related headlines would be a little embarrassing, Congressional testimonies would be even more painful, and the reputational costs could be notable. We think these considerations could be another reason that the Fed takes a quicker route to slowing or stopping reinvestments of its securities’ principal payments (sometimes called quantitative tightening, or QT). We believe this action could come after the second rate hike, which we expect will occur later this year.

[Focus: Income lift from Child Tax Credit may be in the past](#), Daniel Silver

We think that some legislation eventually will be passed to extend the child tax credit, although if current law holds, households will have lost about 1% of the income they had been receiving at the end of last year. With eligibility greatest for lower-income individuals, we think the fiscal multiplier for the tax credit payments could be relatively high, somewhere around two-thirds. If so, the \$200bn of support from the

tax credit potentially coming from the BBB Act would add about 0.5% to nominal aggregate demand over the next few years.

Global Market Implications

[Credit Watch: Credit and 'The Cron': The Omicron variant's bark feels worse than its bite, with a bigger impact on sentiment than fundamentals](#), Dulake, Pace, Streeter, Common, Hamid, Caprihan, Sim and DeGroot

Whether it's the most reopening-sensitive sectors that are Gaming & Leisure, Airlines, and Energy; Healthcare; or return-to-the-office sensitive CMBS; or the read-throughs from recent trends in bank lending data or Municipals tax receipts, the conclusion seems to be the same. Credit's just fine. As primary markets reopen for business and deals are well absorbed, our operating assumption is that spreads squeeze tighter. We're also not overly concerned by the backup in bond yields that we've seen in the first two trading sessions in the New Year, and our operating assumption again is that spreads squeeze tighter.

[US Treasury Market Daily: Coming soon to a theater near you: a smaller Fed balance sheet](#), Jay Barry & Jason Hunter

The December FOMC meeting indicates an earlier and more aggressive path for Fed balance sheet normalization than prior expectations, in line with our updated forecast. Treasury yields rose 1-7bp, the curve flattened, and TIPS breakevens narrowed sharply following strong labor market data as well as more hawkish developments in the December FOMC meeting minutes. On balance, with these moves, 10-year yields retraced to their highest levels since May 2021.

[Oil Weekly: The next leg higher in oil prices](#), JPM Commodities Research

With signs of demand withstanding the Omicron variant, low stocks and increasing market vulnerability to supply disruptions, we see the need for more OPEC+ barrels and remain bullish with our forecast almost \$10/bbl above market forwards across all maturities (YE target \$90/bbl). First, current strength in demand acts as a near-term tailwind. Second, financial length in the market remains at its lowest level since December 2020. Third, producer hedging not only has a less significant impact on the market relative to pre-pandemic levels as a result of lower outright production, but also as underwater 2021 hedges resulted in investor backlash. Therefore, the potential for increased buying

from an investor perspective is not likely to be met by as significant an amount of producer selling (hedging).

[FX Macro Quant Model Summary: Getting short of reserve currencies; increasing high beta exposure](#), Antonin Delair, Juan Duran-Vara and Meera Chandan

Our cross-sectional model has increased shorts in select G10 reserve currencies, and shorts for EUR, GBP, and USD are motivated by poor carry. GBP shorts are additionally motivated by a downgraded growth outlook, while USD shorts are explained by stabilizing global growth forecasts which has reduced the overall level of suggested defensiveness.

Sector Level Views

[Cryptocurrency Markets: Crypto-101 and the State of the CryptoMarkets](#), Kenneth B. Worthington, CFA

We see likelihood for greater acceptance of cryptocurrency markets by mainstream investors and companies in 2022 with increasing relevance to financial markets. The Ethereum merge is expected mid-2022, which will drive much greater energy efficiency, and we expect will position the 'chain-of-chains' for a significant boost to capacity, transaction speed and usability as we enter 2023.

[EU Pharma & Biotech: Party on: Pharma bull run isn't over, sector](#), Richard Vossler

With a positive newsflow and operational outlook, and an overhang lifting, we see a positive outlook, and we believe the Pharma sector should continue to at least maintain its premium to the market. We also see continued strong EPS growth in 2022 (+10%), consistent with consensus expectations.

[China Basic Materials: 2022 Outlook: what to do after the once-in-a-decade collapse in demand?](#), Po Wei

With the policies gradually turning more pro-growth post the Economic Work Conference, we believe the demand environment especially for infrastructure should improve in 2022. For domestic China exposure, we like steel and cement. We also believe the significant underperformance of Zijin Mining and Chalco vs overseas peers in 4Q21 was unjust as these companies share the same ASP drivers and expect the Chinese aluminum and copper names to play catch up.

Strategy & Forecasts

GAA Long Only Model Portfolio

Asset Classes		Active Weights	UW OW	
Equities		11%		
Govt. Bonds		-13%		
Corp. Bonds		-7%		
Commodities		7%		
Cash		2%		
Sectors		Active Weights	UW OW	
Equities				
	US	-5%		
	EMU	1%		
	Japan	0%		
	UK	1%		
	EM	3%		
	Other	0%		
Govt. Bonds				
	US Nominal	-4%		
	US TIPs	0%		
	Europe Core	0%		
	Europe Periphery	0%		
	Japan	2%		
	UK	2%		
	EM Local	0%		
	Australia	0%		
Corp. Bonds				
	US HG	0%		
	Europe HG	-2%		
	UK HG	0%		
	US HY	2%		
	Europe HY	0%		
	US Loans	1%		
	EM Sovereigns	1%		
	EM Corporates	-2%		
Commodities				
	Energy	4%		
	Industrial metals	-1%		
	Agriculture	0%		
	Precious metals	-3%		

Equity sector recommendations and YTD returns

	US		Europe		Japan		EM	
Energy	9%	OW	6%	OW	4%	N	0%	OW
Materials	-1%	N	2%	OW	2%	N	0%	OW
Industrials	0%	N	0%	N	0%	OW	-1%	N
Discretionary	-1%	N	1%	N	3%	OW	-3%	OW
Staples	0%	UW	0%	UW	0%	N	-2%	UW
Healthcare	-4%	OW	-3%	UW	-5%	UW	-7%	UW
Financials	4%	OW	4%	OW	7%	OW	2%	OW
Technology	-4%	N	-4%	N	-4%	N	-1%	N
Comm Service	-3%	N	0%	OW	1%	UW	-4%	N
Utilities	-2%	UW	-2%	N	1%	UW	-3%	UW
Real Estate	-5%	UW	0%	UW	0%	N	-1%	N
Overall	-1.8%		0.2%		0.3%		-1.2%	

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

JPM Forecasts

Rates	Current	Mar-22	Jun-22	Sep-22	Dec-22
US (SOFR)	0.05	0.05	0.05	0.13	0.45
10-year yields	1.77	1.90	2.00	2.10	2.25
Euro area (depo)	-0.50	-0.50	-0.50	-0.50	-0.50
10-year yields	-0.04	-0.20	-0.15	-0.05	0.10
Italy-Germany 10Y (bp)	136	130	120	130	140
Spain-Germany 10Y (bp)	69	75	70	75	80
United Kingdom (repo)	0.25	0.50	0.50	0.75	1.00
10-year yields	1.18	1.00	1.15	1.25	1.30
Japan (call rate)	-0.10	-0.10	-0.10	-0.10	-0.10
10-year yields	0.15	0.10	0.10	0.10	0.15
EM Local (GBI-EM yield)	5.84				5.83
Currencies	Current	Mar-22	Jun-22	Sep-22	Dec-22
JPM USD Index	122	123	124	125	125
EUR/USD	1.14	1.10	1.09	1.09	1.10
USD/JPY	116	116	117	117	116
GBP/USD	1.36	1.31	1.30	1.31	1.32
AUD/USD	0.72	0.74	0.74	0.76	0.77
USD/CNY	6.38	6.35	6.35	6.45	6.55
USD/KRW	1202	1200	1200	1205	1210
USD/MXN	20.37	21.30	21.50	21.80	22.00
USD/BRL	5.64	5.35	5.50	5.50	5.50
USD/TRY	13.88	15.00	15.50	16.00	16.50
USD/ZAR	15.58	16.50	16.75	17.00	17.25
Commodities	Current	Mar-22	Jun-22	Sep-22	Dec-22
Brent (\$/bbl, qtr end)	82	84	86	91	90
WTI (\$/bbl, qtr end)	79	81	83	88	86
Gold (\$/oz, qtr avg)	1,796	1,765	1,650	1,590	1,520
Copper (\$/ton, qtr avg)	9,544	9,900	9,500	9,000	8,600
Aluminum (\$/ton, qtr avg)	2,914	3,000	2,850	2,750	2,650
Iron ore (US\$/dt, qtr avg)	126	85	98	95	90
Wheat (\$/bu, qtr avg)	7.6	9.0	9.3	8.8	9.0
Soybeans (\$/bu, qtr avg)	14.0	13.5	14.0	14.0	14.2

Credit		Current	Dec-22
US High Grade (bp over UST)	JPM JULI	115	100
Euro High Grade (bp over Bunds)	iBox x HG	111	120
US High Yield (bp vs. UST)	JPM HY	383	350
US Lev Loans (bp vs. 3Y Index)	JPM Lev Loans	405	380
Euro High Yield (bp over Bunds)	iBox x HY	338	400
EM Sovereigns (bp vs. UST)	JPM EMBIGD	368	325
EM Corporates (bp vs. UST)	JPM CEMBI	272	240

Equities	Current	Dec-22
S&P 500	4,687	5,050
MSCI Eurozone	276	307
FTSE 100	7,485	8,150
TOPIX	1,996	2,200
MSCI EM (\$)	1,217	1,500
MSCI China	81	116
MSCI Korea	893	1,100
MSCI Taiwan	722	780
MSCI India	2,071	2,000
Brazil (Ibovespa)	102,327	134,200
Mexico (MEXBOL)	53,096.6	58,700
MSCI South Africa (USD)	463.7	521

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