The Changing Investment Environment

April 18, 2023

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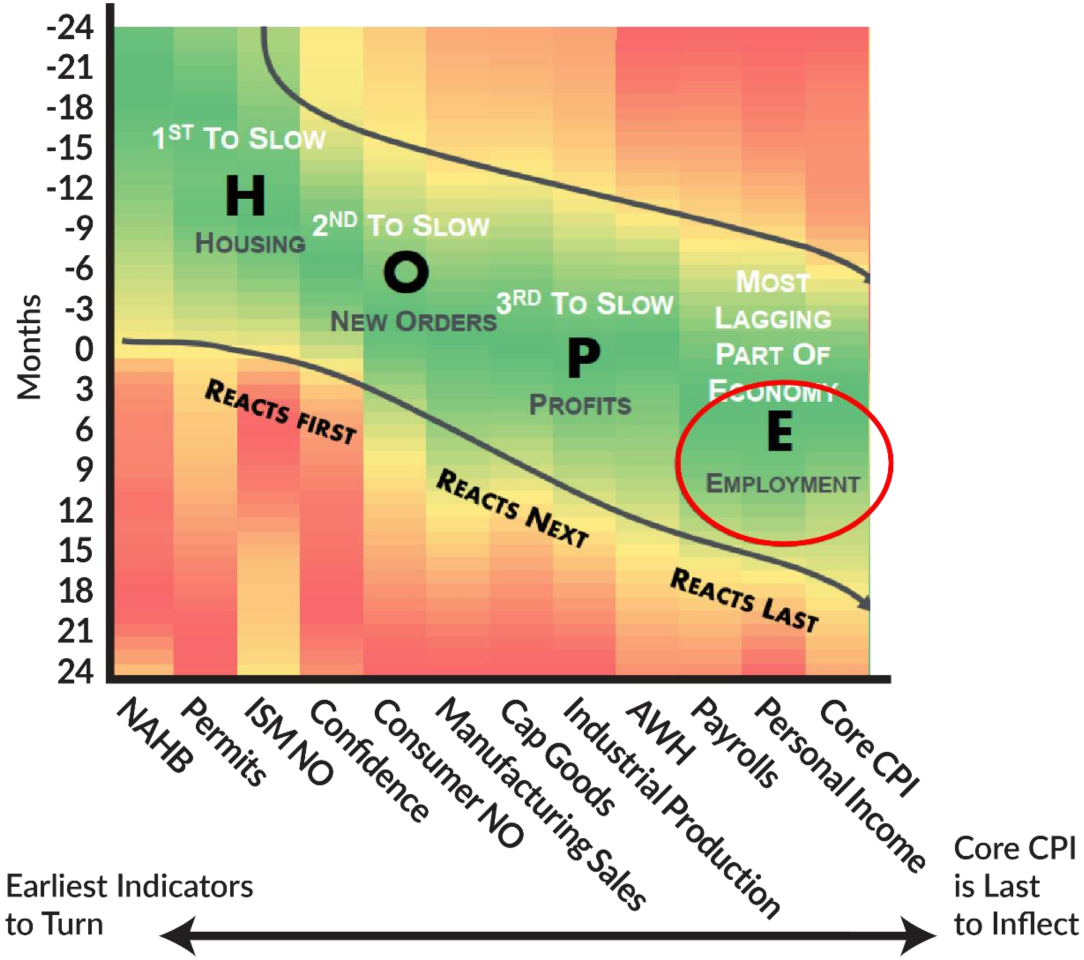
Higher Interest Rates Means…

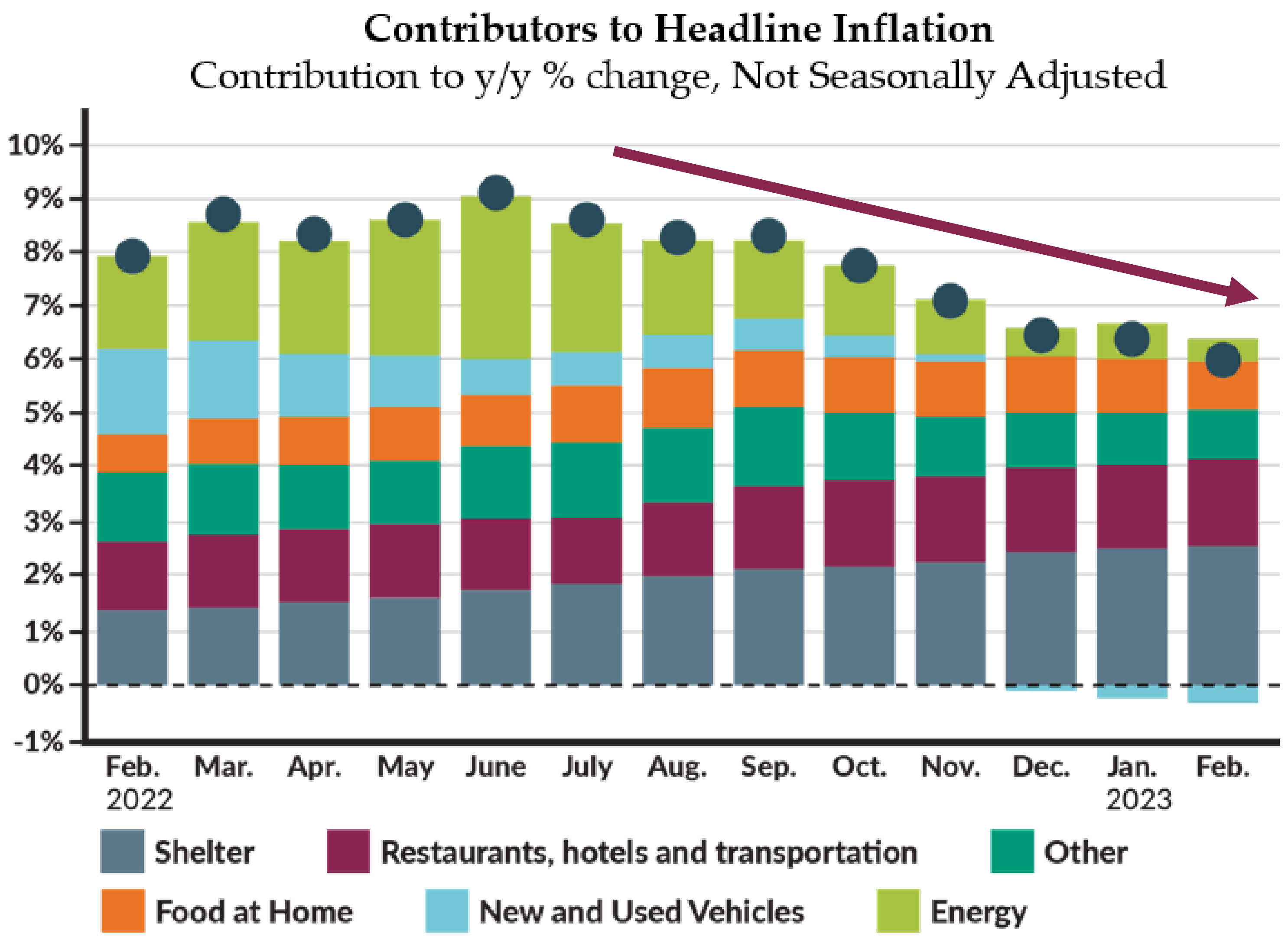
- Today's housing starts 1.4 mil.
- Current Manuf.PMIs below 50
- Earnings in decline
- < 200k jobs reported for March 2023



Source: Piper Sandler

Inflation Pressures Easing

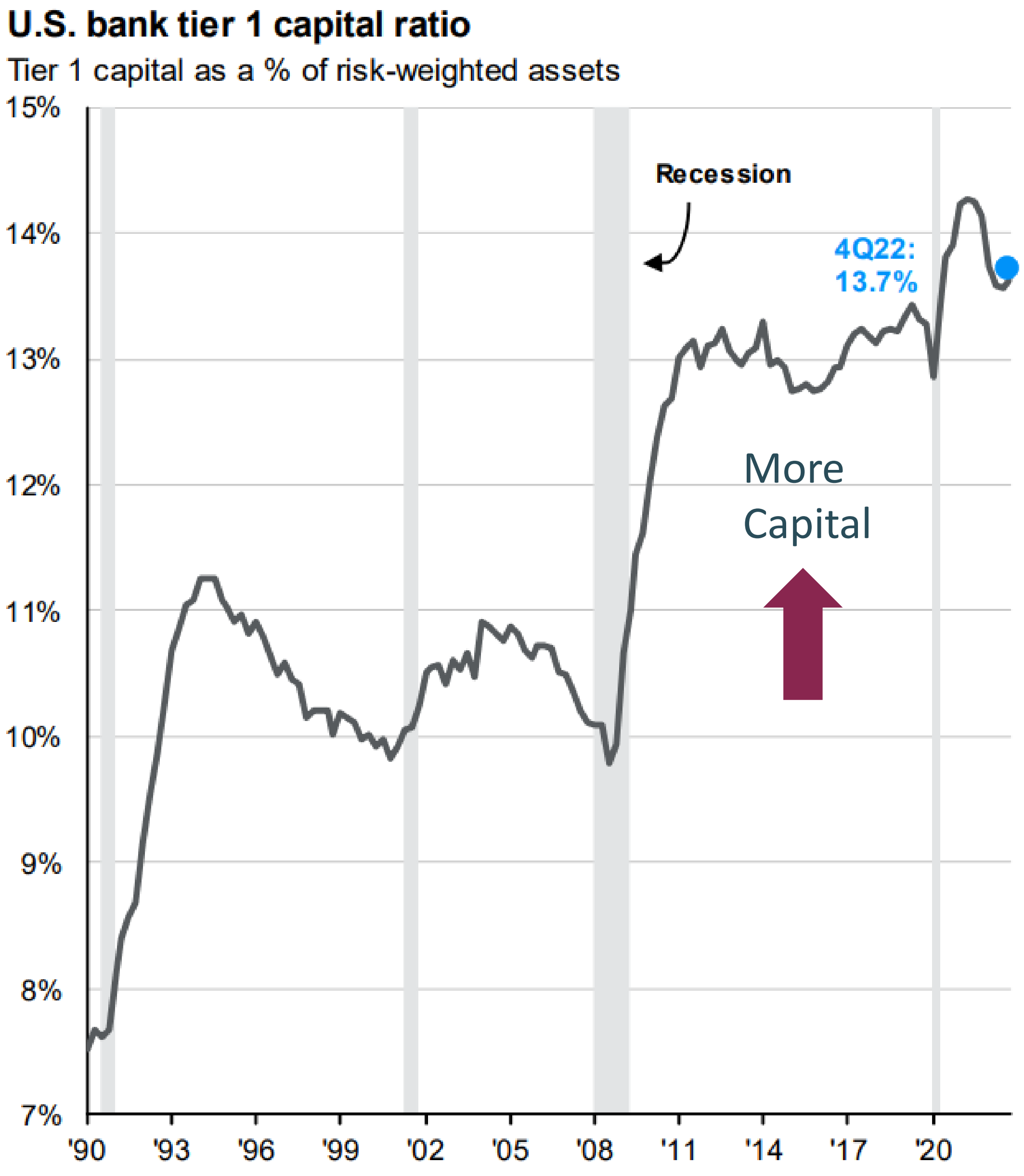
- Abundant financial liquidity contributed to spike in inflation levels
- Underlying contributors to inflation have begun to ease
- Continued moderation in inflation trends through the year



Source: BLS, FactSet, J.P. Morgan Asset Management as of 3.31.2023

Banking "Crisis"

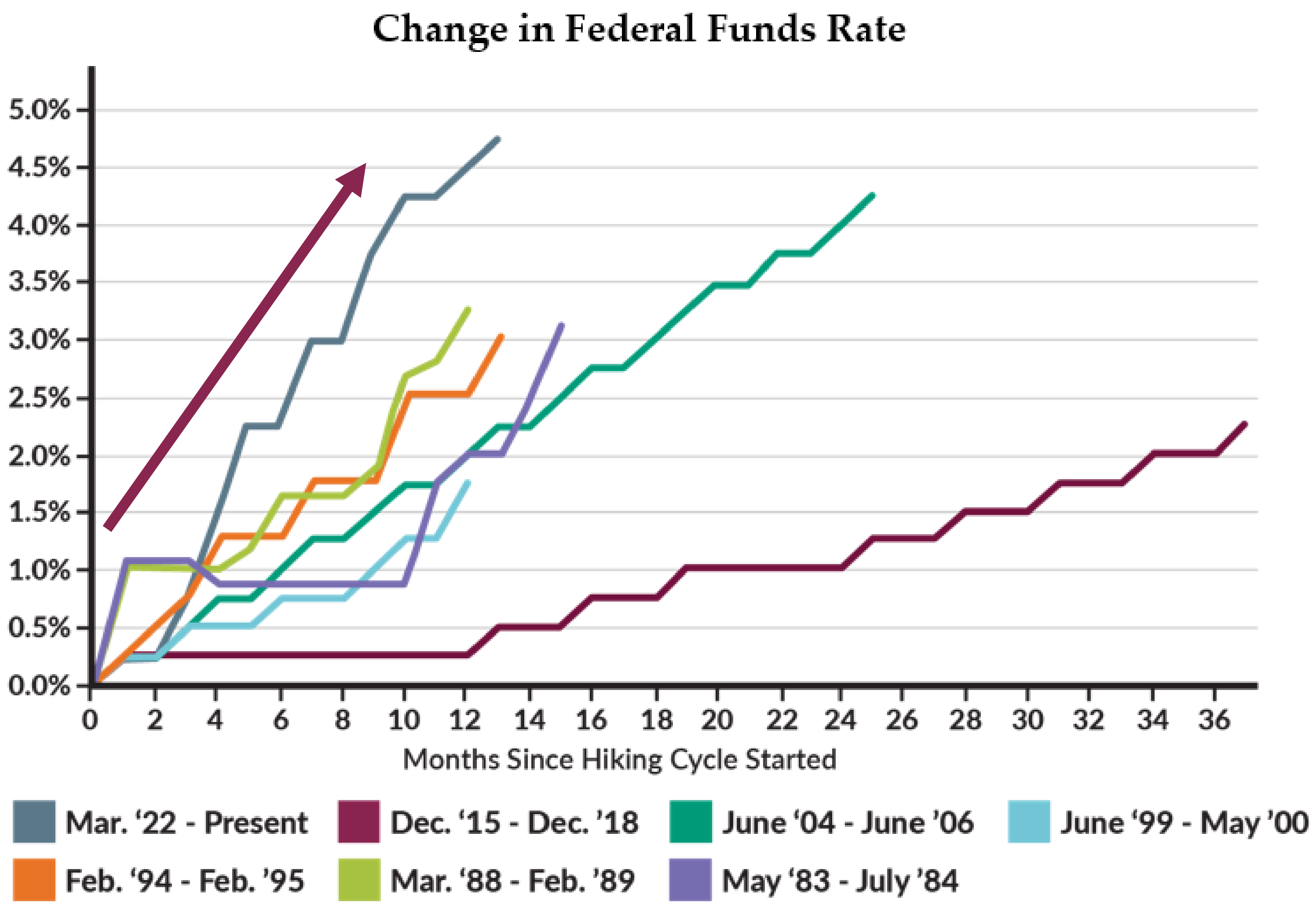
- Bank capital near 30 year high
- Equity + reserves/risk assets
- Post GFC regulation
- Capital for forced losses
- BTFP liquidity program



Source: Bloomberg, FDIC, Federal Reserve, JP Morgan Asset Management

Fed Tightening Cycle

- Fed tightening cycle has been one of the most rapid on record
- Fed aggressively tightened financial conditions
- 1Q'23 growth estimates remain solid
- Longer-term interest rates appear to have peaked



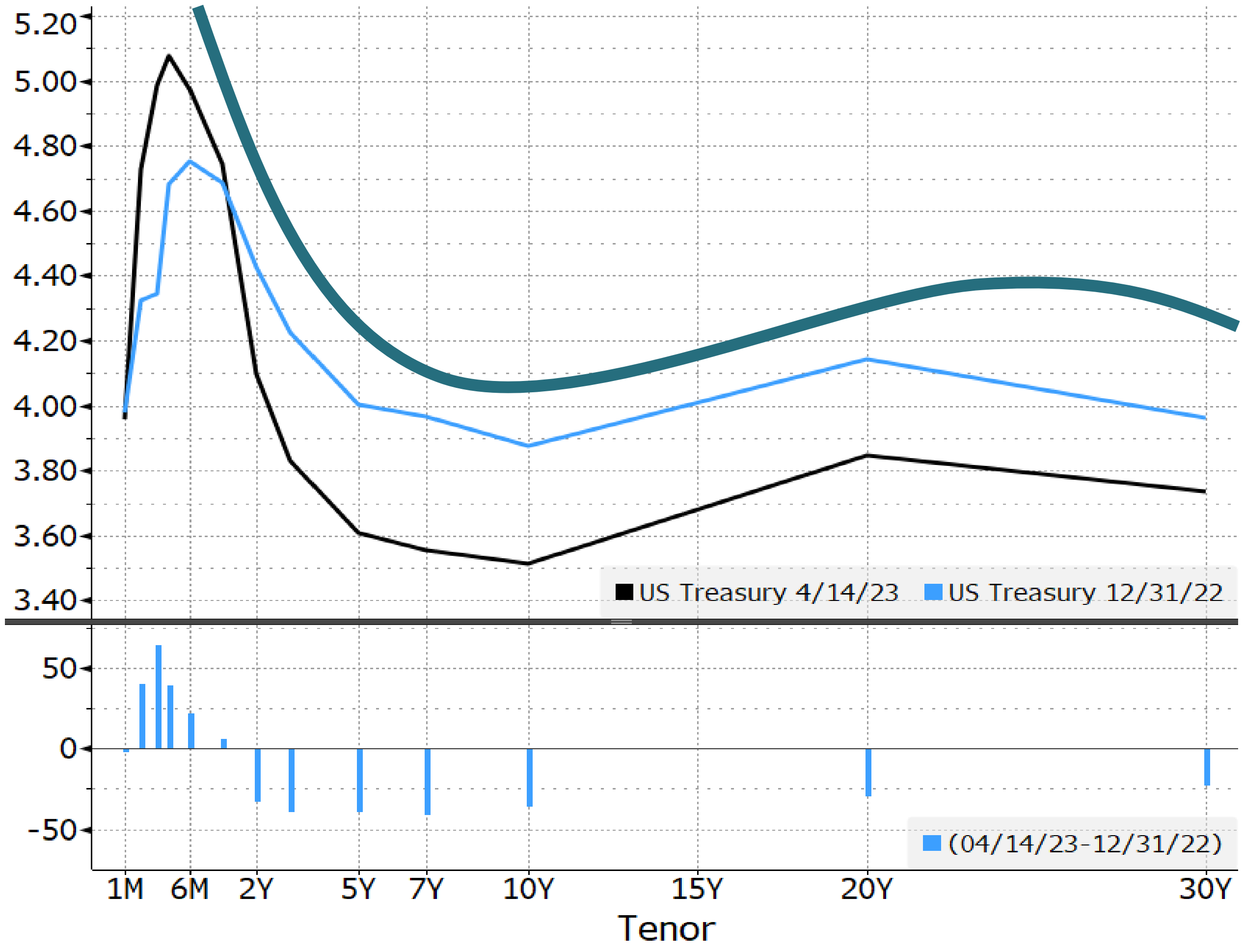
Source: J.P. Morgan Asset Management as of 3.31.2023

Yields Lower

- Yields mixed YTD
  - *Higher 1-12 months*
  - *Lower over 1 year*
- T-Bill yields expected to peak within next 3 months
- Inverted curve YTD
  - *10y/2y unchanged*
  - *10y/3m more inverted*
- Reflects peak fed funds rate soon followed by cuts

Treasury Yield Curves

4/14/23 vs. 12/31/22



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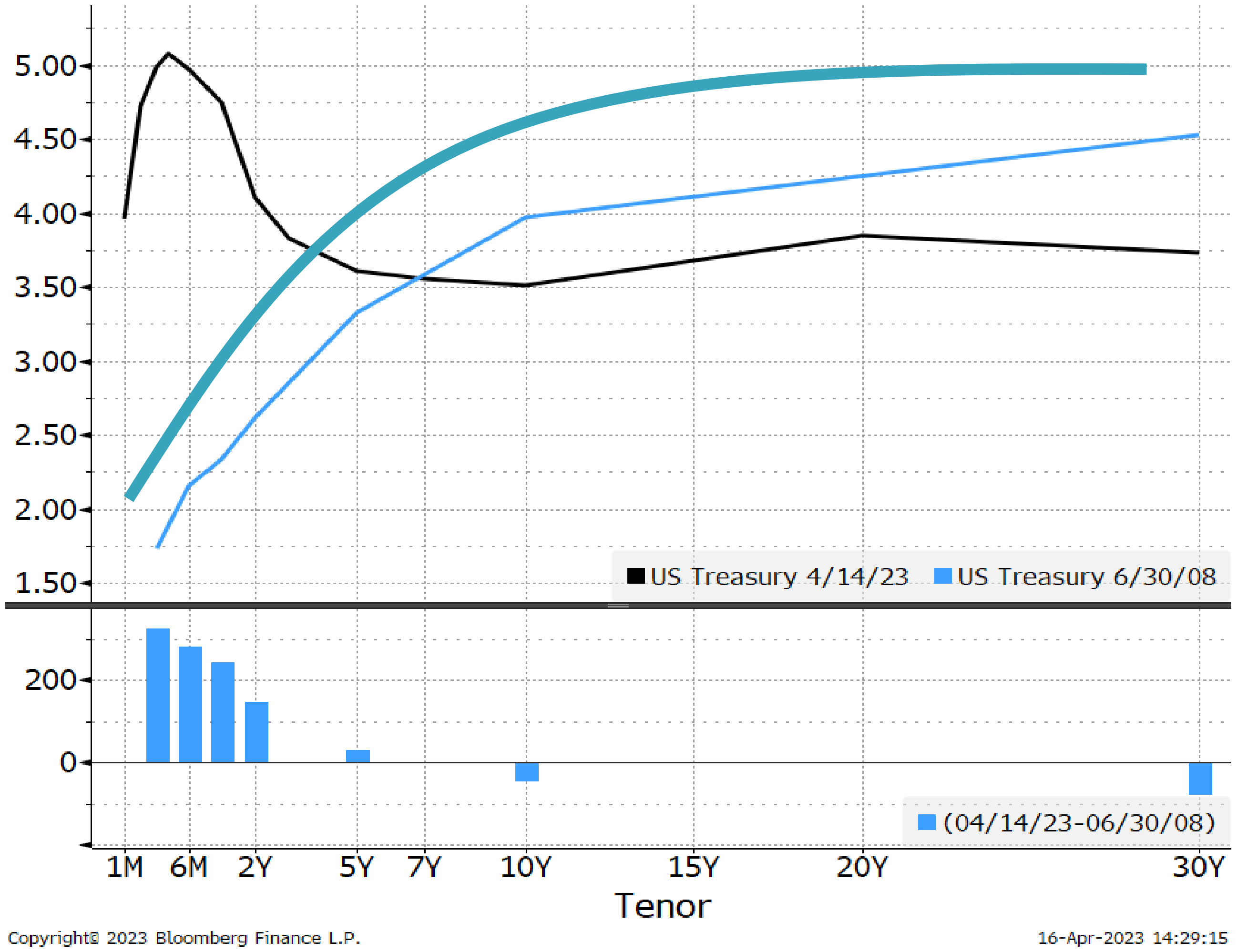
Yield Curve Normalization

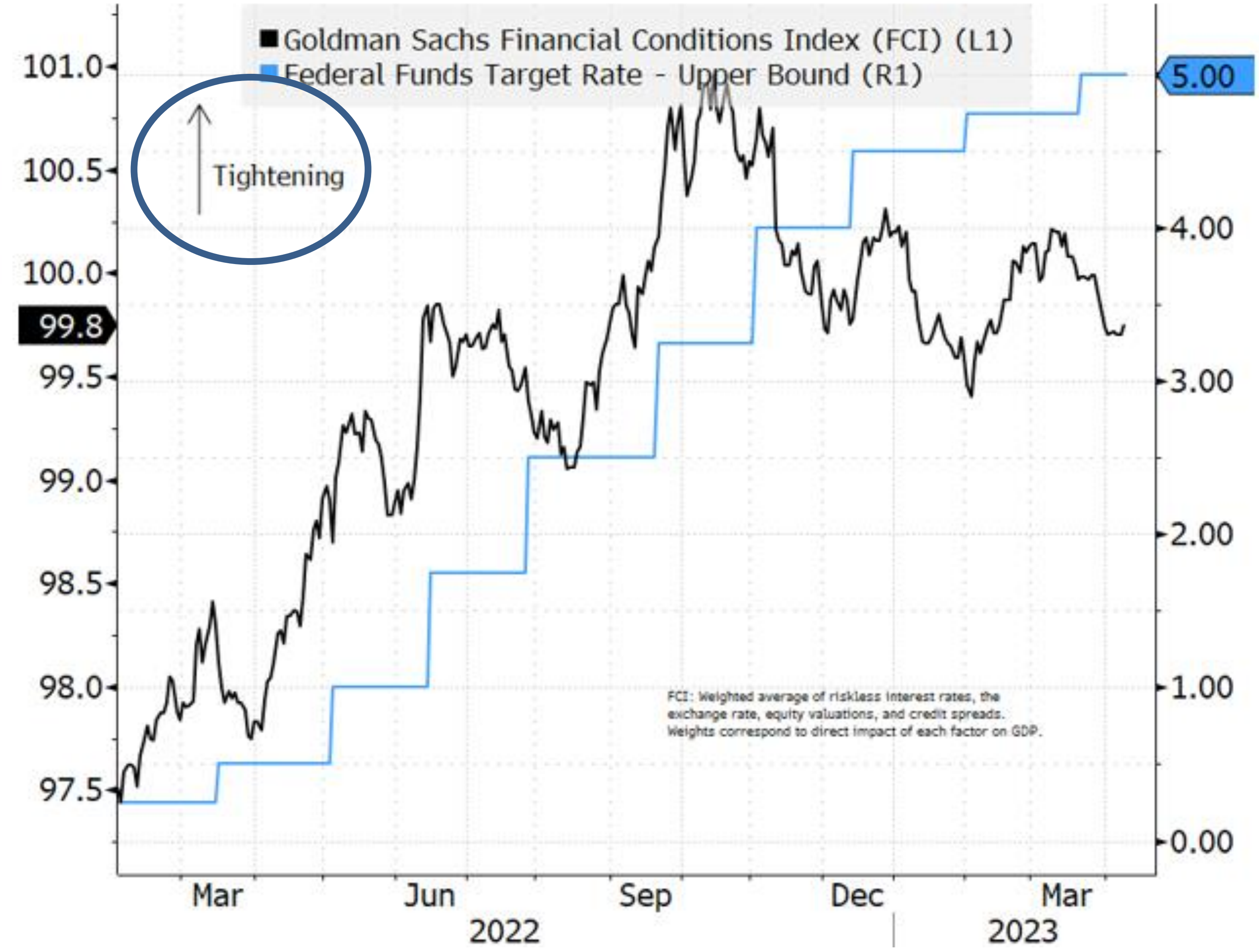
- Normally investors demand higher yields for longer maturities to compensate for risk
- But during hiking cycles shorter maturity bonds may yield more than longer maturity bonds
- This is called an inverted curve
- A Fed pivot to rate cuts typically leads to a steeper yield curve

Treasury Yield Curves

4/14/2023 vs 6/30/2008



Tighter Conditions



Source: Goldman Sachs; Federal Reserve, Bloomberg

Stock Returns

- 10-year annualized returns very good
- YTD Growth vs Value stark contrast – few stocks

10-year annualized

	Value	Blend	Growth
Large	9.1%	12.2%	14.6%
Mid	8.8%	10.1%	11.2%
Small	7.2%	8.0%	8.5%

YTD

	Value	Blend	Growth
Large	1.0%	7.5%	14.4%
Mid	1.3%	4.1%	9.1%
Small	-0.7%	2.7%	6.1%

Source: Factset, NFIB, S&P, JP Morgan Asset Management 3.31.23

Equities and Fed Pauses

- Pause is good for multiples
- Earnings follow the economy
- Cautious positioning

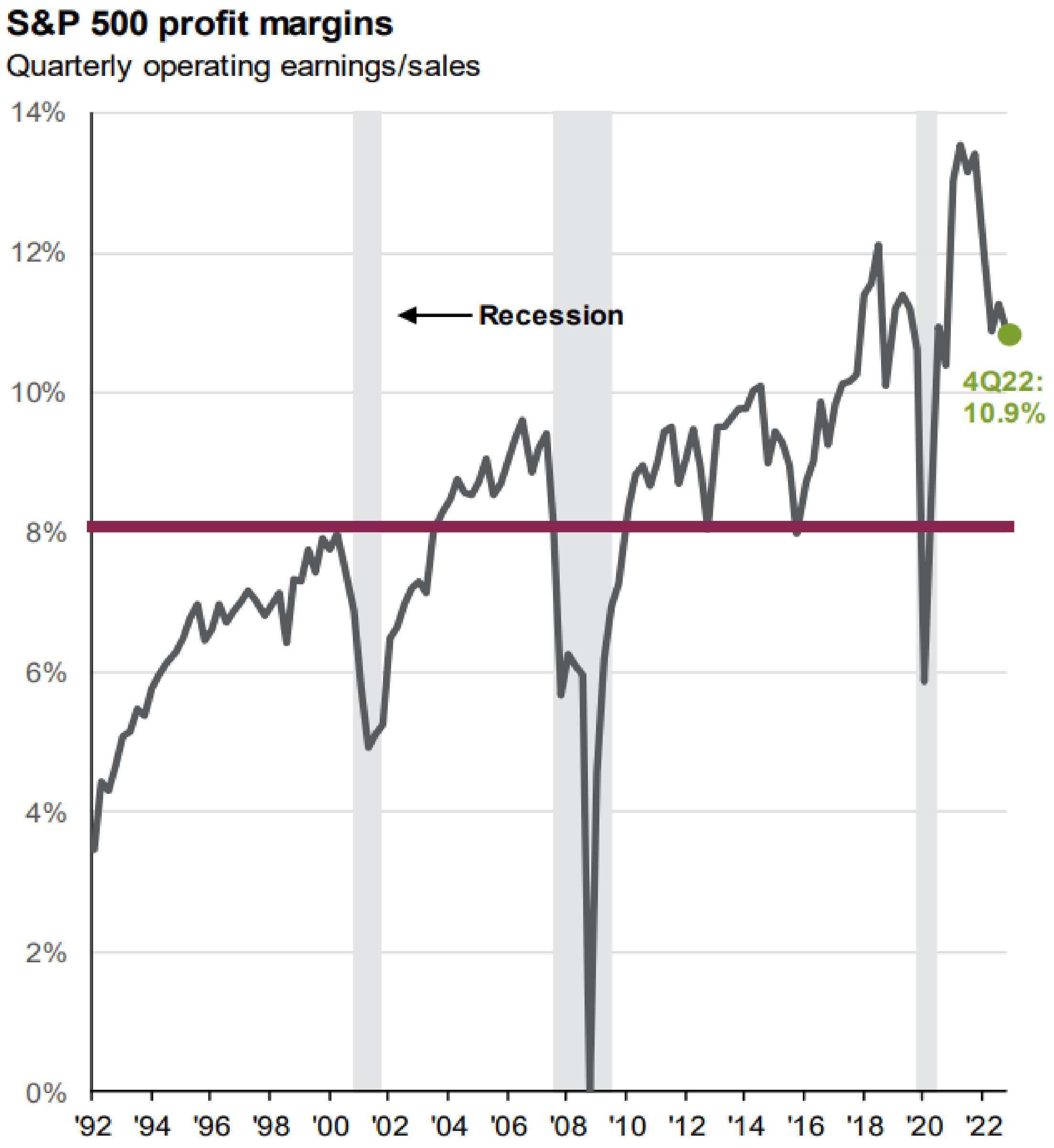
Post-Pause Rallies – S&P 500 Index Returns %

Final Hike	3 Month	6 Month	12 Month	18 Month	24 Month	30 Month
Dec. '18	13.6	17.9	30.5	27.4	53.8	74
June '06	5.4	12.5	20.3	19.5	4.4	-28
May '00	1.2	-5.9	11.3	-20.9	-23.2	-36
Feb. '95	10.0	20.5	39.2	43.4	75.2	113
Feb. '89	12.2	24.5	16.8	14.2	36.6	50
Aug. 84	-0.9	9.8	17.8	42.7	61.4	88
Average	6.9	13.2	18.9	21.1	34.7	43
Median	7.7	15.2	19.1	23.4	45.2	62

Source: Bloomberg

Corporate Earnings

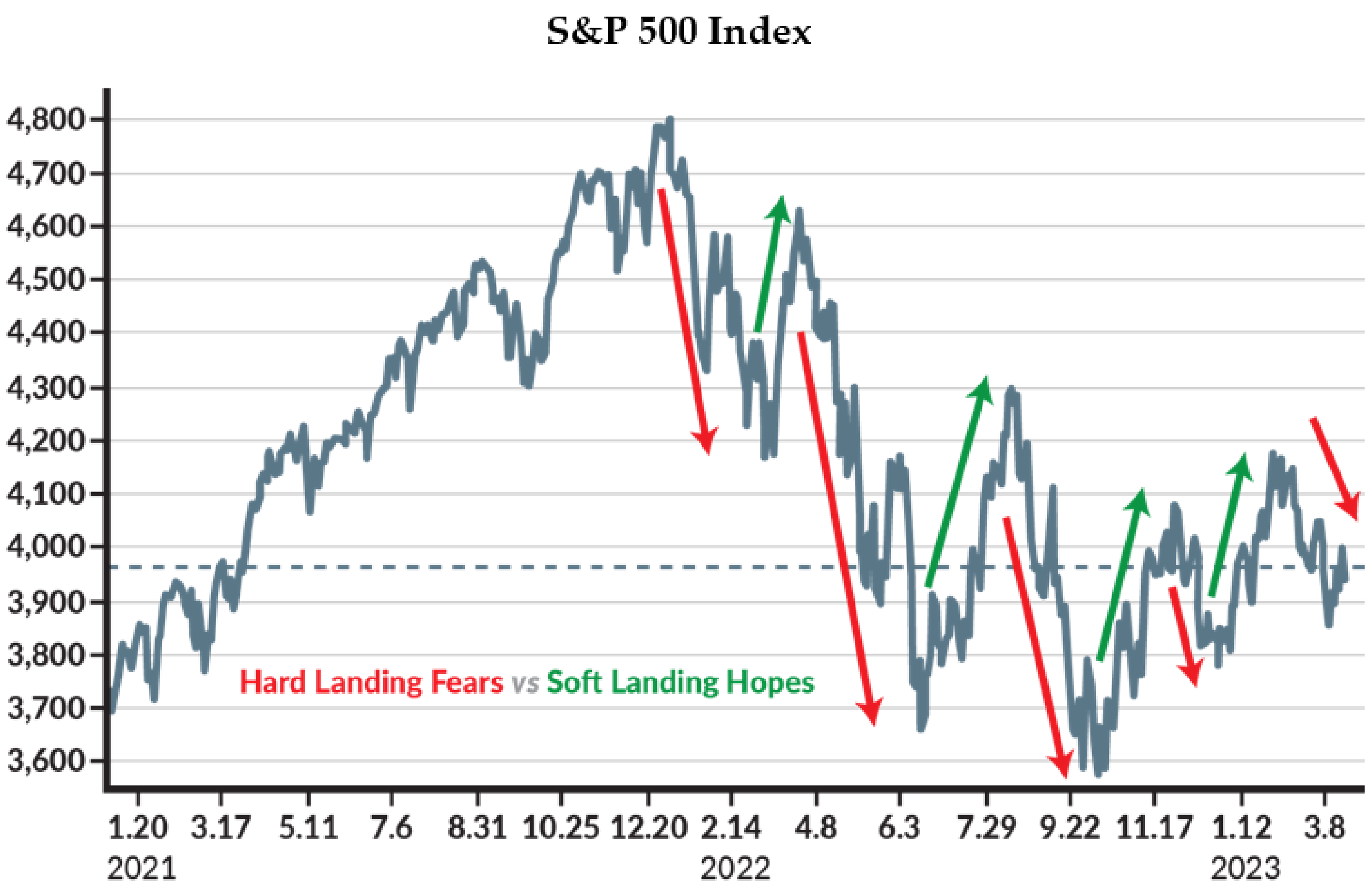
- Operating margins remain well above average
- 10.9% vs 8% long-term average
- Capital costs may come down again



Source: Factset, NFIB, S&P, JP Morgan Asset Management 3.31.23

Equities Debate

- Market volatility has remained high
- Multiple cycles of rallies and drawdowns
- Expect markets to remain volatile



Source: Thomson ONE, Standard & Poor's 500 Index 12.31.2020 to 3.31.2023

Thank You

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