ECONOMIC AND MARKET COMMENTARY

1st Quarter 2021

SMITH SHELLNUT WILSON

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OUR MISSION

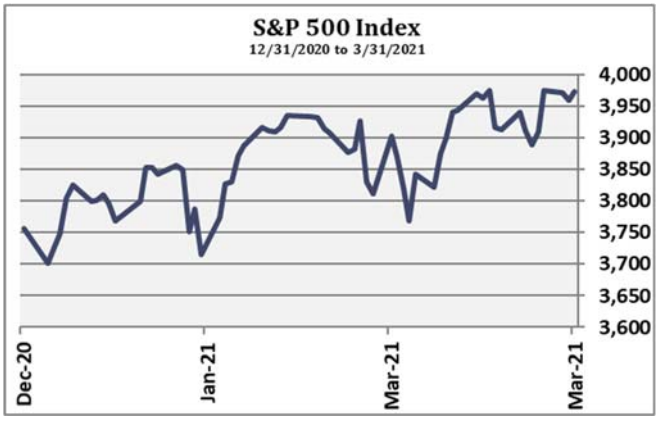
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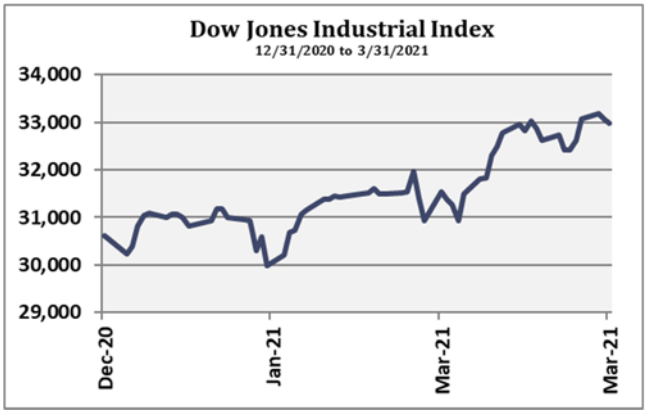
I. FIRST-QUARTER 2021 EQUITY MARKET RECAP

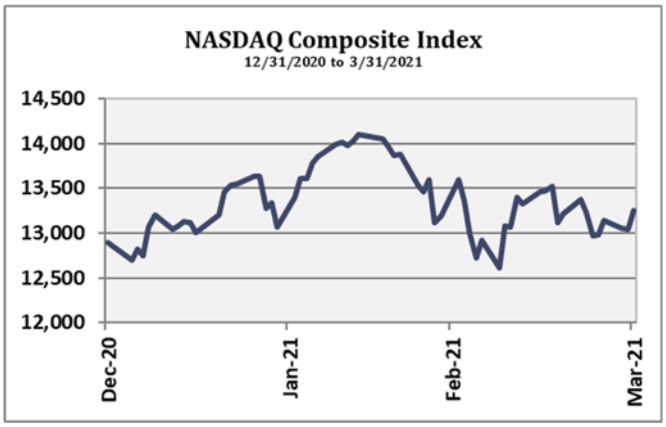
Despite a spike in volatility that surfaced late in the quarter, U.S. equity markets surged higher in the first quarter of 2021 on the back of three overriding themes – greater than expected stimulus proposals, vaccine progress and better than expected earnings numbers.

For the quarter, the Dow surged 8.2% (including reinvestment of dividends), while the S&P 500 rose 6.2% and the tech-heavy NASDAQ rose 3.0%.

The stimulus at the end of 2020 ($900 billion) and the relief package signed in early March ($1.9 trillion) equate to nearly 14% of US GDP. The American Jobs Plan announced on the last day in March proposes an additional $2.25 trillion in spending geared largely toward improving transportation, communication, and power infrastructure. The infrastructure plan will be paired with an additional $1 trillion in spending focused on social programs that is expected to be unveiled in April. Time will tell how much stimulus will be passed by Congress; however, overall fiscal spending is unprecedented and clearly larger than what markets were pricing in at the start of 2021. To fund the infrastructure plan, the Biden administration suggested hiking the corporate tax rate to 28% from 21%, which one estimate indicated could cost 9% of next year's S&P 500 earnings.

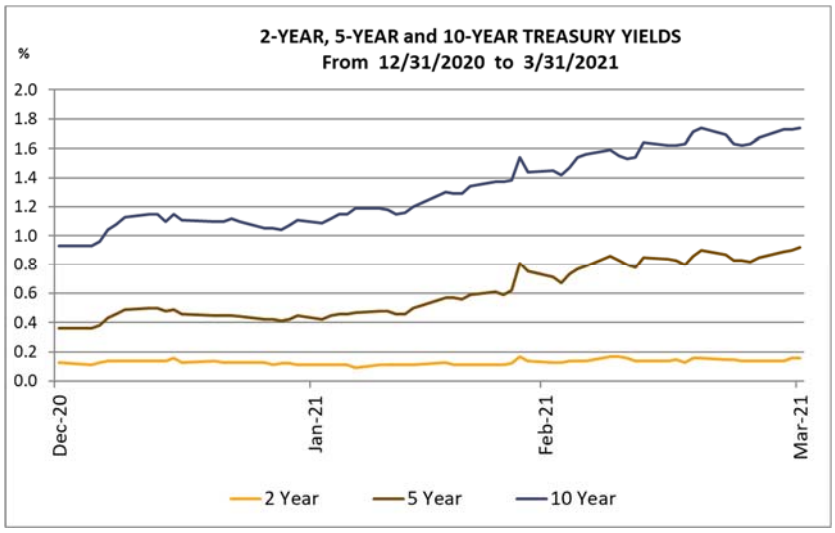






*Registration of an Investment Adviser does not imply any certain level of skill or training.

The largest vaccine rollout in history is underway, and already more than 590 million doses have been administered worldwide. Bloomberg estimates that more than 150 million doses have already been given in the U.S., which exceeds the total number of positive cases since the start of the pandemic. In the last week alone, an average of 2.8 million doses were administered each day, and the administration hopes to have enough supplies available to all adults in the U.S. by the end of May. While global cases are on the rise, including a recent uptick in the U.S., the average rate of inoculation is vastly outpacing the rise in new cases.



Earnings season is soon upon us, and expectations are high. According to FactSet, the estimated first quarter EPS growth rate for S&P 500 companies is 23.3%, which is up from the 15.8% growth forecast expected at the start of the quarter. The previous high was in the third quarter of 2018 when earnings grew 26.1%. Analysts are forecasting double-digit earnings growth for all four quarters of 2021. Revenues are expected to grow 6.3%, which is up from forecasts of 3.9% at the start of the quarter. According to Bloomberg, the forward 12-month P/E ratio for the S&P 500 was 22.7 at the end of the first quarter 2021, which is well above the 5-year (17.8) and 10-year (15.9) averages.

While valuations are meaningfully elevated versus historical norms, the current environment is unlike anything our generation has ever seen. Massive fiscal stimulus and a rapid vaccine rollout are larger and faster than what most expected just three months earlier at the start of 2021. Accordingly, economic data and future projections continue to improve. U.S. GDP is forecasted to grow at 5.5-6.5% in 2021, its fastest pace since 1984, with unemployment falling towards 5% by the end of 2021. The recent rise in COVID-19 cases is far outweighed by the average rate of inoculation. While the path ahead is sure to be bumpy, the reopening of the economy and historic stimulus efforts should continue to support equity markets.

II. FIRST-QUARTER 2021 BOND MARKET RECAP

Intermediate-term U.S. Treasury yields rose sharply during the first quarter on improving economic fundamentals and expectations and additional outsized fiscal stimulus proposals, which combined to ignite reflation fears among market participants and resulted in the worst quarterly bond performance in several sectors in more than 40 years.

Over the quarter, 2-year Treasury notes rose by 2 basis points, while 5-year notes rose by 58 basis points and 10-year notes rose by 82 basis points, resulting in a nearly 80 basis-point steepening in the Treasury yield curve.

The Bloomberg Barclays U.S. Aggregate Bond Index, representative of the U.S. investment grade taxable bond universe, fell 3.4% during the quarter, while corporate bonds tumbled by 4.6%, mortgage-backed bonds fell 1.1%, and the S&P Dow Jones Municipal Bond Index was down 0.2%.

The next leg higher in long-term bond yields may come from what is known as “real rates,” one of the bond market’s purest reads on the growth outlook. A burst of strong post-quarter economic readings, including a mammoth job creation figure in March and a report showing record growth in service industries, is fueling bets that expectations for growth, not inflation, will dominate the narrative for bonds in coming months.

Federal Reserve Chairman Jerome Powell provided an economic update to the House Committee on Financial Services and again reaffirmed the central bank’s commitment to support the recovery. Powell expressed limited concern about the recent volatility in the capital markets due to the well-capitalized banking system and reiterated the Fed’s stance on monetary stimulus. He made clear that substantial progress will be required before any changes are made to the Fed’s asset purchase program, while noting that the FOMC will pull back support very gradually, and with great transparency, when the economy has all but fully recovered. He also sees the recent sharp rise in rates as an “orderly process” and a sign of economic confidence.

III. WHITHER INFLATION?

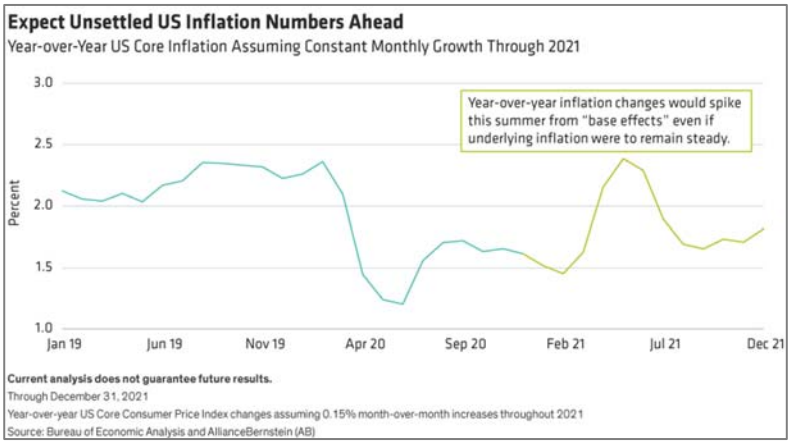
Source: AllianceBernstein

US core inflation likely will be volatile during 2021, as underlying economic forces continue to rebalance from the pandemic. The gap between actual and potential output will limit how much inflation can ultimately rise this year, leaving the Fed comfortable maintaining an easy policy.

1) BASE EFFECTS SHOULD HEAT UP INFLATION DURING THE SUMMER

Pandemic-related shutdowns caused unusual monthly inflation numbers. In March 2020, core consumer price inflation (CPI) was flat but then fell by 0.4% in April and 0.1% in May—the only back-to-back monthly declines in the past 40 years. Core CPI stabilized in June before rising by 0.5% in July and 0.3% in August.

As those numbers leave the monthly data series, the year-over-year core CPI calculation will be volatile even if underlying inflation is steady. Even sedate monthly inflation of 0.15% through year-end would push year-over-year core CPI to almost 2.4% by the summer (see graph). This is not our forecast—it simply demonstrates the volatility of core CPI absent a pickup in underlying dynamics.



2) UNDERLYING PRESSURE SHOULD PICK UP IN THE SECOND HALF

The demand side of the economy likely will bounce back more quickly than the supply side, pushing month-to-month and quarter-to-quarter inflation up in the second half of the year even if year-over-year calculations start to fall in late summer.

With fiscal support aimed directly at consumers' pockets, we doubt businesses will be able to keep up with a months-long spending wave once the economy reopens. They will need time to recalibrate resources and supplies to return to business as usual. When firms have more orders than they can fill or need to pay more to respond faster, they bump up their own prices, which boosts inflation.

We are already seeing strain in the supply chain. Manufacturing index components from the Institute for Supply Management, which measure things like order backlogs and supplier delivery times, are high and rising, which tends to foreshadow higher inflation. There is a lag: even if supply constraints ease, as they eventually will, the constraints of the past few months will boost inflation over the next few months.

3) ONCE SUPPLY REBOUNDS, INFLATION SHOULD FALL AND STAY SUBDUED

It is impossible to precisely forecast inflation, but we estimate core inflation running at 2.1% year-over-year by the end of the year and moving sideways. The short recession and massive policy support likely mean that the supply side suffered less damage than in most recessions.

That means supply constraints should ease in fairly short order, allowing core inflation to start cooling again as the output gap in the US economy tamps down price pressures. In our view, core inflation is likely to remain subdued until the output gap in the US economy has fully closed.

4) THE FED LIKELY WILL KEEP POLICY LOOSE IN 2021...AND BE SLOW TO TIGHTEN

The Fed's policy response to rising inflation will be the key variable for asset prices once COVID-19 has receded. We expect the Fed to stay the course, keeping accommodation at full throttle all year even if growth is robust and inflation is rising. The central bank is more worried about tightening too soon than too late—willing to risk and even encourage an inflation overshoot to support stronger growth.

So, the Fed will stay loose all year and be very slow to tighten in the years ahead. The first step: gradual tapering of quantitative easing purchases during 2022, with communication starting later this year if all goes according to plan—in hopes of averting a 2013-style taper tantrum.

Rate hikes are still a distant prospect; tapering will take a full calendar year, followed by at least six months with no hikes. That puts the US economy well into 2023 before higher official rates seem like a reasonable possibility.

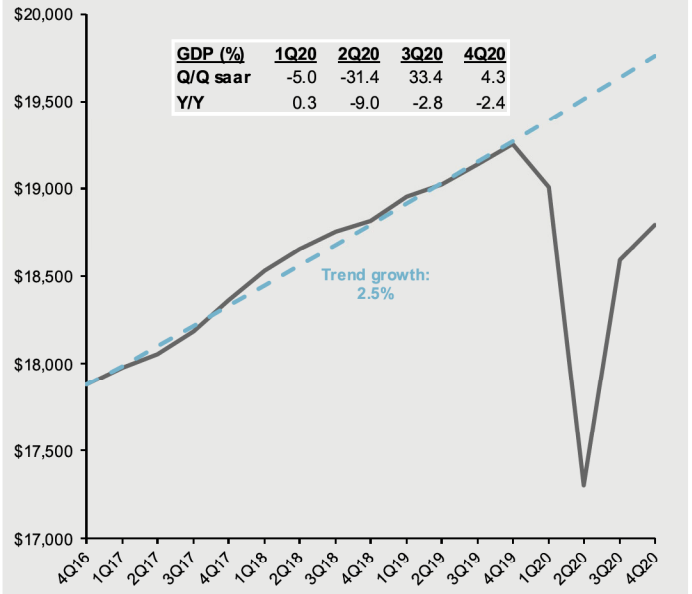
The source of the information in this commentary is SSW, AllianceBernstein, Nasdaq and Bloomberg.

Economic growth and the composition of GDP

Economy

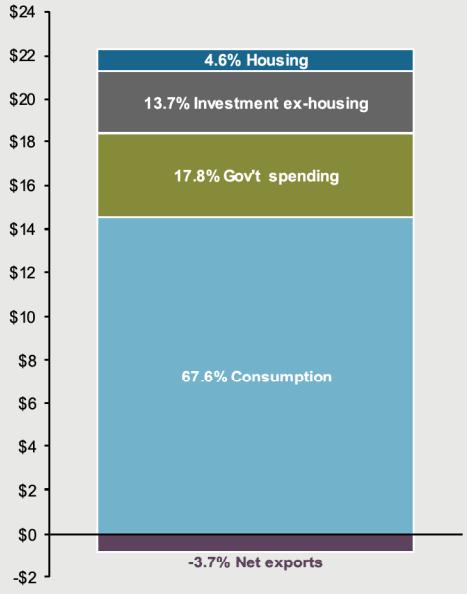
Real GDP

Billions of chained (2012) dollars, seasonally adjusted at annual rates



Components of GDP

4Q20 nominal GDP, USD trillions



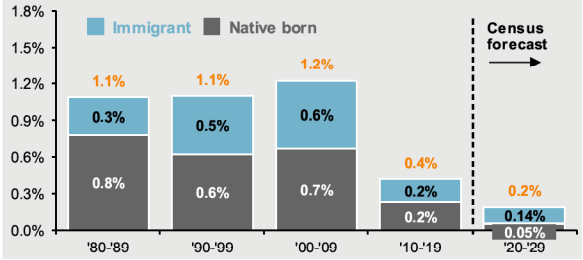
Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding. Forecasts are not a reliable indicator of future performance.
Guide to the Markets – U.S. Data are as of March 31, 2021.

Long-term drivers of economic growth

Economy

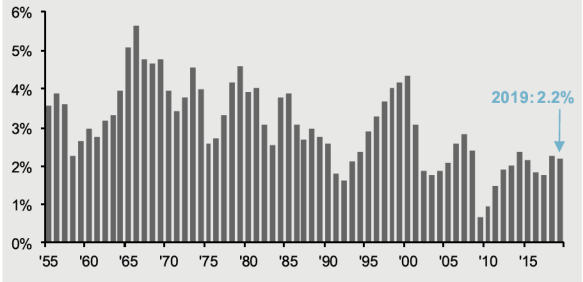
Growth in working-age population

Percent increase in civilian non-institutional population ages 16-64



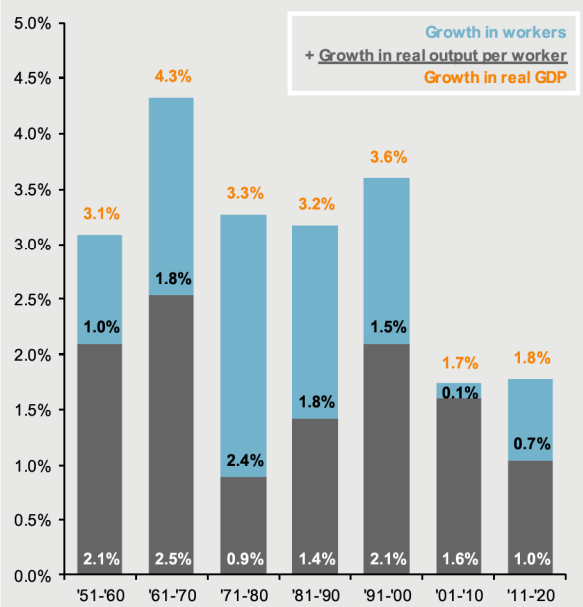
Growth in private non-residential capital stock

Non-residential fixed assets, year-over-year % change



Drivers of GDP growth

Average year-over-year % change



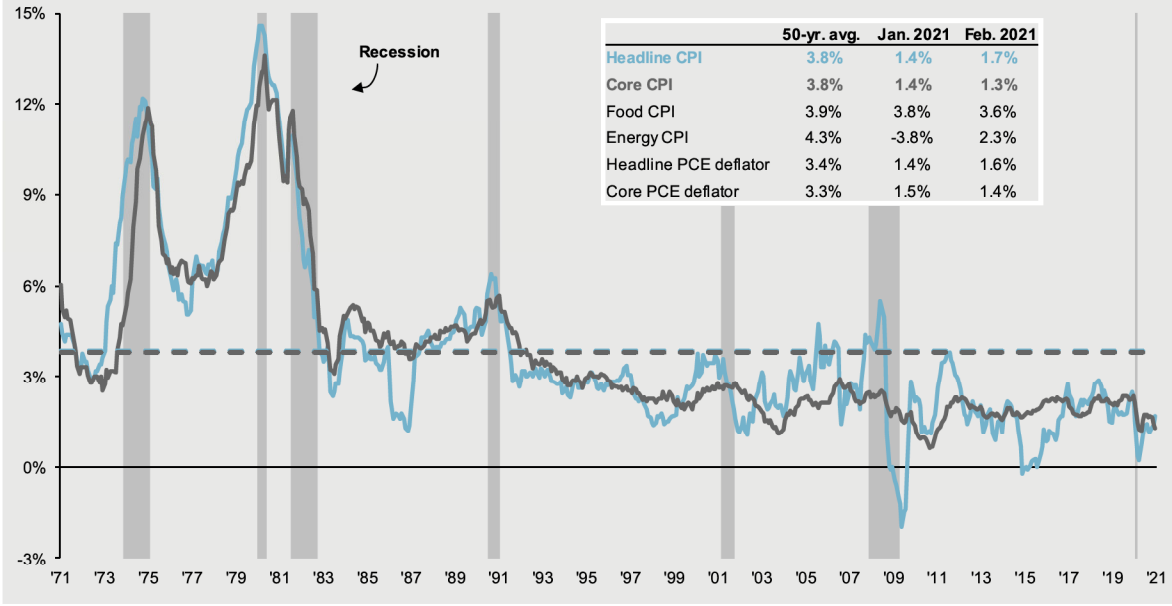
Source: J.P. Morgan Asset Management; (Top left) Census Bureau, DOD, DOJ; (Top left and right) BLS; (Right and bottom left) BEA.
GDP drivers are calculated as the average annualized growth in the 10 years ending in 4Q19. Future working-age population is calculated as the total estimated number of Americans from the Census Bureau, per the February 2020 report, controlled for military enrollment, growth in institutionalized population and demographic trends. Growth in working-age population does not include illegal immigration; DOD Troop Readiness reports used to estimate percent of population enlisted. Numbers may not sum due to rounding. Forecasts, projections and other forward looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecast, projections or other forward statements, actual events, results or performance may differ materially from those reflected or contemplated.
Guide to the Markets – U.S. Data are as of March 31, 2021.

Inflation

Economy

CPI and core CPI

% change vs. prior year, seasonally adjusted



	50-yr. avg.	Jan. 2021	Feb. 2021
Headline CPI	3.8%	1.4%	1.7%
Core CPI	3.8%	1.4%	1.3%
Food CPI	3.9%	3.8%	3.6%
Energy CPI	4.3%	-3.8%	2.3%
Headline PCE deflator	3.4%	1.4%	1.6%
Core PCE deflator	3.3%	1.5%	1.4%

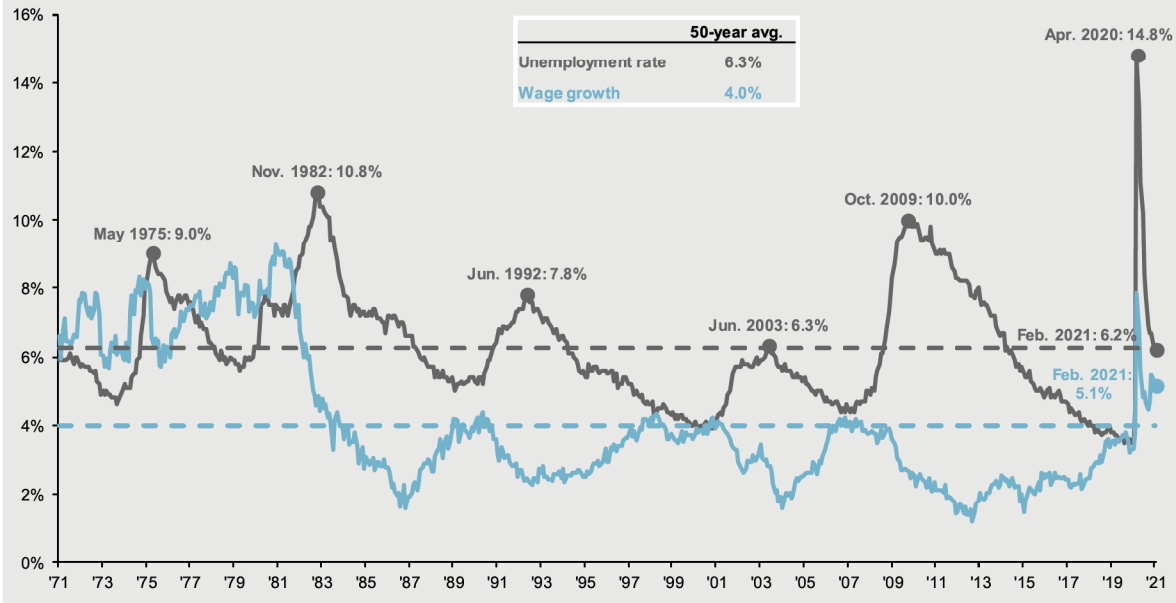
Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.
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Unemployment and wages

Economy

Civilian unemployment rate and year-over-year wage growth for private production and non-supervisory workers

Seasonally adjusted, percent



	50-year avg.
Unemployment rate	6.3%
Wage growth	4.0%

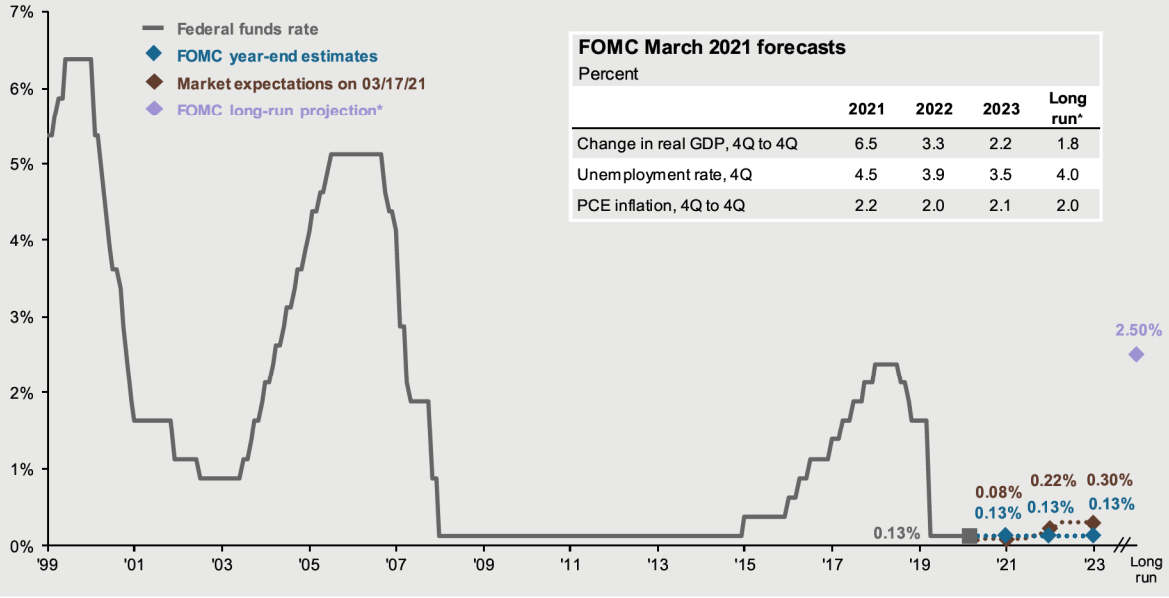
Source: BLS, FactSet, J.P. Morgan Asset Management.
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The Fed and interest rates

Fixed income

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FOMC March 2021 forecasts

Percent

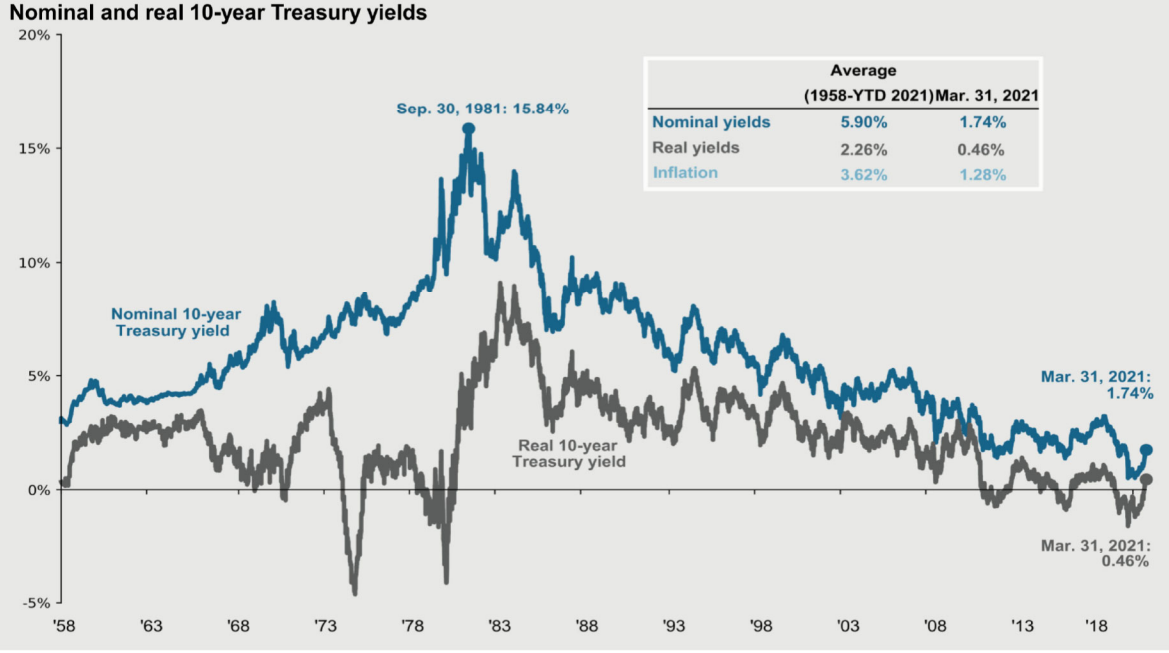
	2021	2022	2023	Long run^
Change in real GDP, 4Q to 4Q	6.5	3.3	2.2	1.8
Unemployment rate, 4Q	4.5	3.9	3.5	4.0
PCE inflation, 4Q to 4Q	2.2	2.0	2.1	2.0

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are the federal funds rates priced into the fed futures market as of the following date of the March 2021 FOMC meeting and are through December 2023. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecast, projections or other forward statements, actual events, results or performance may differ materially from those reflected or contemplated.
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Interest rates and inflation

Fixed income

Nominal and real 10-year Treasury yields



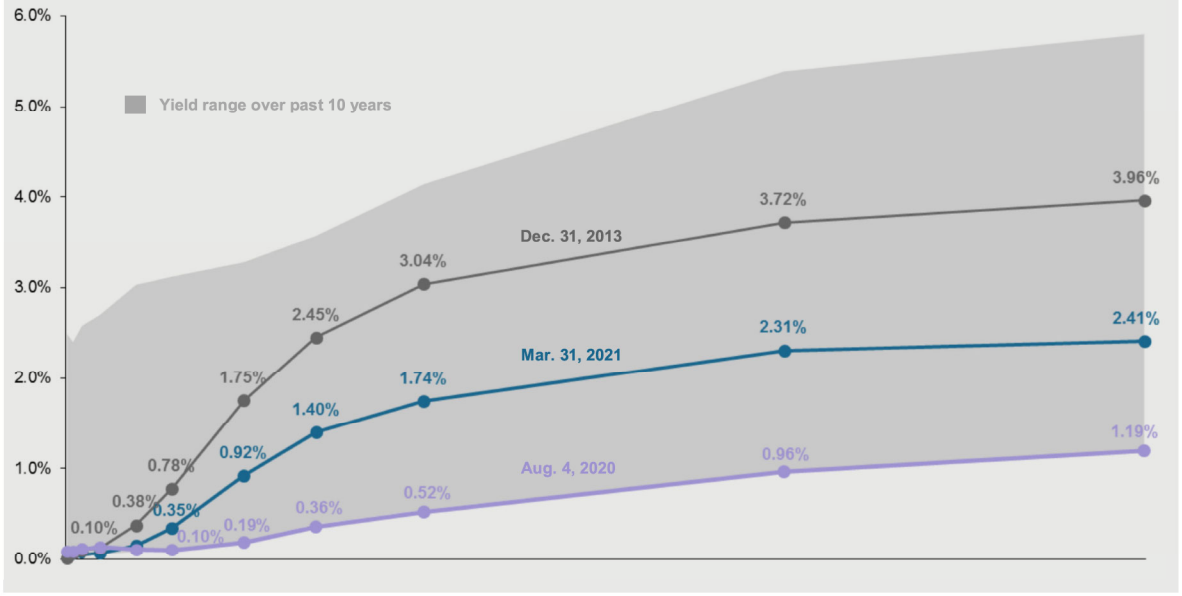
	Average (1958-YTD 2021)	Mar. 31, 2021
Nominal yields	5.90%	1.74%
Real yields	2.26%	0.46%
Inflation	3.62%	1.28%

Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month except for April and March 2021 where real yields are calculated by subtracting out February 2021 year-over-year core inflation.
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Yield curve

Fixed income

Yield curve
U.S. Treasury yield curve



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management. Forecasts are not a reliable indicator of future performance. Positive yield does not imply positive return.
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S&P 500 valuation measures

Equities

S&P 500 Index: Forward P/E ratio

Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	21.88x	16.64x	1.60
CAPE	Shiller's P/E	35.91	27.57	1.35
Div. Yield	Dividend yield	1.52%	2.03%	1.57
P/B	Price to book	3.98	3.00	1.32
P/CF	Price to cash flow	15.93	10.87	2.45
EY Spread	EY minus Baa yield	0.76%	0.07%	-0.35



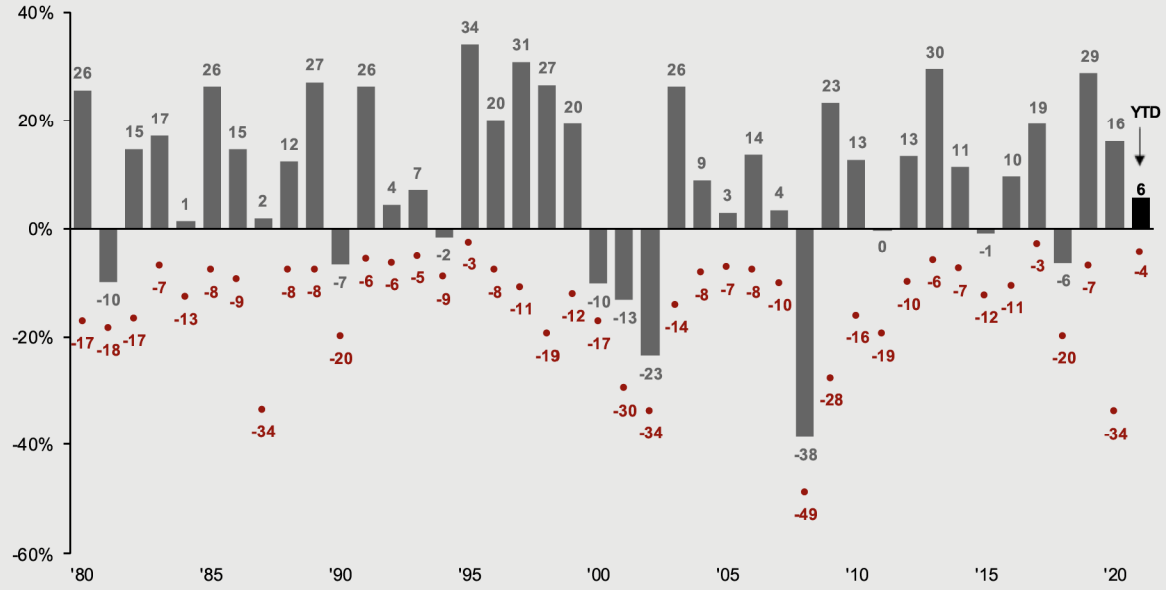
Source: FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since February 1996, and FactSet for March 31, 2021. Current next 12-months consensus earnings estimates are $182. Average P/E and standard deviations are calculated using 25 years of IBES history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure.
Guide to the Markets – U.S. Data are as of March 31, 2021.

Annual returns and intra-year declines

Equities

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.3%, annual returns positive in 31 of 41 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2020, over which time period the average annual return was 9.0%.
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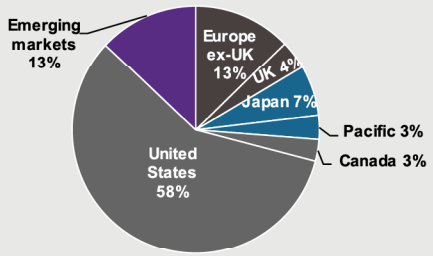
Global equity markets

International

Returns	2021 YTD		2020		15-years	
	Local	USD	Local	USD	Ann.	Beta
Regions						
U.S. (S&P 500)	-	6.2	-	18.4	9.9	0.89
AC World ex-U.S.	6.6	3.6	6.5	11.1	5.4	1.08
EAFE	7.7	3.6	1.3	8.3	5.0	1.04
Europe ex-UK	8.4	3.6	2.1	11.6	5.9	1.18
Emerging markets	4.0	2.3	19.5	18.7	7.0	1.19
Selected Countries						
United Kingdom	5.2	6.2	-13.2	-10.4	2.9	1.02
France	8.8	4.5	-3.9	4.7	5.5	1.22
Germany	8.6	4.3	3.0	12.3	6.5	1.31
Japan	8.9	1.7	9.2	14.9	3.7	0.73
China	-0.2	-0.4	28.3	29.7	11.9	1.12
India	5.2	5.2	18.6	15.9	8.0	1.28
Brazil	-2.2	-9.9	4.8	-18.9	4.8	1.51
Russia	6.9	5.0	3.4	-11.6	2.7	1.51

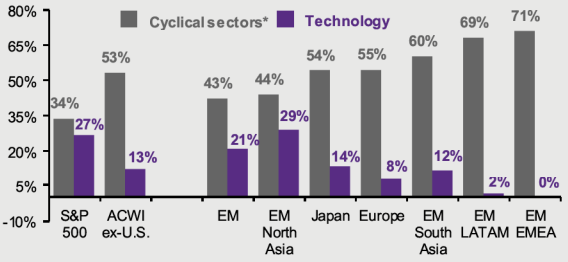
Weights in MSCI All Country World Index

% global market capitalization, float adjusted



Representation of cyclical and technology sectors

% of index market capitalization

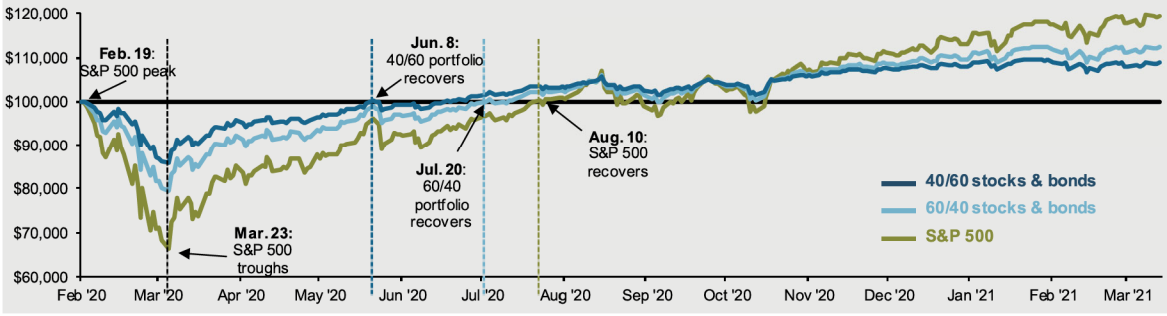


Source: FactSet, Federal Reserve, MSCI, Standard & Poor's, J.P. Morgan Asset Management. All return values are MSCI Gross Index (official) data. 15-year history based on U.S. dollar returns. 15-year return and beta figures are calculated for the time period 12/31/05 to 12/31/20. Beta is for monthly returns relative to the MSCI AC World Index. Annualized volatility is calculated as the standard deviation of quarterly returns multiplied by the square root of 4. Chart is for illustrative purposes only. Please see disclosure page for index definitions. Past performance is not a reliable indicator of current and future results.
*Sector breakdown includes the following aggregates: Technology (Information Technology) and cyclicals (Consumer Discretionary, Financials, Industrials, Energy and Materials). The Internet and direct marketing subsector has been removed from the cyclicals calculation. In our judgement, companies in this space do not yet fit into the cyclical category, as they are still in a transitional growth phase and are not being directly impacted by the business cycle. EM North Asia includes China, Taiwan and South Korea. EM South Asia includes India, Indonesia, Malaysia, Pakistan, Philippines, Taiwan and Thailand.
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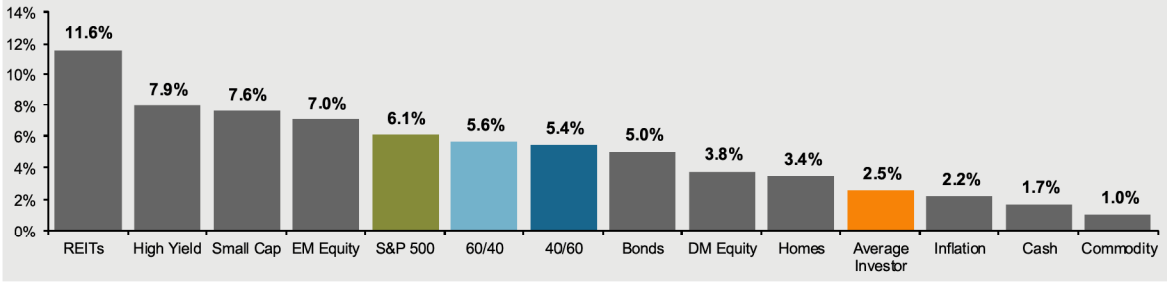
Diversification and the average investor

Investing principles

Portfolio returns: Equities vs. equity and fixed income blend



20-year annualized returns by asset class (1999 – 2019)



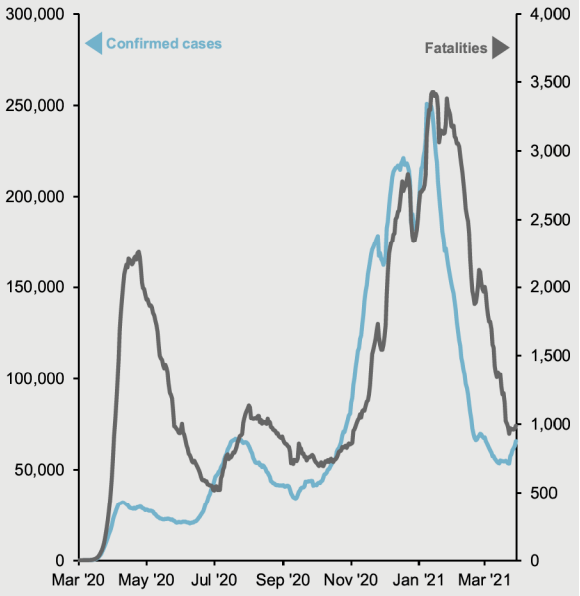
Source: Barclays, Bloomberg, FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Bottom) Dalbar Inc, MSCI, NAREIT, Russell.
Indices used are as follows: REITs: NAREIT Equity REIT Index, Small cap: Russell 2000, EM Equity: MSCI EM, DM Equity: MSCI EAFE, Commodity: Bloomberg Commodity Index, High Yield: Bloomberg Barclays Global HY Index, Bonds: Bloomberg Barclays U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Cash: Bloomberg Barclays 1-3m Treasury, Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high-quality U.S. fixed income, represented by the Bloomberg Barclays U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/19 to match Dalbar's most recent analysis.
Guide to the Markets – U.S. Data are as of March 31, 2021.

COVID-19: Cases, fatalities and immunity

Economy

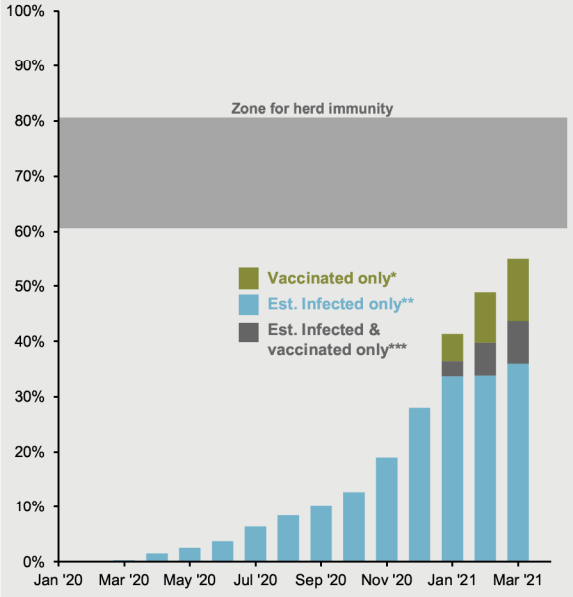
Change in confirmed cases and fatalities in the U.S.

7-day moving average, as of March 31, 2021



Progress to herd immunity

Percentage of population, end of month



Source: Centers for Disease Control and Prevention, Johns Hopkins CSSE, Our World in Data, J.P. Morgan Asset Management.
*Share of the total population that has received at least one vaccine dose. **Est. Infected represents the number of people who may have been infected by COVID-19 by using the CDC's estimate that 1 in 4.6 COVID-19 infections were reported. ***Est. Infected & vaccinated only assumes those infected equally likely to be vaccinated as those not infected.
Guide to the Markets – U.S. Data are as of March 31, 2021.