J.P. Morgan Asset Management-Fixed Income Market Overview

Kelsey Berro, CFA
Executive Director
Global Fixed Income Currency & Commodities

J.P.Morgan
ASSET MANAGEMENT

Key Macro Takeaways

- Economy currently in a soft landing but further disinflation critical to maintaining it.

- Inflation is closer to “normal” than many appreciate. Shelter and auto insurance are driving the majority of current overshoot while most other categories have normalized. Consistent signals of wage disinflation increase our confidence the Fed is done hiking.

- Traditional metrics of impending economic weakness such as the Senior Loan Officer Opinion Survey has yet to fully play out in the macro economic data. Tailwinds such as fiscal stimulus and excess savings may have forestalled the long and variable lags.

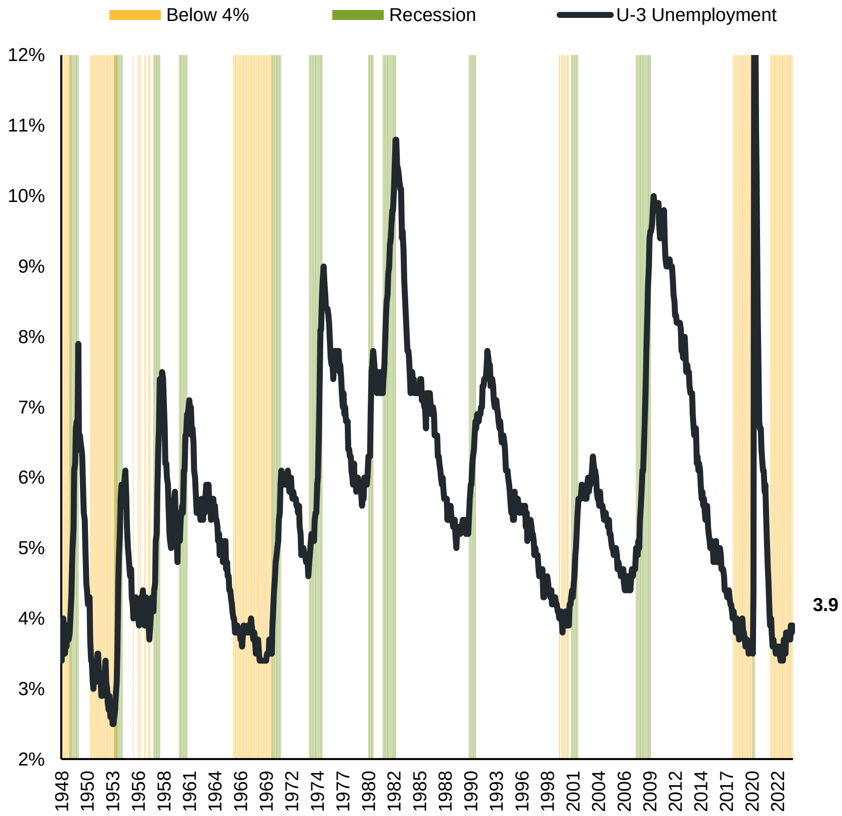
- With the bar to re-starting the hiking cycle high and current policy viewed as restrictive, we see asymmetry around the Fed’s reaction function. While the labor market is currently robust, we expect increasing sensitivity by the FOMC to any signs of weakness in the jobs market.

- The highest yields in bonds in multiple decades are attracting investors into the fixed income asset class yet significant money still sits on the sidelines waiting for the Fed to start cutting.

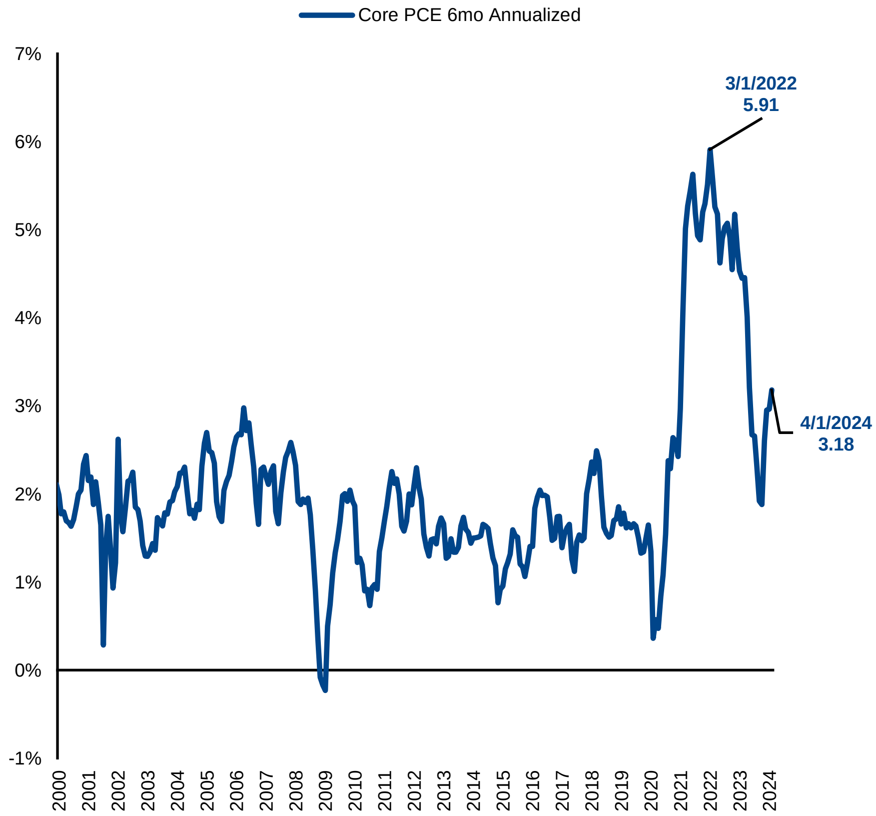
- In the meantime, we view all-in-yields as attractive in IG and HY and narrow spreads as justified by the fundamentals.

Economy is currently in a soft landing

Unemployment at or below 4% for 29 consecutive months



Despite recent increase, significant progress has been made

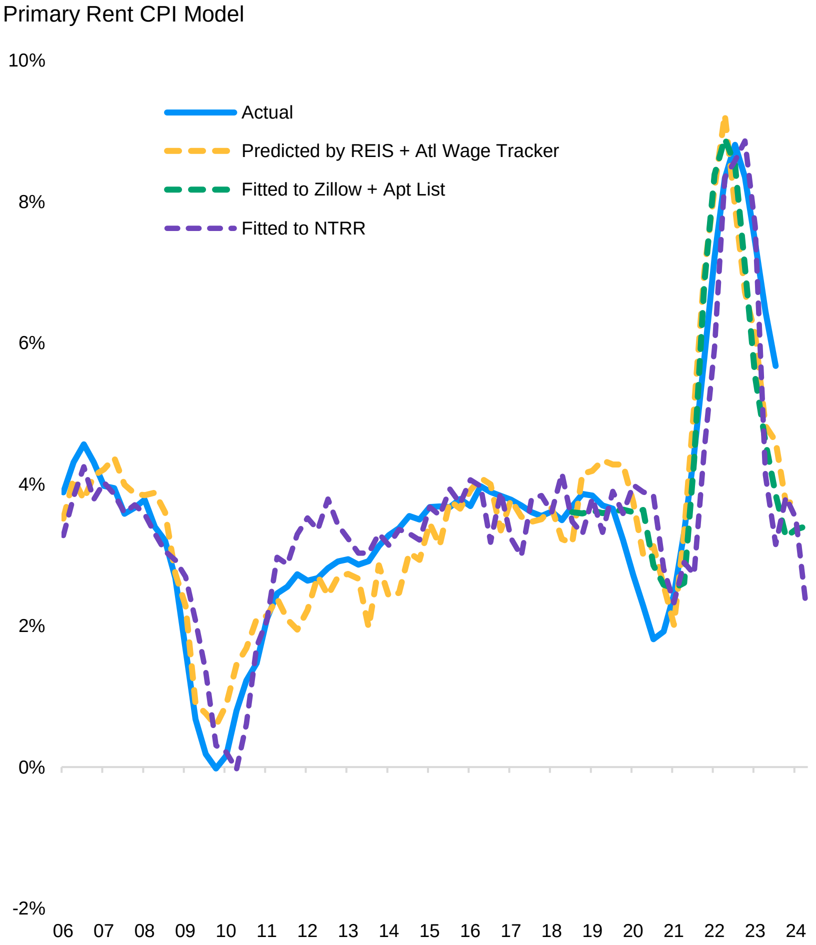


Source: Bloomberg, JPMAM; As of 5/31/24.

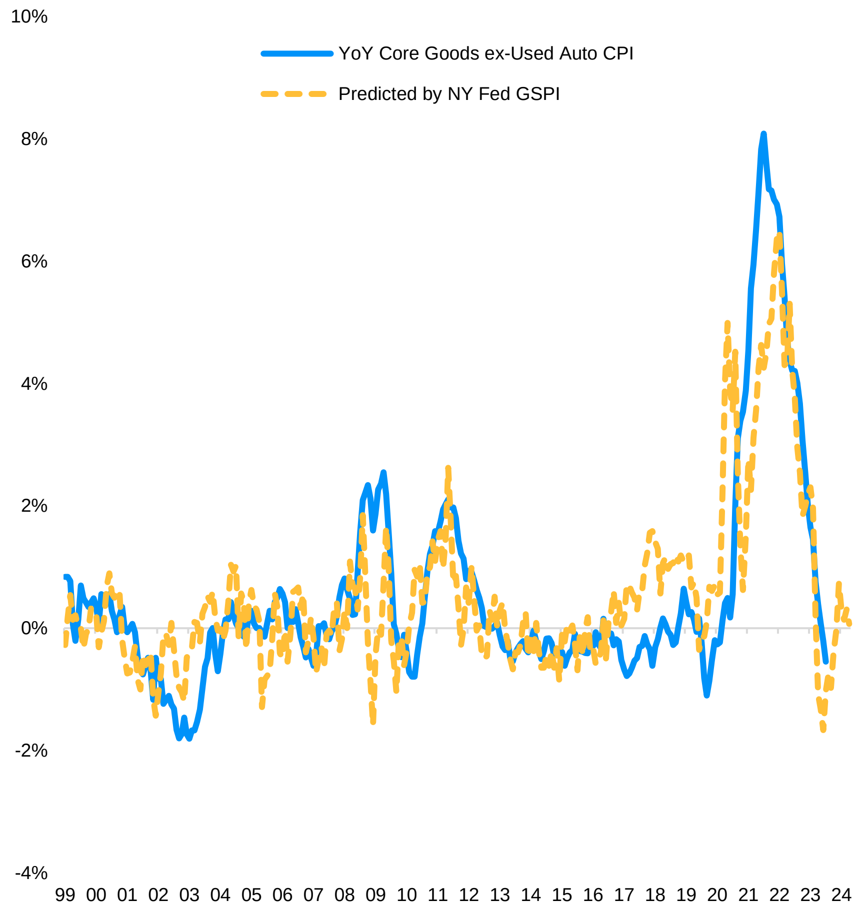
J.P.Morgan
ASSET MANAGEMENT

Continued disinflation is critical to maintaining a soft landing

Leading indicators point to lower shelter costs ahead



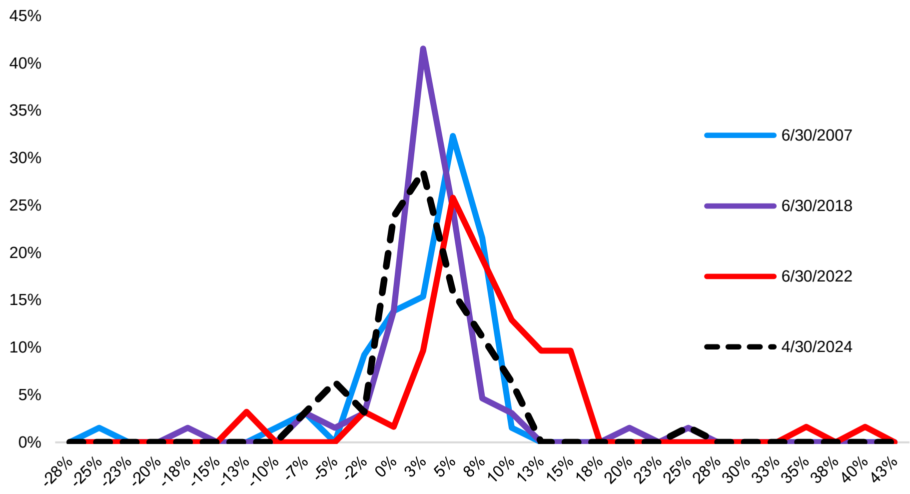
Core goods environment remains a benign one



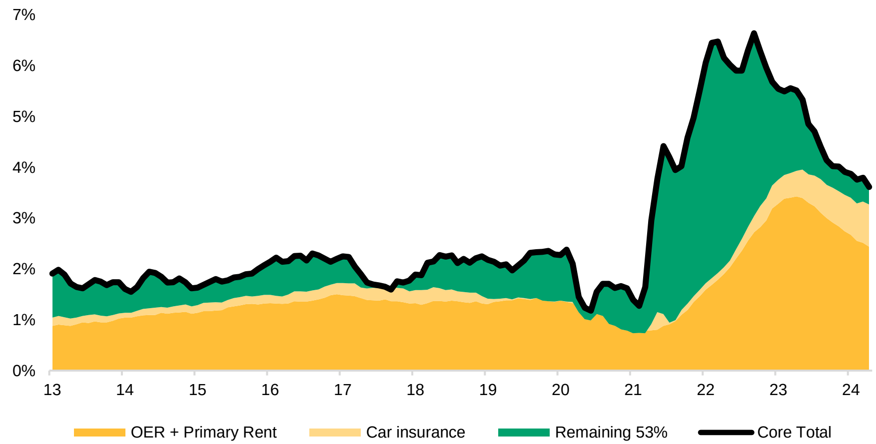
Source: Bloomberg, JPMAM; As of 5/17/2024

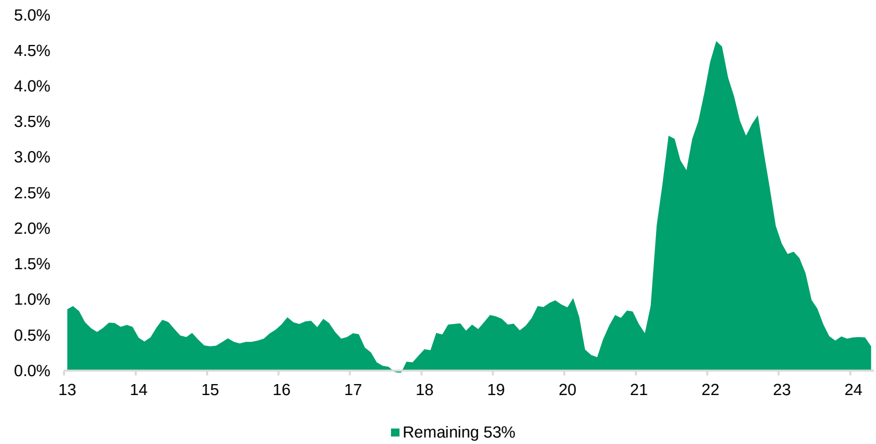
Inflation on a path to normalization … already more normal than we appreciate

Distribution of CPI Component by YoY Rate has normalized



CPI is exceedingly a rent and car insurance story as YoY Core CPI Contribution for remaining parts consistent with pre-COVID



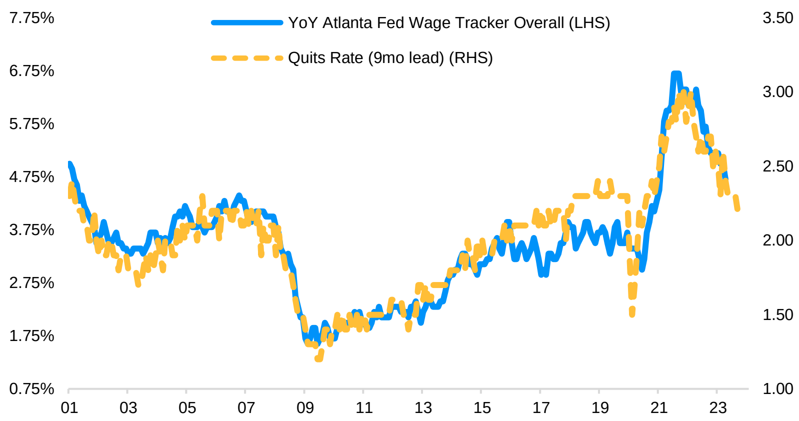


Source: Bloomberg, JPMAM; As of 5/17/2024

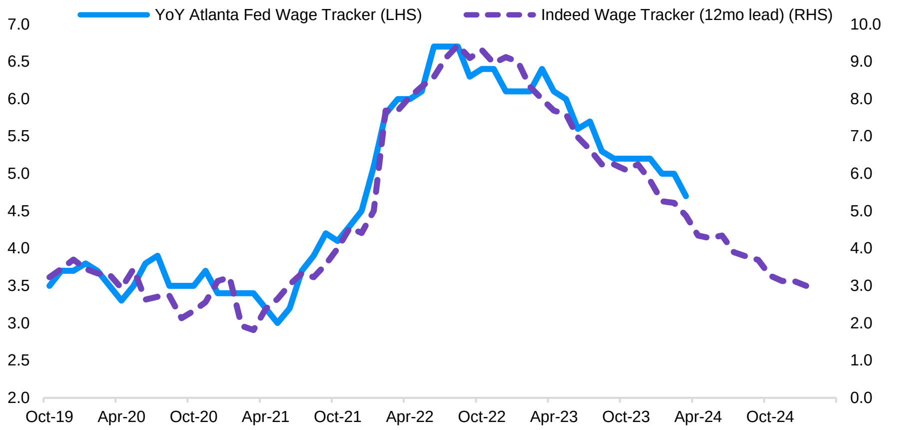
J.P.Morgan
ASSET MANAGEMENT

Moderating wage growth key to sustainable inflation

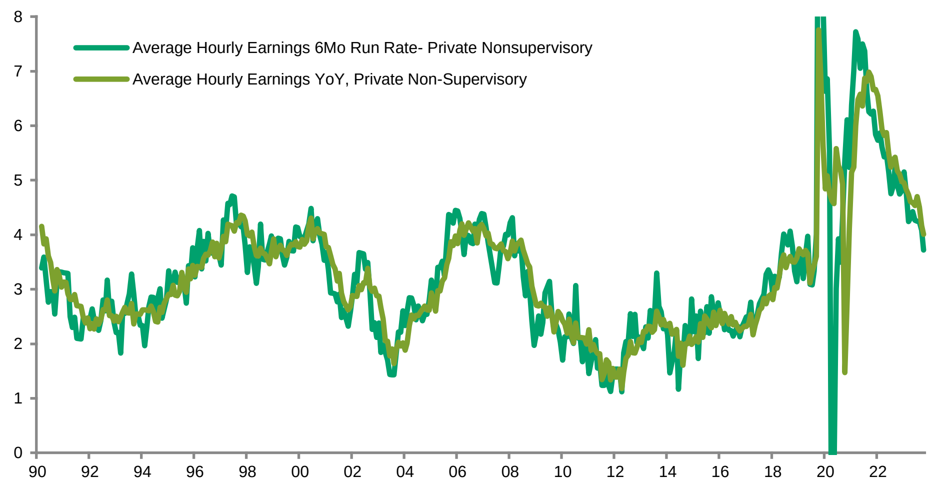
Atlanta Fed Wage Tracker vs. Quits Rate



Atlanta Fed Wage Tracker vs. Indeed Wage Tracker



Average hourly earnings, private non-supervisory

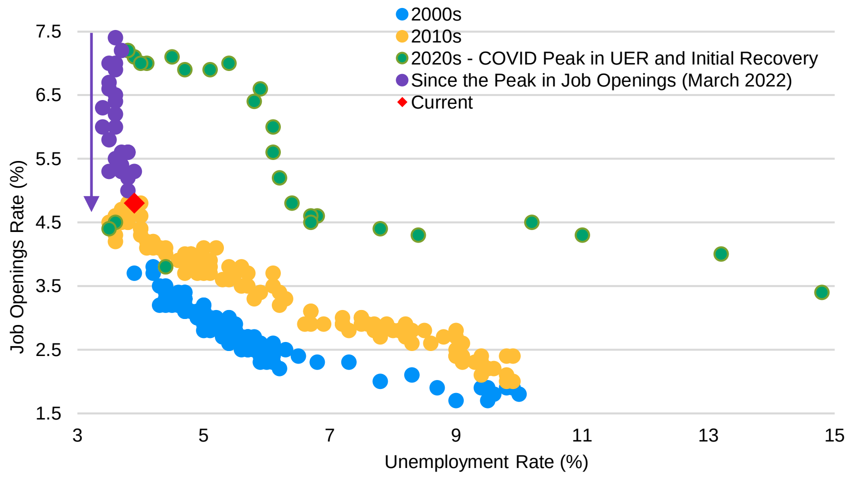


Source: Bloomberg, JPMAM; As of 6/4/2024

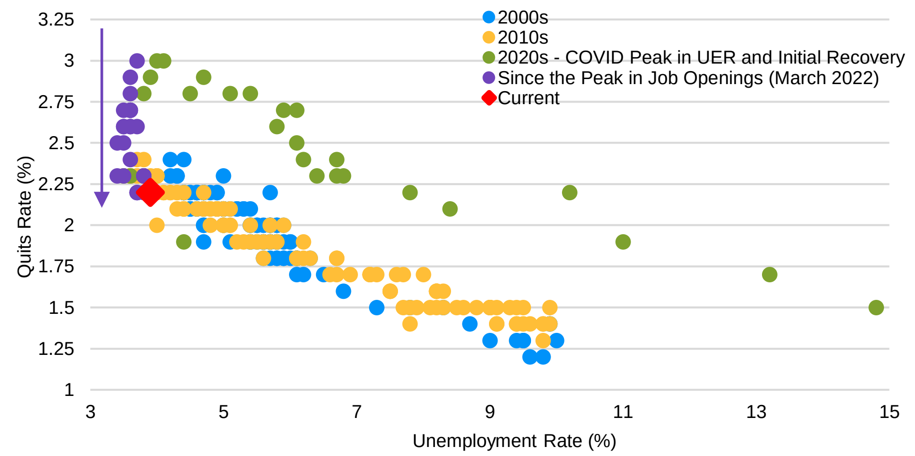
J.P.Morgan
ASSET MANAGEMENT

Labor market rebalancing in full swing

Job openings vs UER

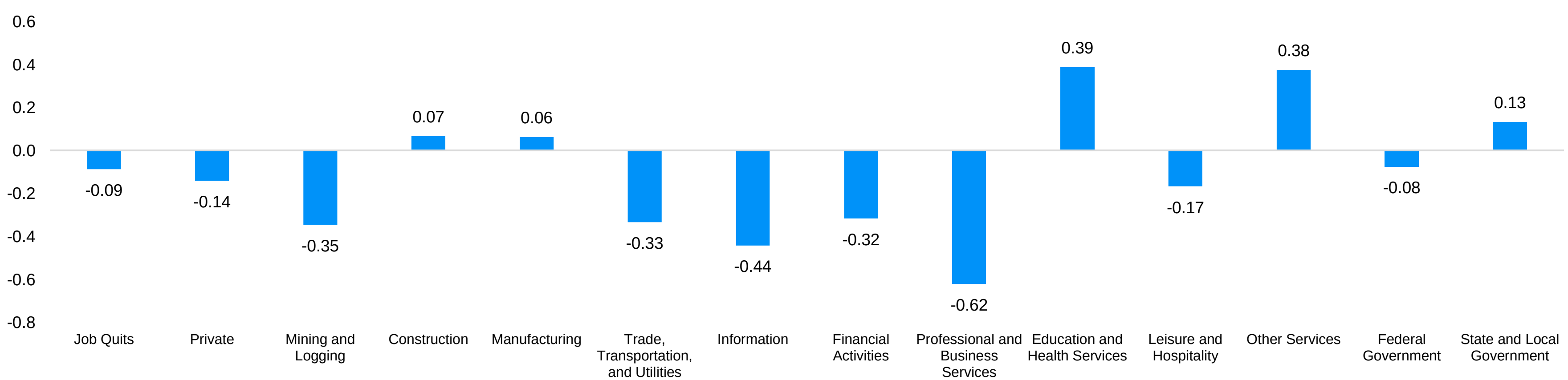


Quits rate vs UER



Quits rate near or below the 2018-2019 average for most sectors

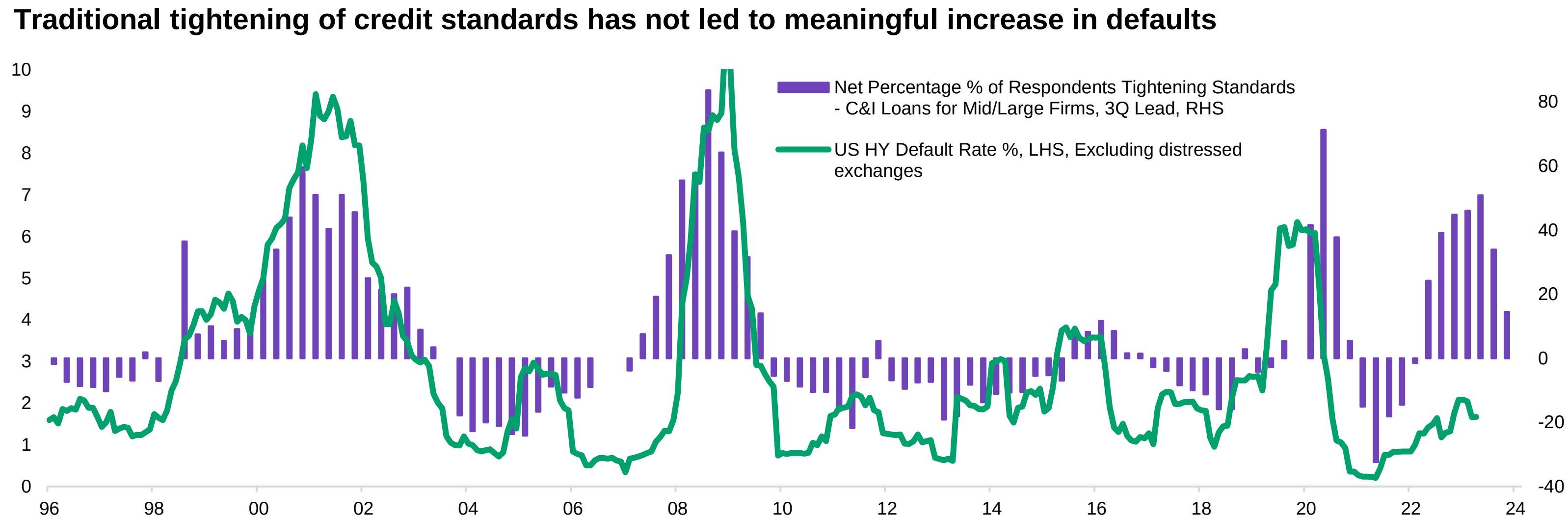
Current Quits Rate minus Average Quits Rate from 2018-2019

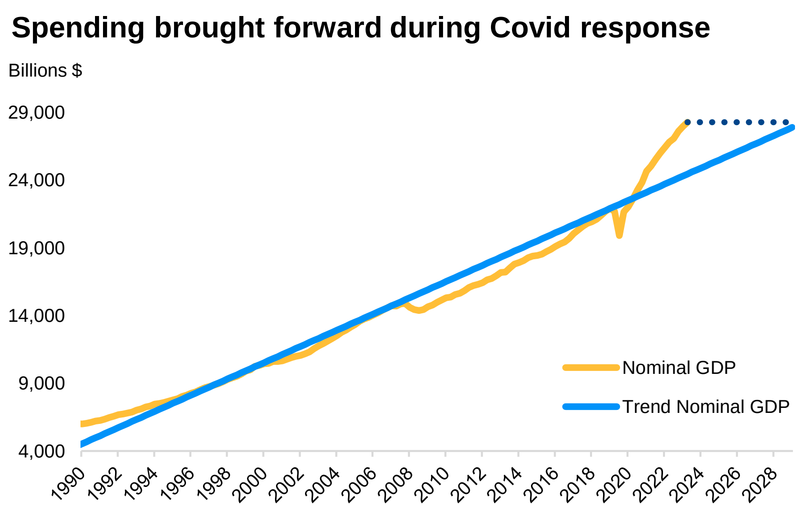


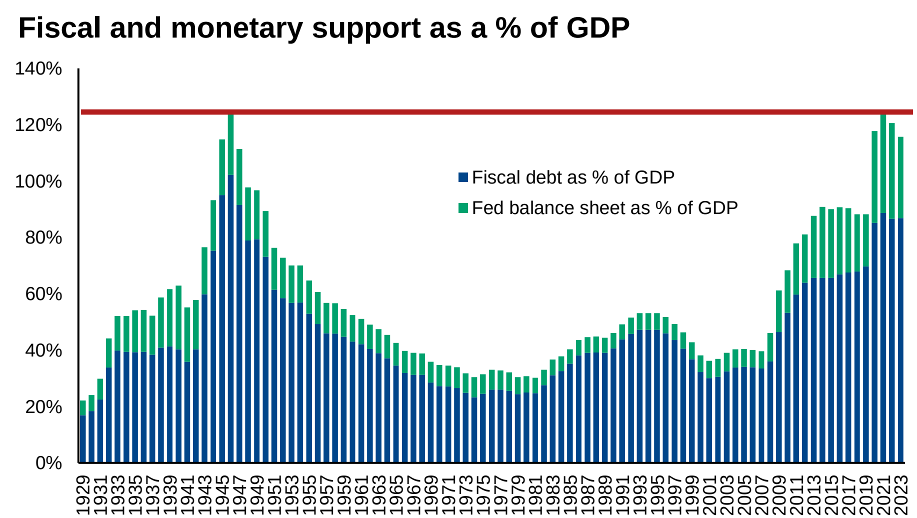
Source: Bloomberg, JPMAM; As of 6/4/2024

J.P.Morgan ASSET MANAGEMENT

Why No Recession?





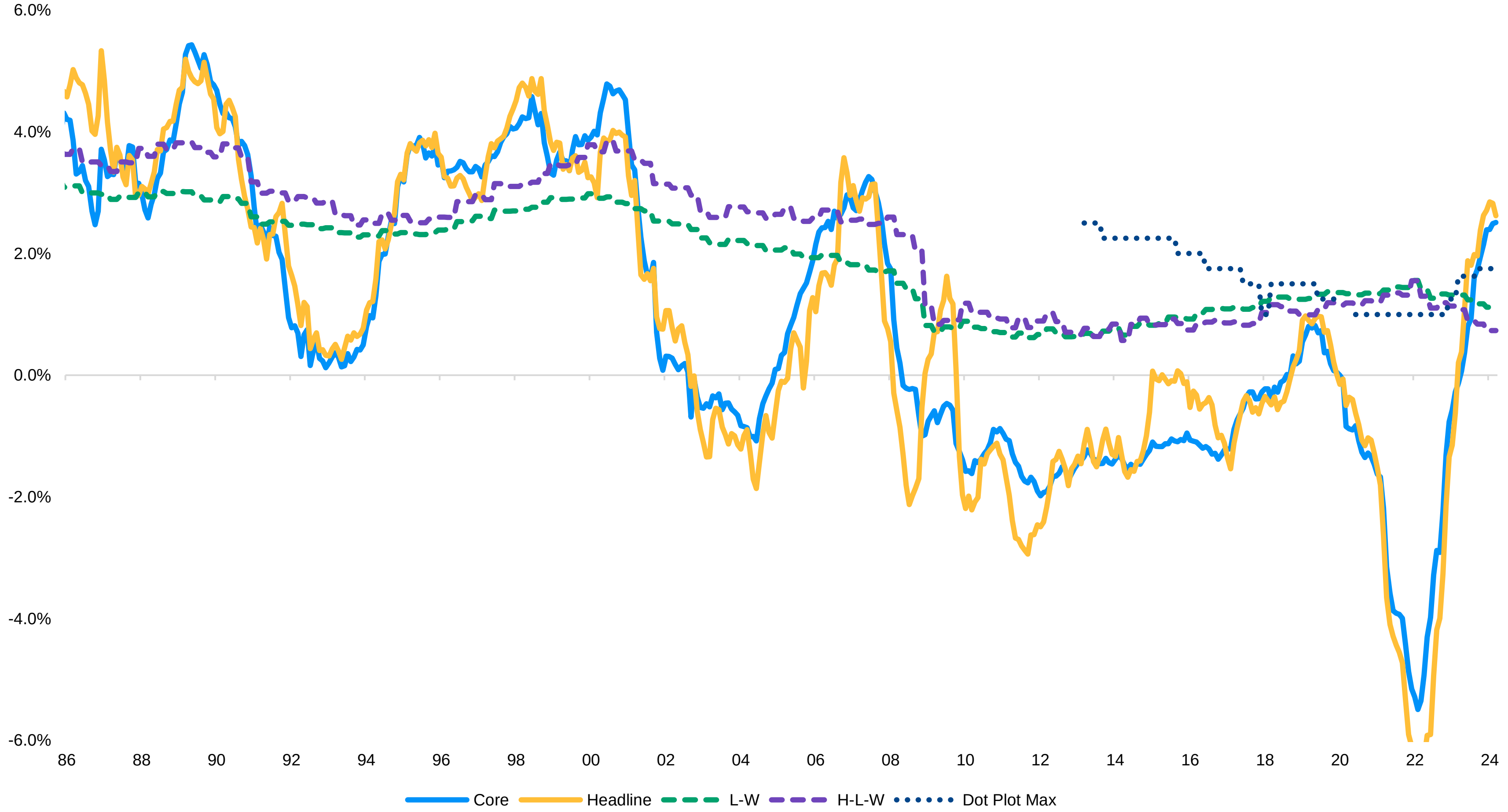


Source: Bloomberg, JPMAM, Census Bureau, BEA, Board of Governors; As of 5/17/24

J.P.Morgan
ASSET MANAGEMENT

Policy is at least somewhat restrictive … now matter how you slice it

Ex-Post Real Fed Funds Rate (YoY PCE) above variety of measures of neutral

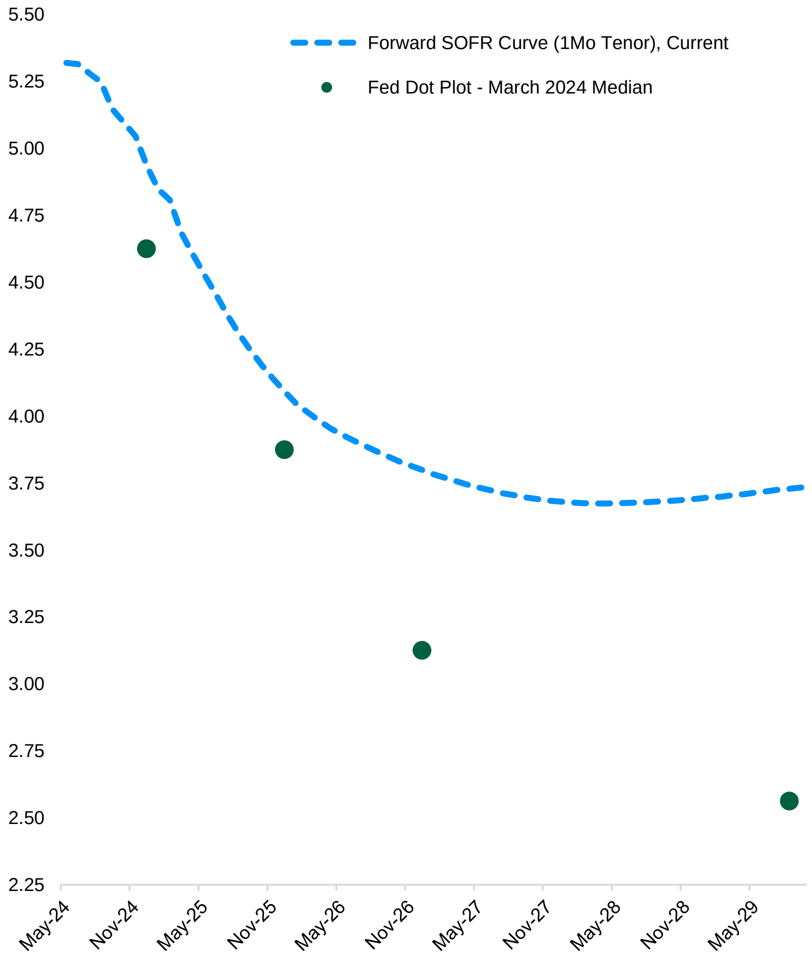


Source: Bloomberg, JPMAM, Board of Governors; As of 5/17/24

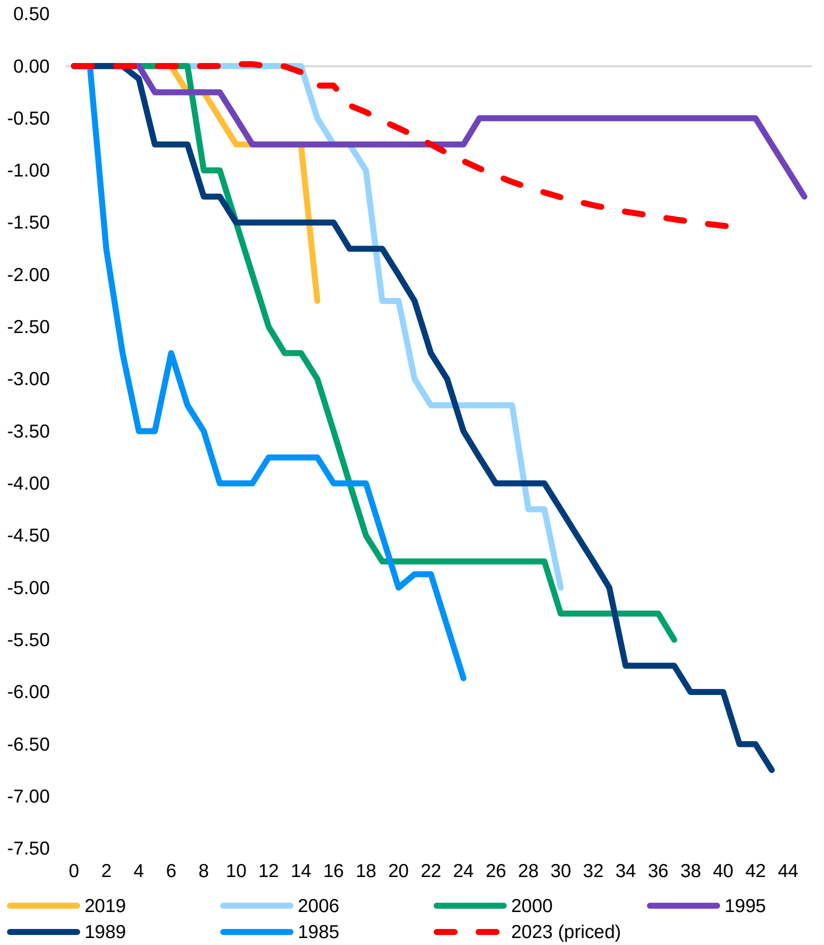
J.P.Morgan
ASSET MANAGEMENT

Market pricing a shallow cutting cycle

Market implied policy path



Cumulative Change in FFER from Last Hike (%)



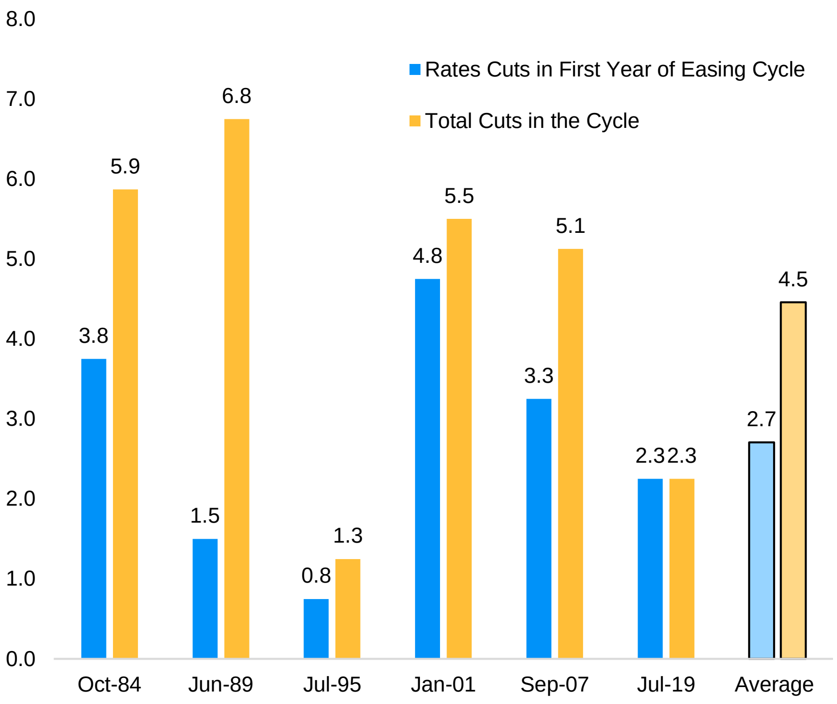
Source: Bloomberg, JPMAM, Board of Governors; As of 5/17/24

J.P.Morgan
ASSET MANAGEMENT

Central banks have plenty of policy space to lower rates quickly if warranted

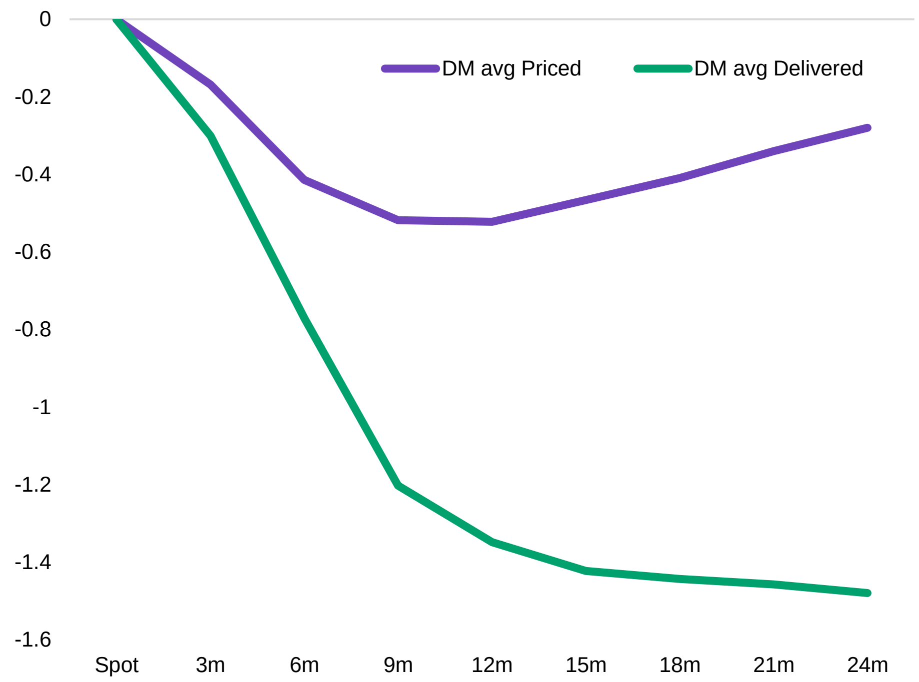
The Fed has the policy space to cut significantly consistent with prior cycles

US Rates Cuts Delivered in Easing Cycle (%)



Major DM central banks have delivered more easing than was priced by the market

Major DM average: pricing day before first cut vs delivered, %



Source: Bloomberg. DM = CAD, AUS, UK, EZ and US from 1990s to today

Market not currently focused on elections or Treasury supply technical

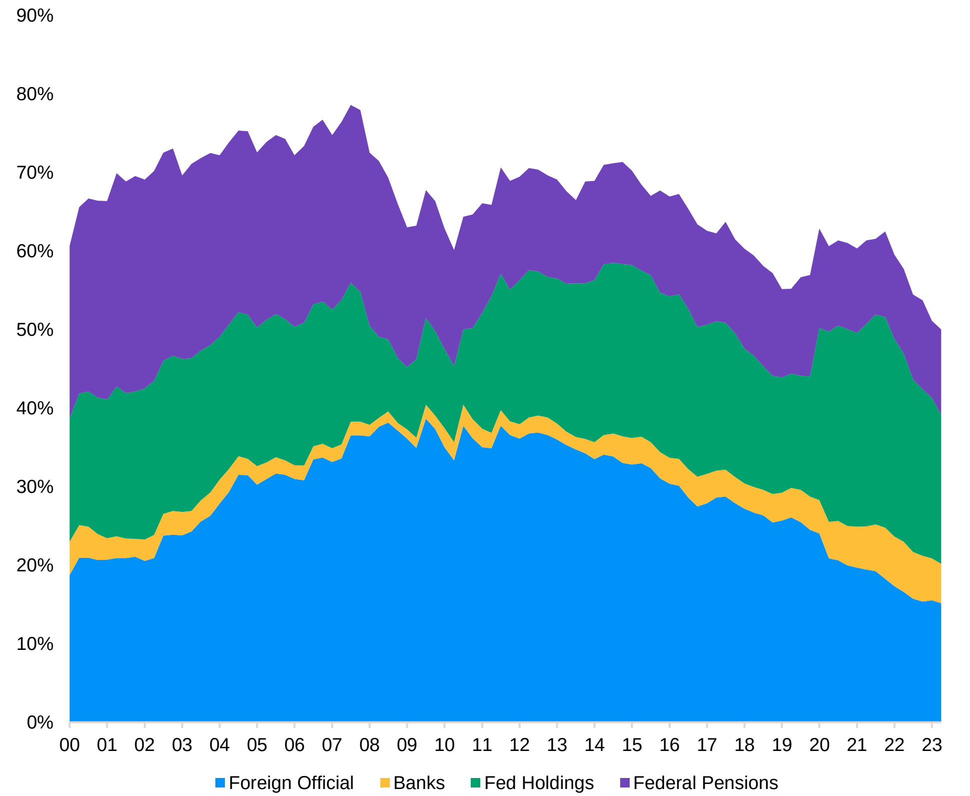
No clear bias to monetary policy during an election year

Changes to the Fed Funds Rate in months prior/following an election

										Election				
	-9	-8	-7	-6	-5	-4	-3	-2	-1	0	1	2	3	4
2020	-	-	(1.50)	-	-	-	-	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-	-	-	-	-	0.25	-	-
2012	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2008	(1.25)	-	(0.75)	(0.25)	-	-	-	-	-	(1.00)	-	(0.75)	-	-
2004	-	-	-	-	-	0.25	-	0.25	0.25	-	0.25	0.25	-	0.25
2000	-	0.25	0.25	-	0.50	-	-	-	-	-	-	-	(1.00)	-
1996	(0.25)	-	-	-	-	-	-	-	-	-	-	-	-	-
1992	-	-	-	(0.25)	-	-	(0.50)	-	(0.25)	-	-	-	-	-
1988	(0.26)	(0.12)	0.25	-	0.50	0.25	0.25	0.50	-	-	0.13	0.37	-	1.00
1984	-	-	1.00	-	-	-	0.50	0.75	-	(1.75)	(1.00)	(0.75)	-	0.75
1980	-	1.00	5.00	(8.50)	(0.75)	(1.25)	-	0.50	2.00	1.75	4.25	-	(2.00)	-
1976	(0.13)	-	-	0.13	0.62	-	(0.38)	-	-	(0.12)	(0.25)	1.13	-	-
1972	-	-	2.00	-	-	-	-	-	-	-	-	-	0.50	0.75

As Treasury supply has increased, the share of price insensitive buyers has declined but domestic & foreign real money have stepped up

Percent of Treasury holdings by price insensitive buyers

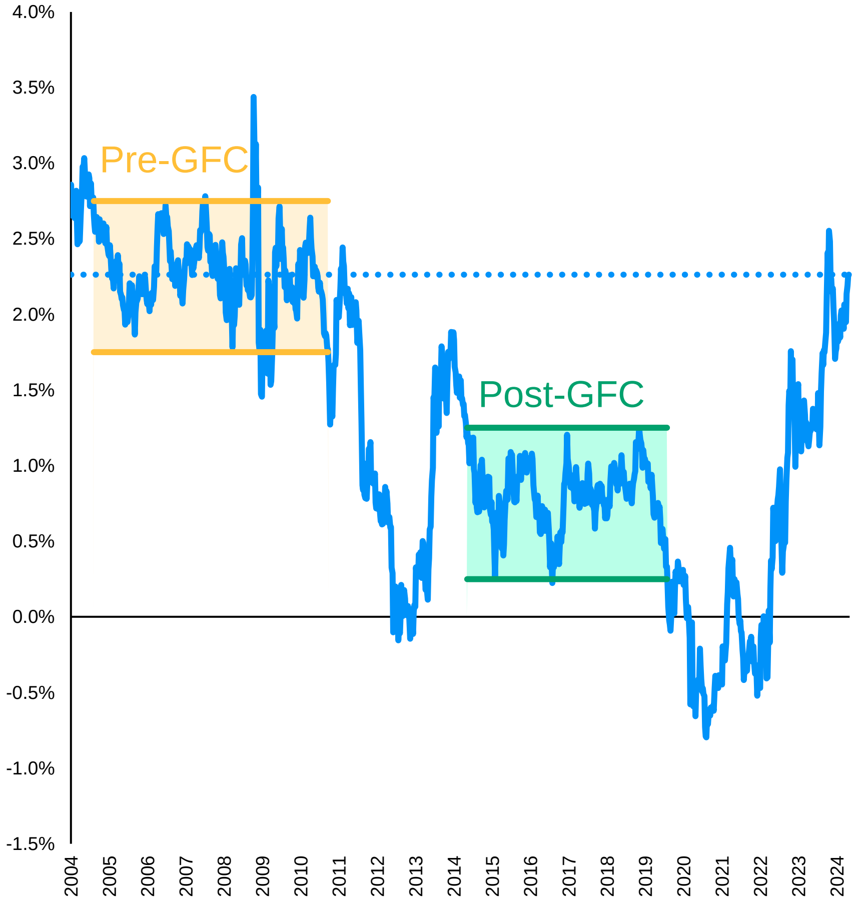


Source: Bloomberg, JPMAM, Board of Governors; As of 5/17/24

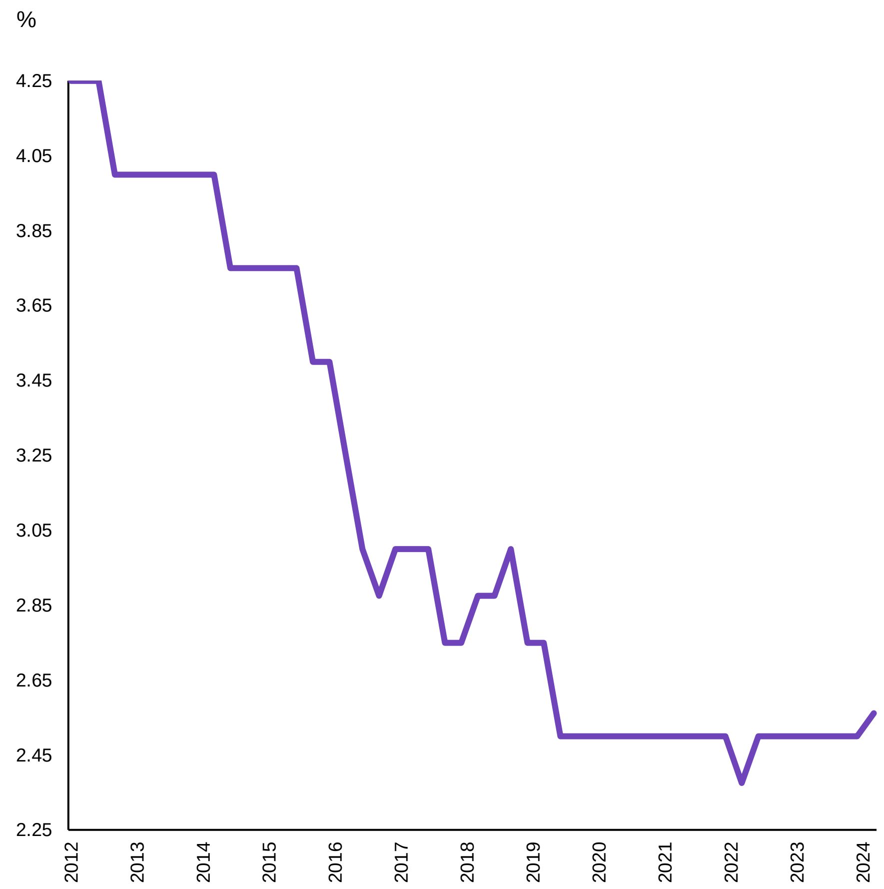
J.P.Morgan ASSET MANAGEMENT

What Interest Rate regime are we in?

5y5y Real Yields



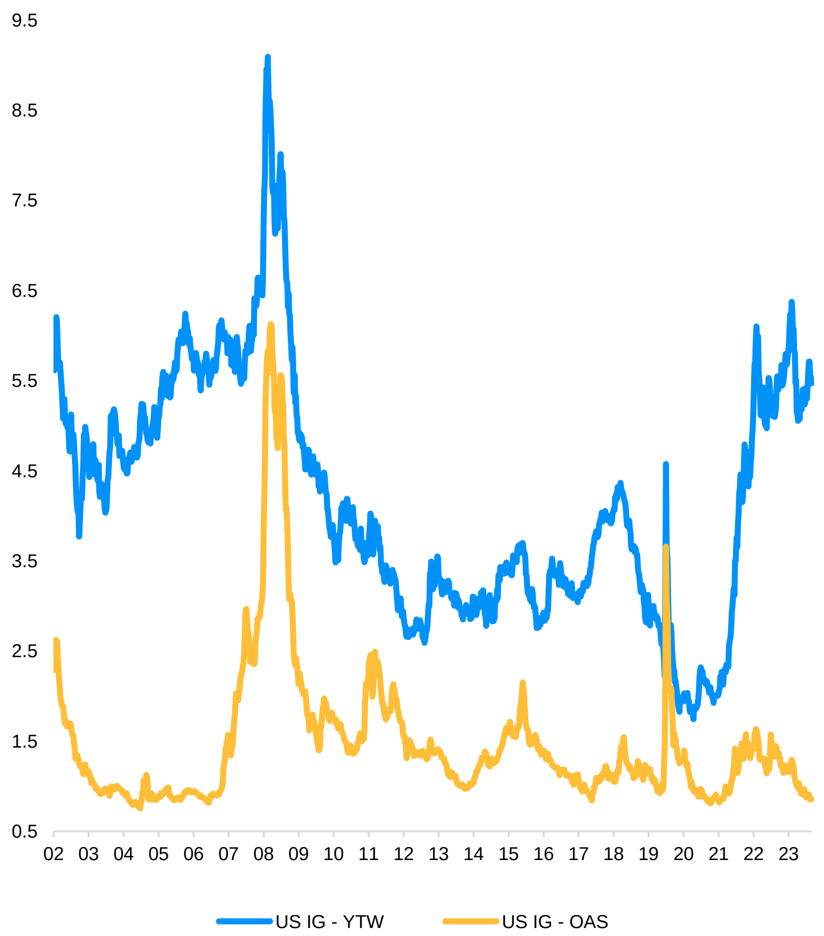
Fed's estimate of neutral policy
Median long-term dot projection from SEP



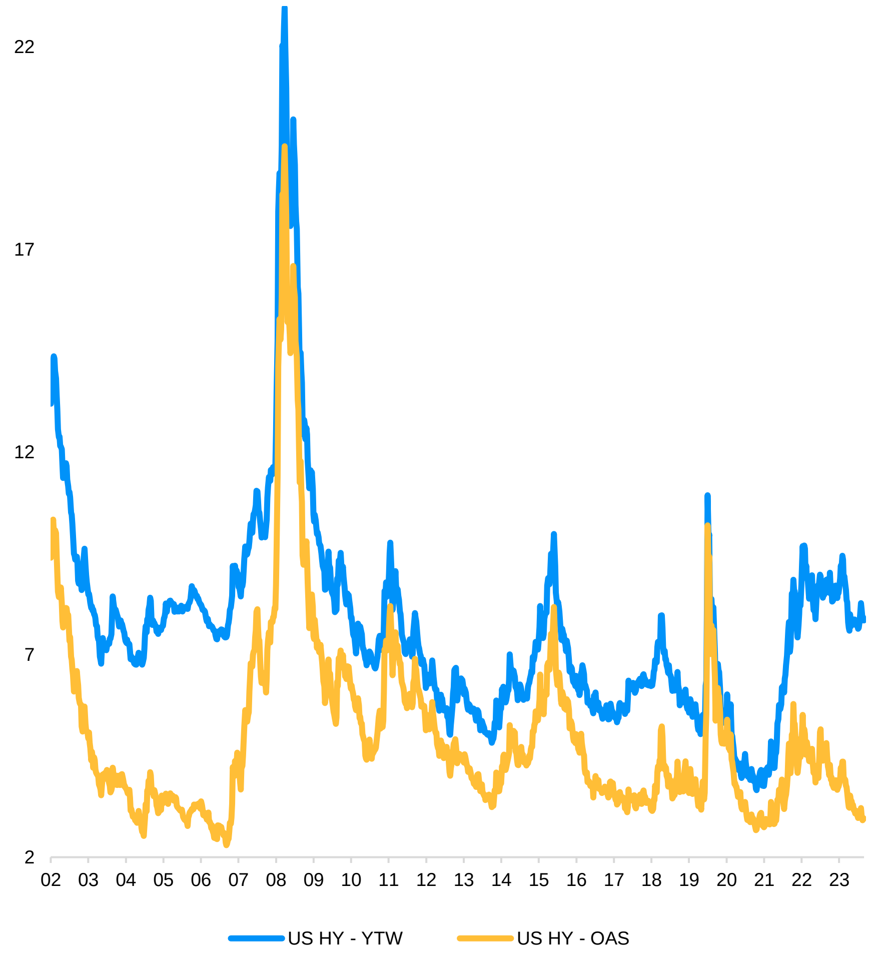
Source: Bloomberg, JPMAM , Federal Reserve; As of 5/7/24

The Great Debate: Spreads vs Yields

US Investment Grade



US High Yield

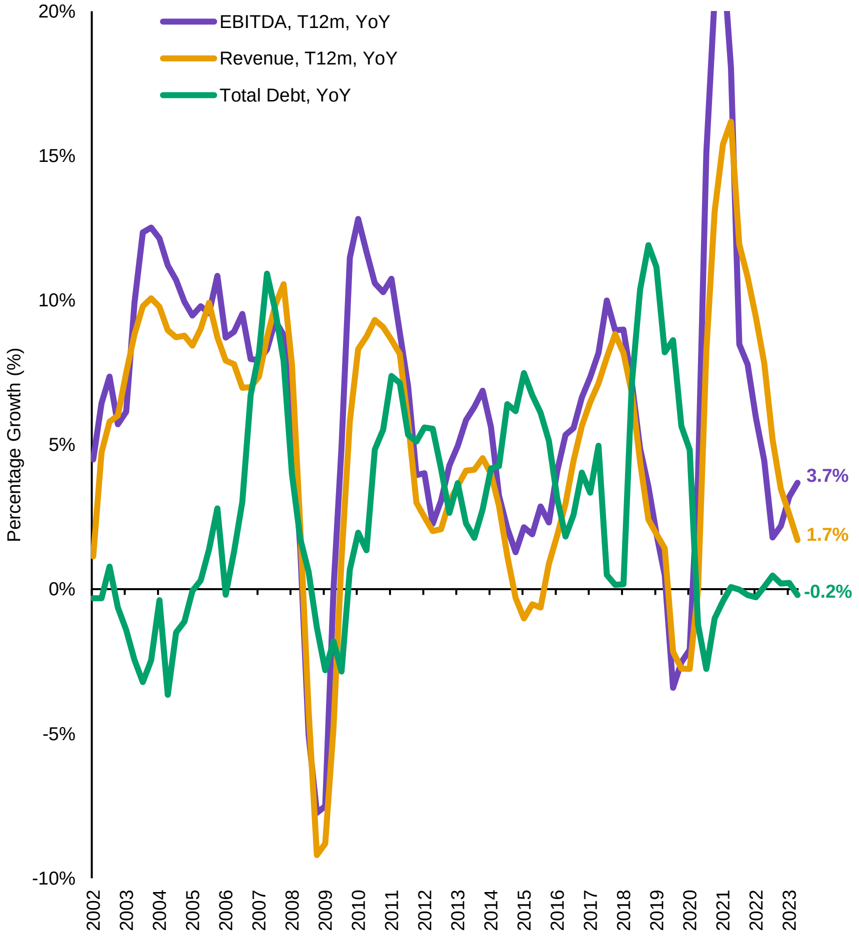


Source: Bloomberg, JPMAM , Federal Reserve; As of 5/7/24; YTW = yield to worst; OAS = option adjusted spread.

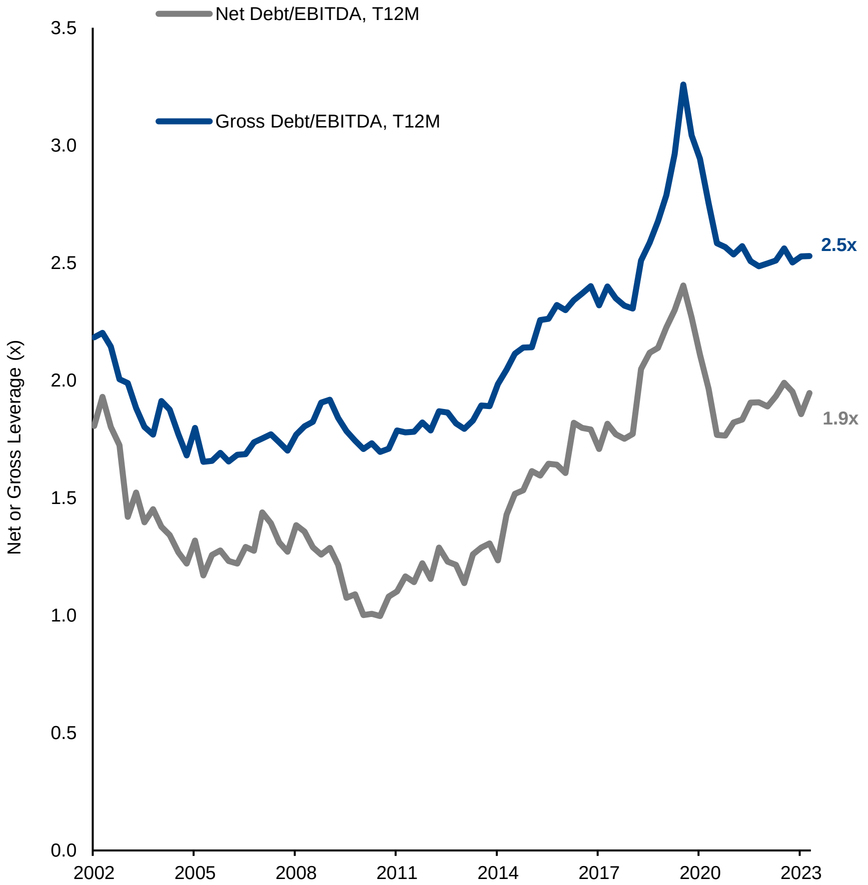
J.P.Morgan
ASSET MANAGEMENT

US Fundamentals in corporate credit remain healthy

Earnings growth is inflecting higher



Leverage is stable

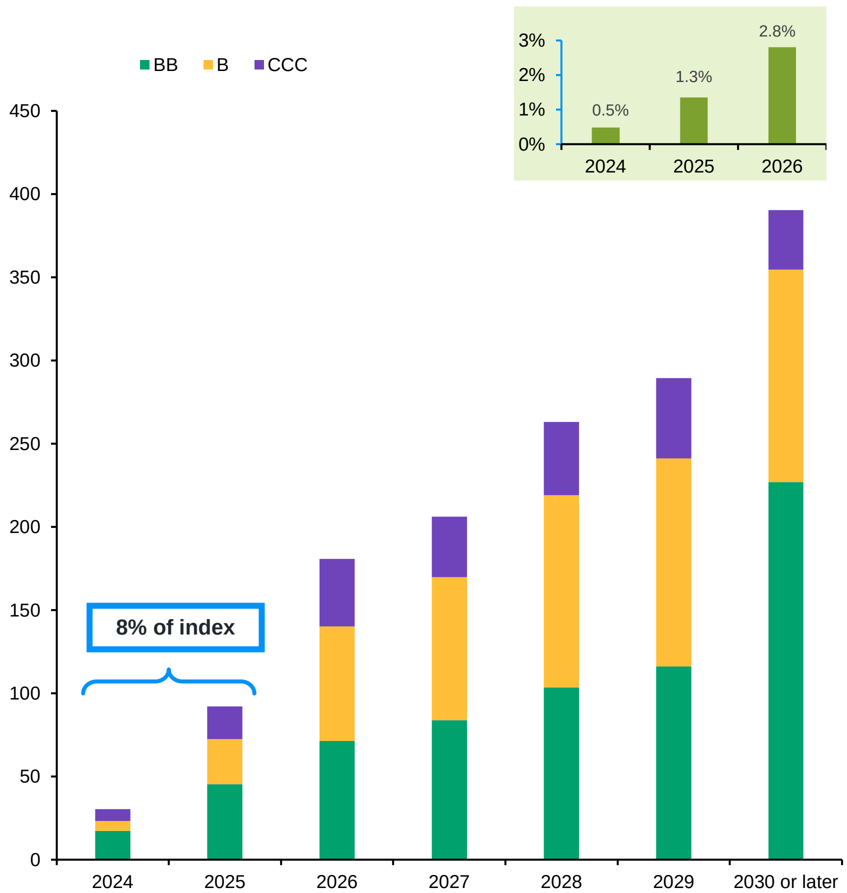


Source: JP Morgan Asset Management, Bloomberg, as of 3/31/2024. Based on the US Industrial median company.

J.P.Morgan
ASSET MANAGEMENT

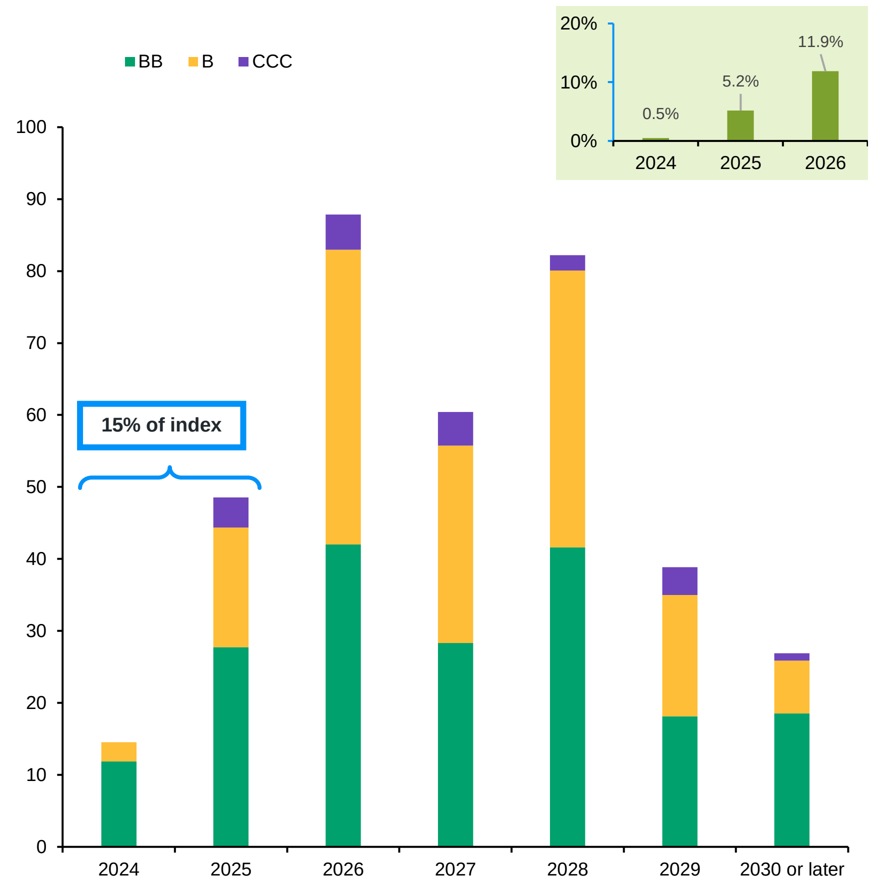
High yield issuers have reduced near-term maturities through refinancing

USHY Maturity Wall
USD billions



Source: J.P. Morgan. Data as at 14 February 2024. Data is ex banks and hybrids.

EHY Maturity Wall
EUR billions

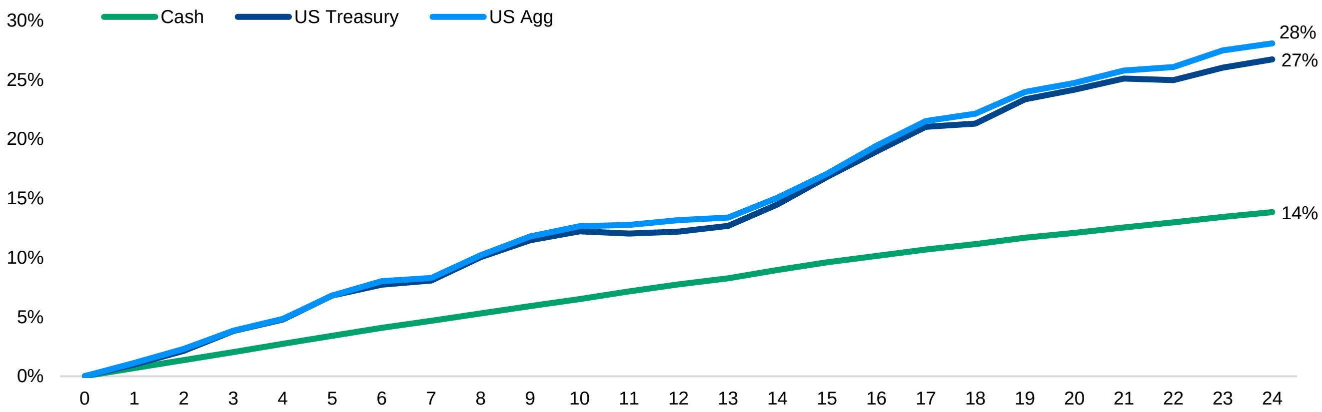


Source: J.P. Morgan. Data as at 31 March 2024. Data is ex banks and hybrids.

J.P.Morgan
ASSET MANAGEMENT

Bonds have historically outperformed cash once the Fed is done hiking

Average Cumulative Performance after the Last Rate Hike in Last 7 Cycles



Notes:
Cash: ICE BofA 3-Month Treasury Bill Index, US Agg: Bloomberg US Aggregate Index, Treasuries: Bloomberg US Treasury Index
Monthly cumulative returns. 7 cycles: 1981, 1984, 1989, 1995, 2000, 2006, 2018

Last Rate Hike	Cumulative Outperformance in Following 2 Years	
Date	**Treasury vs Cash**	**Us Agg vs Cash**
5/31/1981	13.2%	18.7%
8/31/1984	33.2%	33.6%
2/28/1989	7.7%	8.6%
2/28/1995	5.6%	6.7%
5/31/2000	10.5%	13.3%
6/30/2006	7.4%	4.7%
12/31/2018	12.4%	13.9%
7/31/2023	?	?

Cash: ICE BofA 3-Month Treasury Bill Index, US Agg: Bloomberg US Aggregate Index, Treasuries: Bloomberg US Treasury Index
All returns are cumulative using monthly time series

J.P.Morgan
ASSET MANAGEMENT

Key Macro Takeaways

- Economy currently in a soft landing but further disinflation critical to maintaining it.

- Inflation is closer to “normal” than many appreciate. Shelter and auto insurance are driving the majority of current overshoot while most other categories have normalized. Consistent signals of wage disinflation increase our confidence the Fed is done hiking.

- Traditional metrics of impending economic weakness such as the Senior Loan Officer Opinion Survey has yet to fully play out in the macro economic data. Tailwinds such as fiscal stimulus and excess savings may have forestalled the long and variable lags.

- With the bar to re-starting the hiking cycle high and current policy viewed as restrictive, we see asymmetry around the Fed’s reaction function. While the labor market is currently robust, we expect increasing sensitivity by the FOMC to any signs of weakness in the jobs market.

- The highest yields in bonds in multiple decades are attracting investors into the fixed income asset class yet significant money still sits on the sidelines waiting for the Fed to start cutting.

- In the meantime, we view all-in-yields as attractive in IG and HY and narrow spreads as justified by the fundamentals.

Important Information

This document is intended for educational purposes only. It is not meant to promote investment management products and services. Reliance upon information in this material is at the sole discretion of the reader. Any forecasts, figures, opinions, statements of financial market trends or investment techniques and strategies expressed are those of J.P. Morgan Asset Management, unless otherwise stated, as of the date of issuance. They are considered to be reliable at the time of production, but no warranty as to the accuracy and reliability or completeness in respect of any error or omission is accepted and may be subject to change without reference or notification to you.

J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our privacy policies at https://am.jpmorgan.com/global/privacy.

For U.S. only: If you are a person with a disability and need additional support in viewing the material, please call us at 1-800-343-1113 for assistance.