A Picture Says it All

In our haste to communicate thoroughly and precisely, we often relegate ourselves to painting word pictures when an actual picture would better serve our audience. For that reason, this month's update is largely a collection of charts and graphs that we believe help communicate our message. We have tried to group the topics we believe matter most to investors today: Inflation & Fed Policy, Bond Risks & Stock Valuations, Economic Health, and the Mid-term Elections.

If you would like to discuss our current positioning, thoughts on rates, and the tools we are using to help manage risk for the coming quarters, we welcome your call. With the prospects of rising rates and the end of the 40-year bull market in bonds, we believe managing risk in the current environment warrants a non-conventional asset allocation.

We would love to hear feedback from you on whether you like this month's format.

Inflation & Fed Policy

Fear A Lot Of Rate Hikes In 2022?
Federal Reserve Bank Hikes Per Year (Since 1970)

Year	Rate Hikes	S&P 500 Index Yearly % Change
1971	4	10.8%
1972	5	15.8%
1973	16	(17.4%)
1974	13	(29.7%)
1975	4	31.5%
1977	6	(11.5%)
1978	15	1.1%
1979	12	12.3%
1980	27	25.8%
1981	7	(9.7%)
1984	4	1.4%
1987	5	2.0%
1988	4	12.4%
1994	6	(1.5%)
2004	5	9.0%
2005	8	3.0%
2006	4	13.6%
2018	4	(6.2%)
Average		3.5%
Median		2.5%
% Positive		

Source: LPL Research, Bloomberg 01/27/2022

Despite many fears about what may lie ahead, the Federal Reserve raising rates does not necessarily mean the equity markets will fall apart. Despite a bumpy start to 2022, history has shown that patience has often been rewarded.

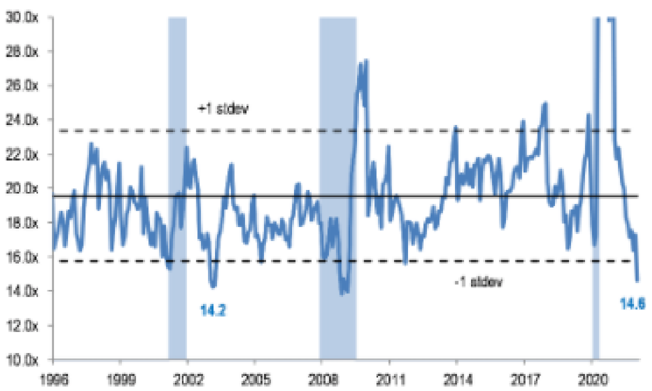
S&P 500 Index Price Change

	Before Rate Hike		After Rate Hike			
Date of First Raise	-6 Months	-3 Months	+3 Months	+6 Months	+12 Months	+18 Months
February 4, 1994	4.7%	2.7%	-3.9%	-2.4%	1.9%	19.0%
June 30, 1999	11.7%	6.7%	-6.6%	7.0%	6.0%	-3.8%
June 30, 2004	2.6%	1.3%	-2.3%	6.2%	4.4%	9.4%
December 16, 2015	-1.1%	3.9%	-2.2%	0.2%	8.9%	17.4%
Average	**4.5%**	**3.7%**	**-3.8%**	**2.8%**	**5.3%**	**10.5%**

Equity Valuations

Figure 12: Small-Caps P/E Valuation Back to Early 2000s

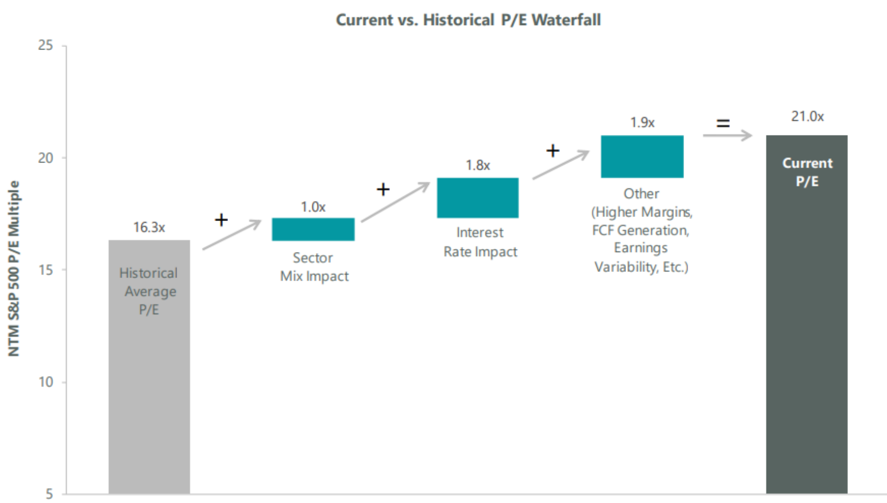
S&P 600 since 1996



Source: J.P. Morgan Equity Macro Research

Figure 2: Post-Pandemic Re-Rating Wiped Out

Just How Stretched are Valuations?



- **Current valuations appear rich relative to history. Much of this can be explained by sector mix differences, lower interest rates, higher margins, FCF generation, and earnings variability.**

ClearBridge Investments

Data as of Dec. 31, 2021. Source: Bloomberg, FactSet, Federal Reserve, Moody's, and S&P. Note: NTM = next twelve months; Historical Average P/E represents 1995-present. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Upper Left:

The S&P 600 Small Cap index is at multi-decade cheap levels

Upper Right:

Post-pandemic valuations are cheaper in many sectors of the market

Lower Left:

Index construction and lower rates help bridge the gap between current valuations and "historical averages"

Confidence in Your Investments: Retirement Plans, Financial Planning & Wealth Management

When Recessions are lurking, historically there are warning signs (which are often ignored). Currently, those indicators that have previously alerted us to a looming recession reflect a healthy (though disrupted) global economy. Inflation is a meaningful headwind that we are all watching, but there remain more positives than negatives in the context of history.

Economic Health

U.S. Recession Risk Indicators

- 12 variables have historically foreshadowed a looming recession
- Wage growth and money supply are flashing risk right now

		Current	2020	2007-2009	2001	1990-1991	1981-1982	1980	1973-1975	1969-1970
Consumer	Housing Permits	⬆	⬆	✖	●	✖	✖	✖	✖	✖
	Job Sentiment	⬆	●	✖	✖	✖	✖	●	●	●
	Jobless Claims	⬆	⬆	●	✖	✖	✖	✖	⬆	✖
	Retail Sales	⬆	⬆	✖	✖	✖	✖	✖	●	✖
	Wage Growth	✖	✖	✖	✖	✖	✖	✖	✖	✖
Business Activity	Commodities	⬆	⬆	✖	✖	✖	✖	●	●	●
	ISM New Orders	⬆	●	✖	✖	✖	✖	✖	✖	✖
	Profit Margins	⬆	✖	✖	✖	✖	✖	✖	●	✖
	Truck Shipments	⬆	⬆	●	✖	✖	✖	✖	n/a	n/a
Financial	Credit Spreads	⬆	⬆	✖	✖	✖	✖	✖	⬆	●
	Money Supply	●	⬆	✖	✖	✖	✖	✖	✖	✖
	Yield Curve	⬆	✖	✖	✖	✖	✖	✖	✖	✖
	Overall Signal	⬆	●	✖	✖	✖	✖	✖	●	✖

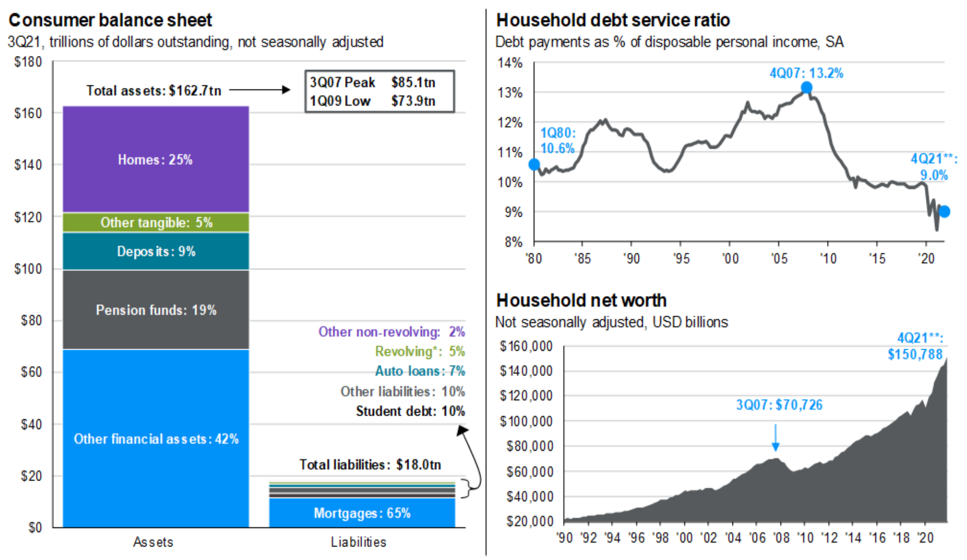
⬆ Expansion ● Improvement ✖ Recession

ClearBridge Investments

Data as of Dec. 31, 2021. Source: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg. The ClearBridge Recession Risk Dashboard was created in January 2016. References to the signals it would have sent in the years prior to January 2016 are based on how the underlying data was reflected in the component indicators at the time.

Consumer finances

GTM | U.S. | 23



Source: FactSet, FRB, J.P. Morgan Asset Management; (Top and bottom right) BEA.
Data include households and nonprofit organizations. SA – seasonally adjusted. *Revolving includes credit cards. Values may not sum to 100% due to rounding. **4Q21 figures for debt service ratio and household net worth are J.P. Morgan Asset Management estimates.
Guide to the Markets – U.S. Data are as of December 31, 2021.

J.P.Morgan ASSET MANAGEMENT

The US Consumer is arguably in the best financial position ever (in start contrast with the 2007-08 era).

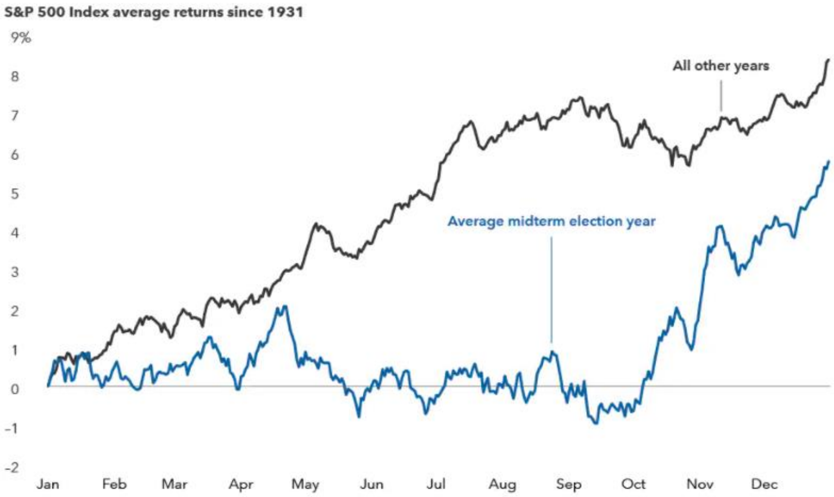
Household debt service and home values have further solidified this during the pandemic.

Though not illustrated, corporate balances, too, are as health as most any can ever recall, with many having taken advantage of extremely low rates over the last decade.

Confidence in Your Investments: Retirement Plans, Financial Planning & Wealth Management

2022 Mid-term Elections

Prepare for stock market volatility this midterm election year



Sources: Capital Group, RIMES, Standard & Poor's. The chart shows the average trajectory of equity returns throughout midterm election years compared to non-midterm election years. Each point on the lines represents the average year-to-date return as of that particular month and day and is calculated using daily price returns from 1/1/31–10/31/21.

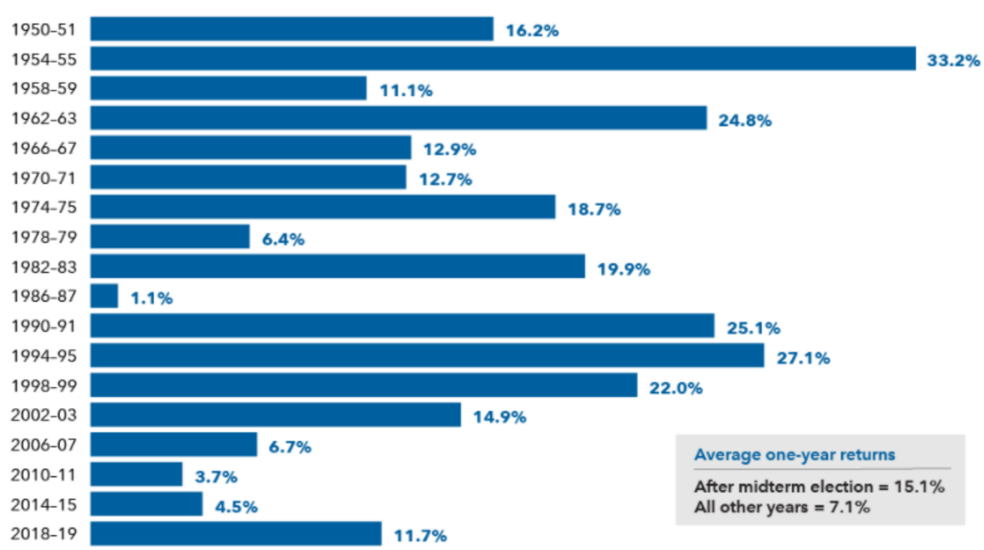
As the year has already illustrated, one should expect volatility in 2022.

History has shown that the uncertain period leading up the election has been more volatile and less rewarding than the certainty that follows.

What follows the mid-term elections? For the last 70 years, that answer has been gains for the S&P 500.

One cannot predict this will be repeated, but the markets like the certainty that accompanies an election result being behind us.

S&P 500 Index price return one year after midterm election



Sources: Capital Group, RIMES, Standard & Poor's. Calculations use Election Day as the starting date in all election years and November 5th as a proxy for the starting date in other years. Only midterm election years are shown in the chart. As of 12/31/21.

Risks to Bonds in a Rising Rate Environment

When the 10-Year US Treasury goes up in yield, recent history has shown that the Barclay's Aggregate Bond Index drops in value, directionally in lock-step with the declining price of the 10-year itself.

Our position is that one must carefully evaluate where to allocate in the fixed income arena in 2022.

Period	10-Year Treasury[3]	BBgBarc U.S. Agg Bond Index
07/31/2020–03/31/2021	-9.9%	-3.6%
08/31/2017–10/31/2018	-5.3%	-2.1%
06/30/2016–12/31/2016	-7.5%	-2.5%
07/31/2012–12/31/2013	-6.2%	-1.1%
08/31/2010–03/31/2011	-6.1%	-0.8%
12/31/2008–12/31/2009	-9.9%	5.9%
06/30/2005–06/30/2006	-5.8%	-0.8%
09/30/1998–01/31/2000	-7.7%	-0.6%
01/31/1996–08/31/1996	-6.0%	-1.8%
09/30/1993–11/30/1994	-8.9%	-3.0%

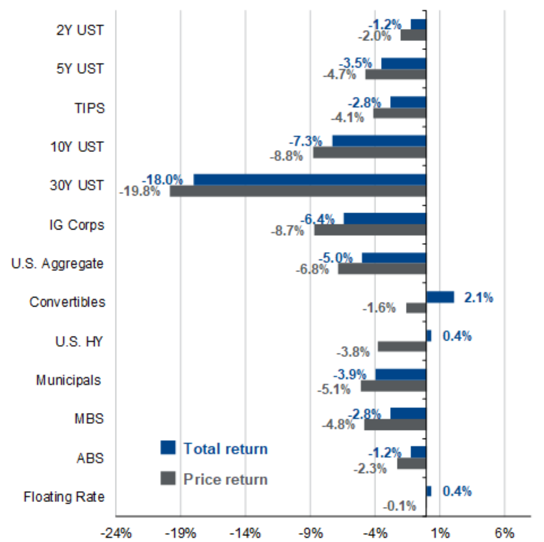
FTSE Treasury Benchmark 10-Year Index. [4]Returns based on A share class at NAV.

Fixed income market dynamics

GTM | U.S. | 34

	Yield		Return			
U.S. Treasuries	**12/31/2021**	**12/31/2020**	**2021 YTD**	**Avg. Maturity**	**Correlation to 10-year**	**Correlation to S&P 500**
2-Year	0.73%	0.13%	-0.57%	2 years	0.67	-0.41
5-Year	1.26%	0.36%	-2.80%	5	0.92	-0.36
TIPS	-1.04%	-1.06%	5.96%	10	0.57	0.20
10-Year	1.52%	0.93%	-3.60%	10	1.00	-0.33
30-Year	1.90%	1.65%	-4.62%	30	0.93	-0.31
Sector						
IG Corps	2.33%	1.74%	-1.04%	12.3	0.42	0.38
U.S. Aggregate	1.75%	1.12%	-1.54%	8.7	0.85	0.02
Convertibles	3.66%	4.91%	4.49%	-	-0.29	0.87
U.S. HY	4.21%	4.18%	5.28%	6.5	-0.25	0.72
Municipals	1.11%	1.07%	1.52%	13.1	0.37	0.09
MBS	1.98%	1.25%	-1.04%	6.1	0.81	-0.16
ABS	1.96%	2.87%	1.11%	2.4	-0.04	0.10
Floating Rate	0.48%	0.54%	0.52%	2.0	-0.22	0.44

Impact of a 1% rise in interest rates
Assumes a parallel shift in the yield curve



The chart at left shows the performance of bond asset classes in 2021, as well as a very important illustration of how rising rates can impact each of these asset classes.

Source: Bloomberg, FactSet, Standard & Poor's, U.S. Treasury, J.P. Morgan Asset Management. Sectors shown above are provided by Bloomberg unless otherwise noted and are represented by – U.S. Aggregate; MBS: U.S. Aggregate Securitized - MBS; ABS: J.P. Morgan ABS Index; Corporates: U.S. Corporates; Municipals: Muni Bond; High Yield: Corporate High Yield; TIPS: Treasury Inflation-Protected Securities (TIPS); U.S. Floating rate index; Convertibles: U.S. Convertibles Composite. Convertibles yield is as of November 2021 due to data availability. Yield and return information based on bellwethers for Treasury securities. Sector yields reflect yield-to-worst. Convertibles yield is based on U.S. portion of Bloomberg Global Convertibles. Correlations are based on 15-years of monthly returns for all sectors. Past performance is not indicative of future results.
Guide to the Markets – U.S. Data are as of December 31, 2021.

J.P.Morgan
ASSET MANAGEMENT