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J.P.Morgan ASSET MANAGEMENT

Monthly Investment Insights

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TOPIC 1:

The path forward for investors post-election

Donald Trump's victory in the United States (US) election has removed political uncertainty, while market trends suggest fourth quarter stock market performance could remain strong. However, potential US policy shifts may introduce new uncertainties.

What you can do

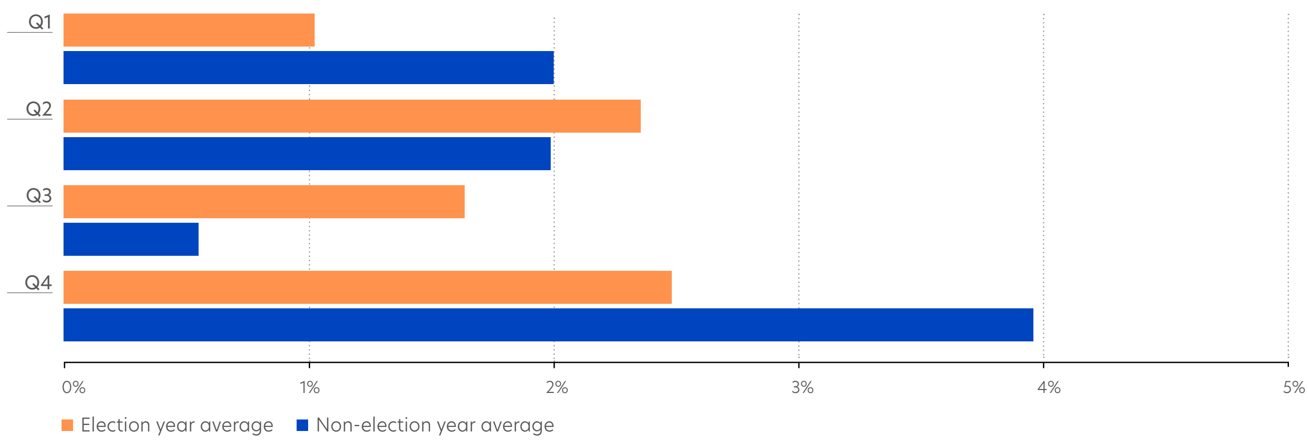
- Focus on fundamentals, as this remains the primary driver for stocks.
- Stay invested and maintain a diversified portfolio to guard against unexpected risks and achieve stable long-term returns.

- With Donald Trump emerging as the winner of the 2024 US presidential election and the Republican party controlling Congress, political uncertainty has been resolved. The outcome provides some clues on the potential direction of US policies.
- Historically, the fourth quarter tends to be the strongest performing quarter for the stock market. However, returns in election years tend to be lower than in non-election years when comparing quarter-on-quarter performance (Figure 1). This trend can be partly attributed to pre-election uncertainties leading to market underperformance. While seasonality does exist, investors should be reminded that this is merely historical trends and not a hard rule of investment.
- Looking ahead to 2025, the Trump presidency and full Republican control of Congress could have significant consequences on economic growth, inflation, and market performance if all proposed policies are implemented.
- It is however unclear how extensively Trump's proposed policies will be implemented. It is important to note that while government policies can influence markets, it is often not the primary driver of returns. Investors should instead focus on fundamentals. Currently, the economy and corporate earnings growth continues to expand, and the US Federal Reserve (Fed) is gradually cutting interest rates, which will likely support stock markets over the medium term.

Figure 1:

The S&P 500 tends to have the strongest performance in the fourth quarter, but election years see lower returns than non-election years

Quarter-over-quarter performance, 1936-2020



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results.

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TOPIC 2:

United States debt ceiling needs to be resolved in early 2025

The United States (US) debt ceiling of USD 31.4 trillion will be reinstated on 2 January 2025 after being suspended since 3 June 2023. Debt ceiling negotiations typically cause some short-term market volatility, although a resolution is likely to be reached in a timely manner this time amid full Republican control of congress.

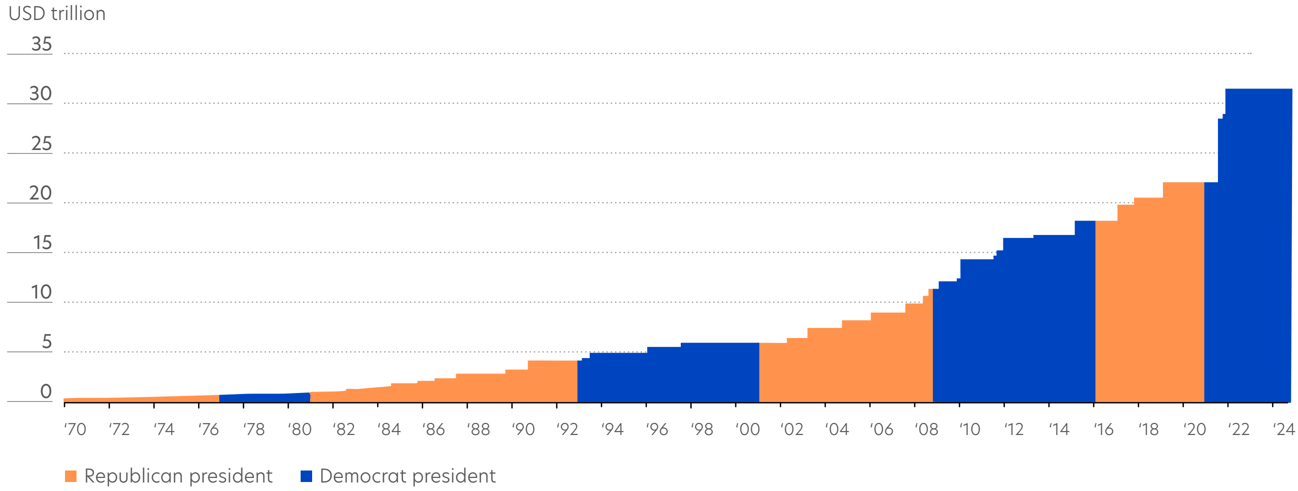
What you can do

- High-quality bonds provide consistent income and potential capital gains when the US Federal Reserve (Fed) cuts interest rates, and serve as a portfolio stabiliser during market volatility.

- Following the US election results, investors are focused on the prospects of pro-growth policies and deregulation. However, the looming 2 January 2025 reinstatement of the US debt ceiling, which limits government borrowing, should not be ignored.
- This is not the first time the debt ceiling issue has surfaced, as it has been suspended or raised over 100 times since its introduction (Figure 2). However, over the past 13 years, debt ceiling negotiations have been fraught due to political disagreements, causing investor concerns and market volatility particularly in the few instances where there was a possibility of US debt default.
- In recent debt ceiling negotiations, the issue was resolved at the last minute with minimal market reaction. With the Republican Party holding full control of the White House and Congress, a quick resolution is likely this time, as the new government will want to avoid default and a fiscal crisis.
- Even if bond market volatility unexpectedly rises as the debt ceiling deadline approaches early next year, high-quality bonds could benefit from the Fed's gradual interest rate cuts, while serve as a portfolio stabiliser amid uncertainties.

Figure 2:

US debt ceiling has been suspended or raised over 100 times since its introduction



Source: FactSet, US Department of Treasury, J.P. Morgan Assets Management

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TOPIC 3:

Broadening opportunities related to artificial intelligence

While United States (US) mega-cap tech companies are driving artificial intelligence (AI), AI adoption is expanding globally and beyond the technology sector. To capture long-term opportunities within AI, investors should adopt a broader approach.

What you can do

- Avoid focusing too much on US mega-cap tech stocks that have dominated the stock market rally in recent years. Instead, explore opportunities across regions and industries that are increasingly integrating AI into their operations and growth strategies.

- The US technology sector, led by mega-cap companies, continues to drive innovation through significant investments in AI and research and development, further supported by the Chips Act of 2022.
- Capital expenditures by these companies are expected to increase over 50% in 2024, reaching approximately USD 200 billion, with further growth expected in the coming years (Figure 3a). While returns on investment may take several quarters or even years to materialise, this spending is backed by robust cash flow generation.
- Importantly, companies beyond the technology sector, including those outside the US, are increasingly adopting AI and boosting related investments. The infrastructure required for AI, such as rising utilities demand from data center powerhouses, is also benefitting from this trend.
- As various markets expand their investments to include a broader range of AI-related opportunities, these investments are translating into improved performance in certain sectors in recent quarters (Figure 3b).
- AI remains a long-term investment opportunity that is still in its early stages. A further reduction in interest rates by central banks, along with a resilient economic environment, should provide a constructive backdrop for AI development. The key is not to focus solely on US mega-cap technology stocks; instead, investors should adopt a broader approach by exploring opportunities across regions and industries that are increasingly integrating AI into their operations and growth strategies.

Figure 3a:

Capital expenditures from US mega-cap companies* are expected to grow further in the coming years

USD billions; * Alphabet, Amazon (AWS), Meta, Microsoft, Oracle

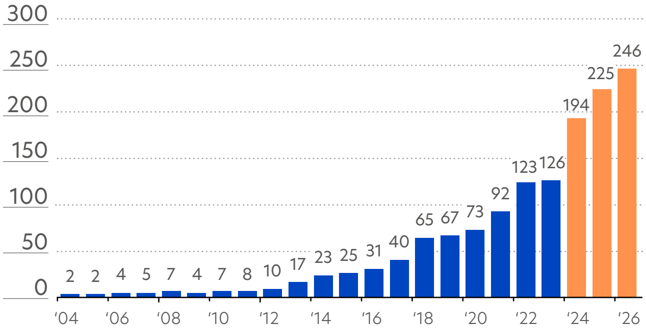
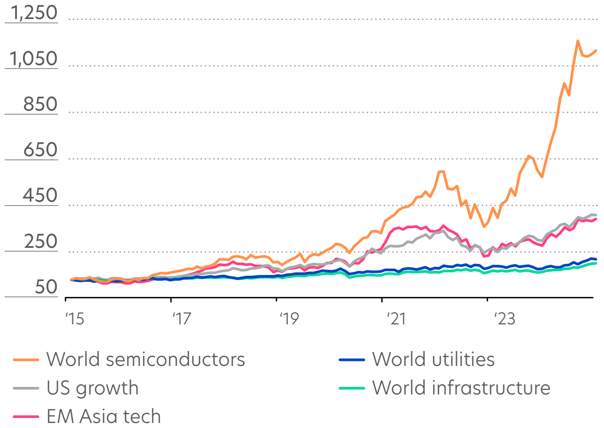


Figure 3b:

Performance in certain sectors have improved due to AI investments

Jan. 2015=100, total return, U.S. dollars



Source: FactSet, MSCI, J.P. Morgan Asset Management

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