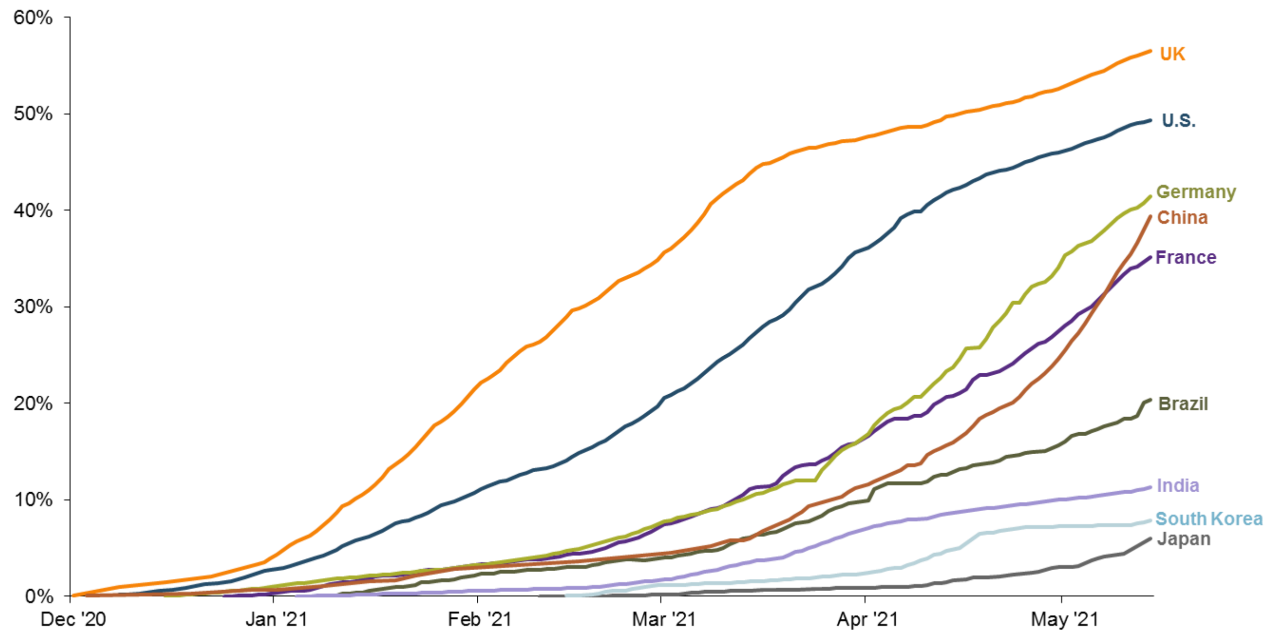
Monthly Investment Update

June 2021

Economy

US stock market indices, such as the S&P 500, touched new all-time highs in April as economic, household, and business data all continued to imply that the recovery from the COVID-19 economic recession remains on track and stable. As of this writing, nearly 50% of US adults have received at least one vaccine dose, which has helped to support a robust reopening of economic activity this spring. Economists and stock analysts have consistently underestimated the strength of the recovery in the labor market and corporate earnings, so the better-than-expected data in 2021 has helped to drive the stock market higher.

Percentage of Adults that Have Received At Least One Vaccine Dose

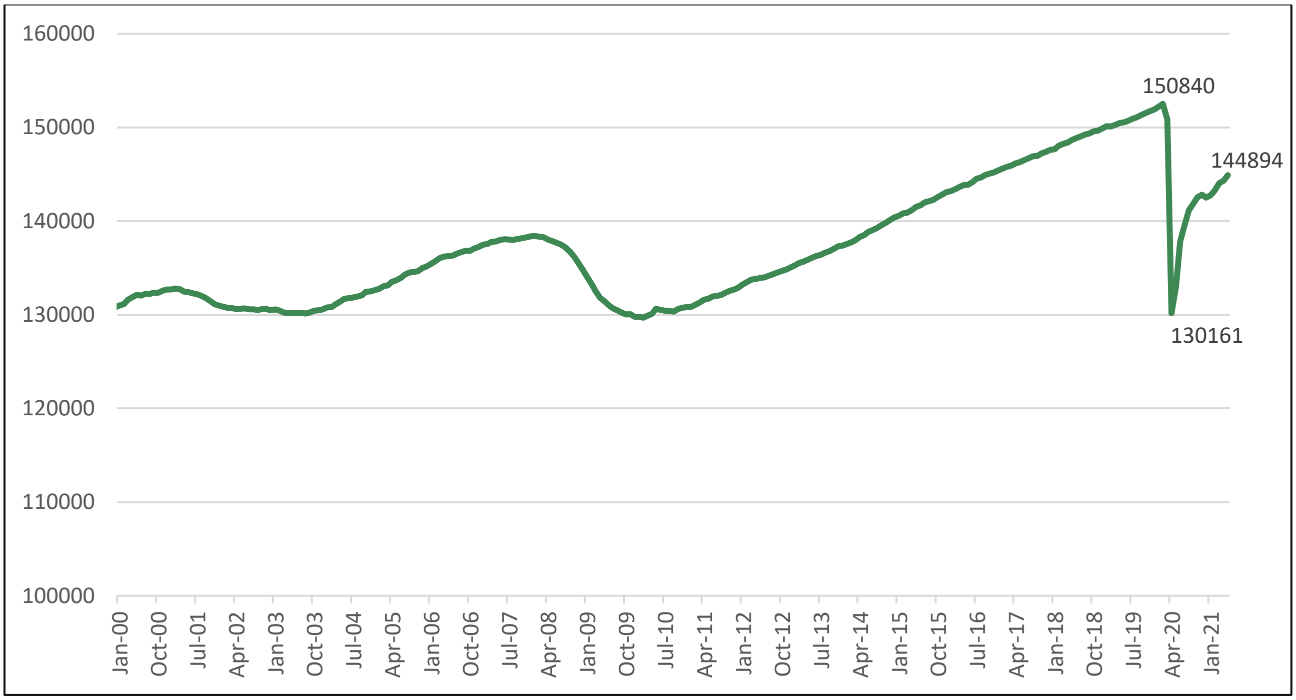


JPMorgan as of May 31, 2021

The labor market has continued its recovery, though the total number of employed Americans is still below pre-pandemic levels (see chart on following page). In early June, the US Bureau of Labor Statistics released their monthly assessment of labor market conditions. 559,000 jobs were added to the economy, which was generally in-line with the consensus estimate of economists of 675,000 (source: Bloomberg).

The economy remains more than 8 million jobs short of pre-pandemic levels, which allows significant room for labor market gains before capacity runs out, which has typically been a challenging point in economic cycles as wage inflation may begin to pressure company profitability on average. In May, leisure and hospitality jobs rose by 292,000 following similar gains during the previous two months as a sign that consumers are anxious to resume in-person activities like dining and travel.

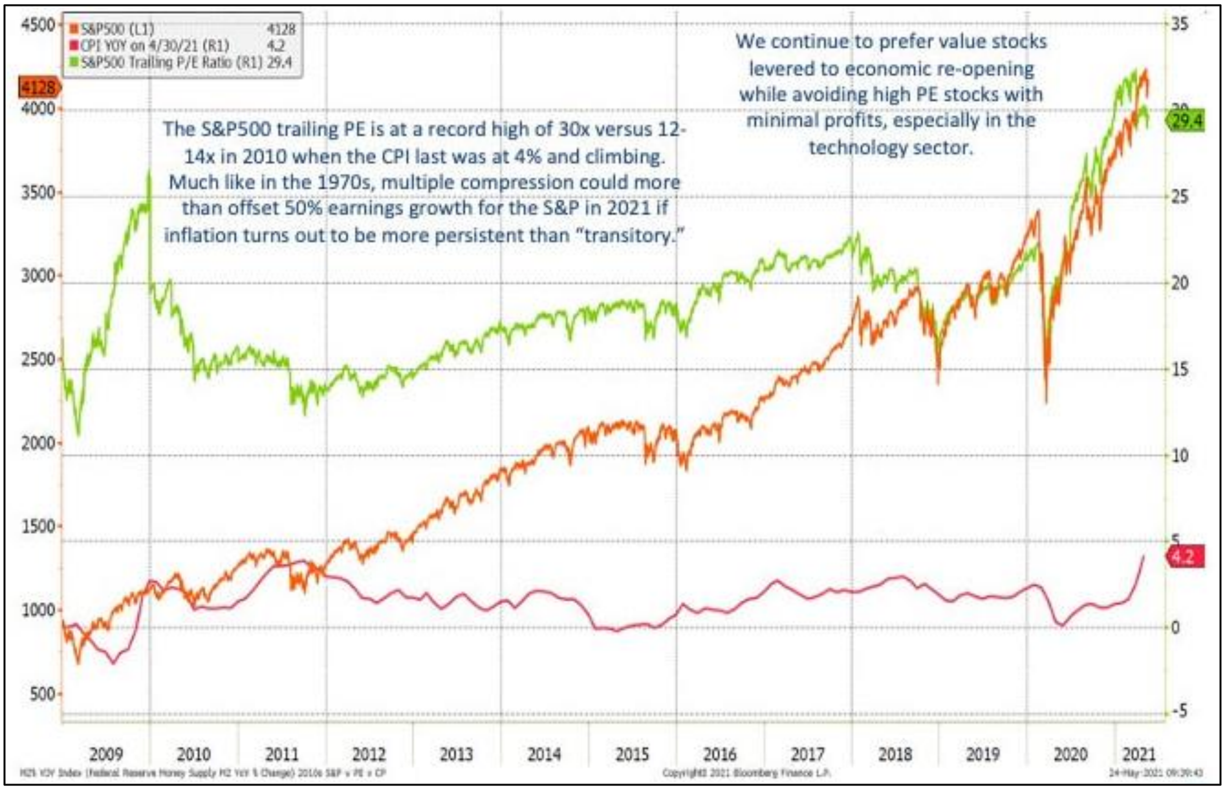
Total Non-Farm US Payrolls (millions)



Source: Bloomberg

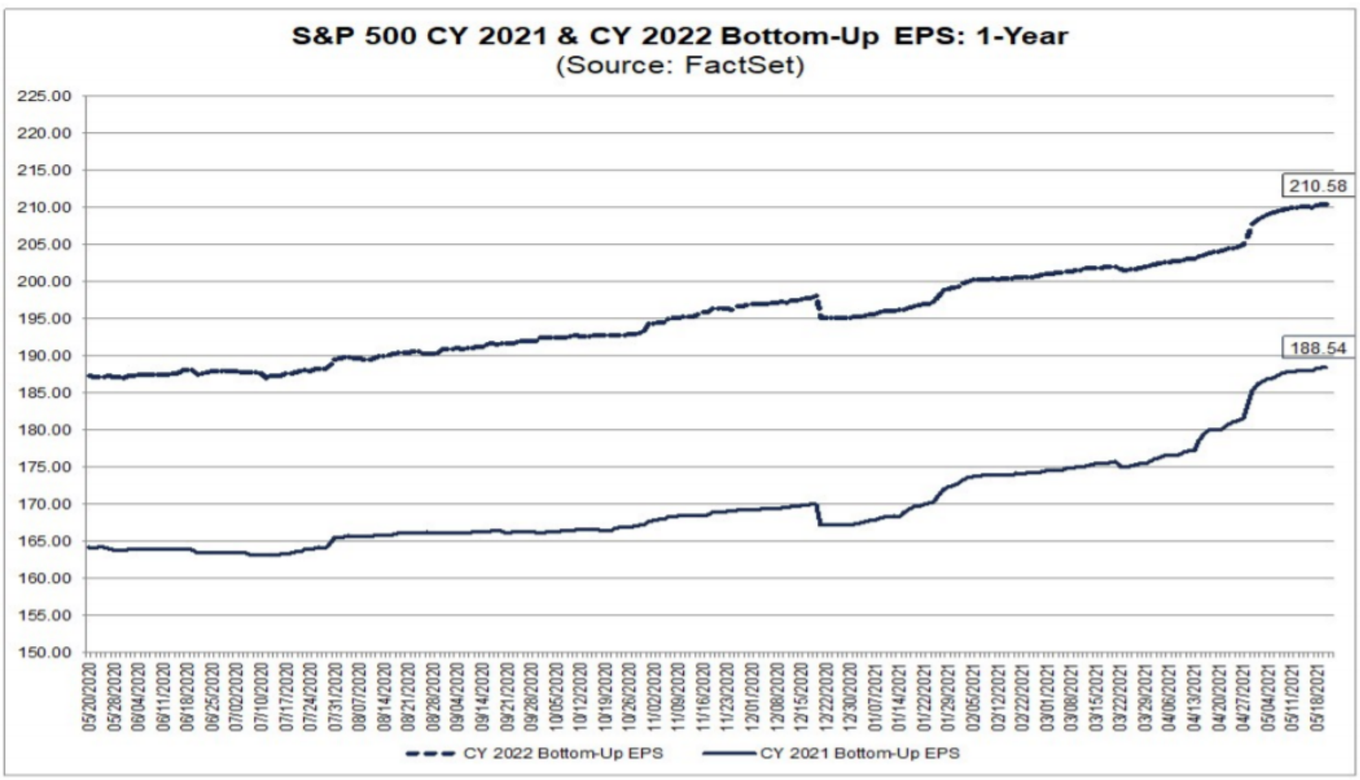
Above average inflation, which has not been a significant concern for most investors in more than a decade is now discussed regularly in the financial media and on corporate earnings calls. While companies and households have witnessed meaningful increases in the costs of labor, materials, and energy over the last year, we do not anticipate runaway inflation that would cause a collapse in corporate earnings and economic activity anytime soon (like the environment witnessed in the 1970s, as highlighted in the first chart below). However, much of the increase in the price investors have been willing to pay for current and future corporate earnings over the last year may be predicated on a very low interest rate and inflation environment. So, while we do not anticipate a hyper-inflation environment, even a return to normal levels of interest rates and inflation may result in a pricing of risk assets. The second chart below highlights the potentially precarious position of the S&P 500 index, which is trading at nearly 30x its most recent year of earnings. But, as we will see in the next section, corporate earnings have continued to recover at a robust pace and outperform expectations, which also provides support / justification for above-average index prices.

The Interaction Between Inflation and the S&P 500 Index



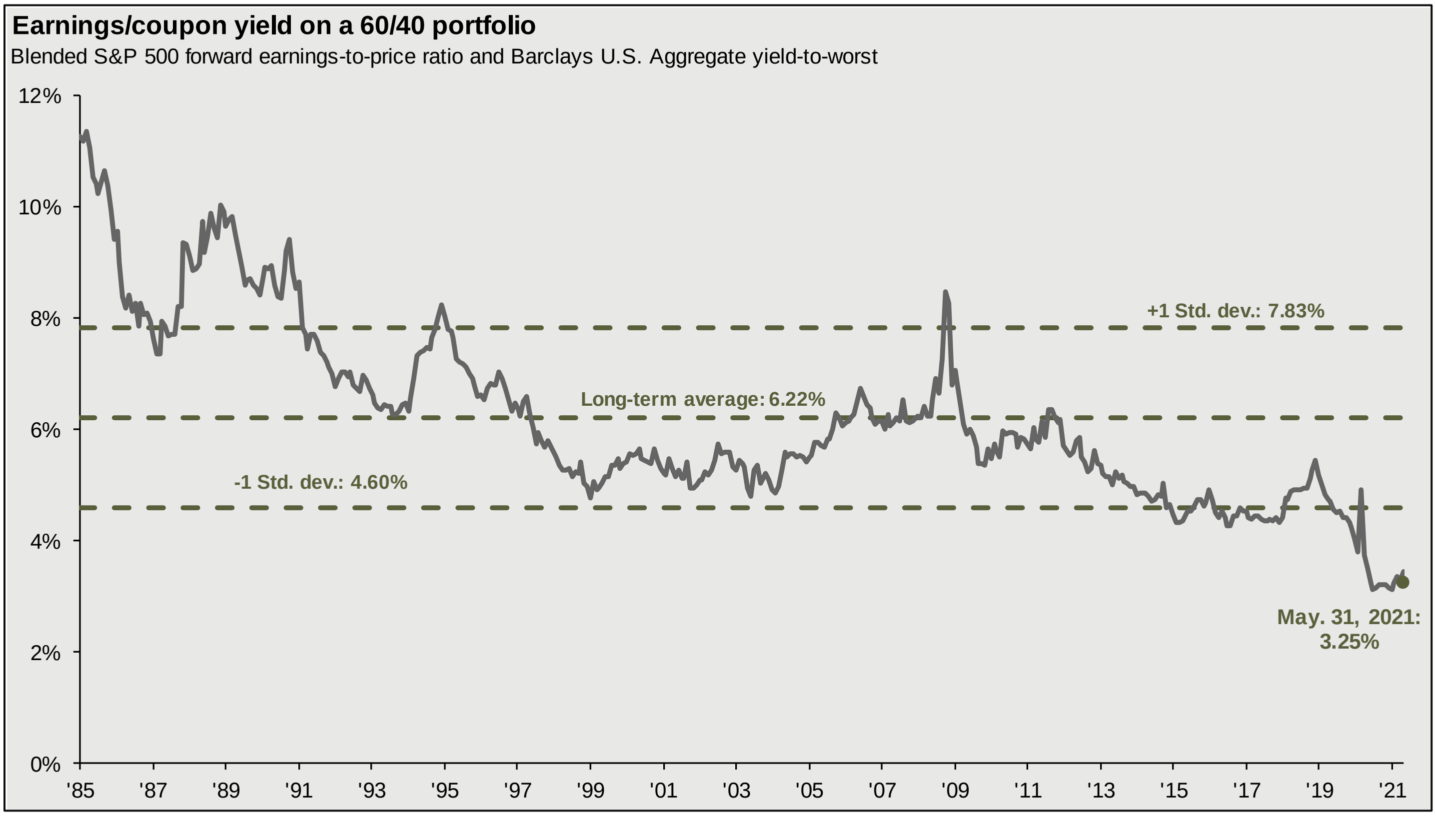
Corporate Earnings

In the first quarter of 2021, 86% of S&P 500 companies outperformed the consensus earnings expectations of Wall Street analysts. The year-over-year growth in earnings was 52%, which was significantly higher than the 24% growth expectation as of March 31st. Additionally, companies and analysts have been upwardly revising their forecasts for calendar year 2021 and 2022. The chart below highlights the future consensus expectation for calendar year 2021 earnings (bottom line) and 2022 earnings (top line) over the past year. For example, as of May 2020, analysts had been expecting, on average, that S&P 500 earnings would be approximately $165 for 2021, and as of May 2021 those forecasts have been revised up to nearly $190. In other words, expectations for 2021 earnings are now 15% higher than a year ago, which has helped to drive the index higher. The same is true for 2022 expectations, which also nearly 15% higher than a year ago.



Valuation

The unprecedented level of fiscal and monetary support in response to the COVID-19 pandemic and recession coupled with the successful vaccination campaign has led to a robust economic recovery in 2021 and above-average asset prices. The chart below highlights the blended earnings and coupon yield of a traditional "60/40" stock and bond portfolio, which is at its lowest level in four decades. These levels do feel precarious and leave less room for error should the economy experience an unexpected reversal of its growth and recovery. Foreign equities may also offer a relative value opportunity compared to the US-based S&P 500 index (second chart below).



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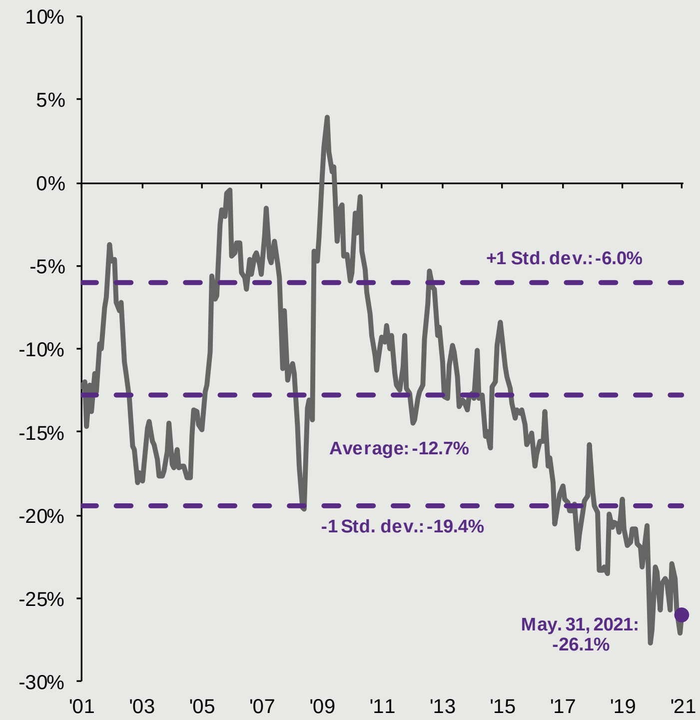
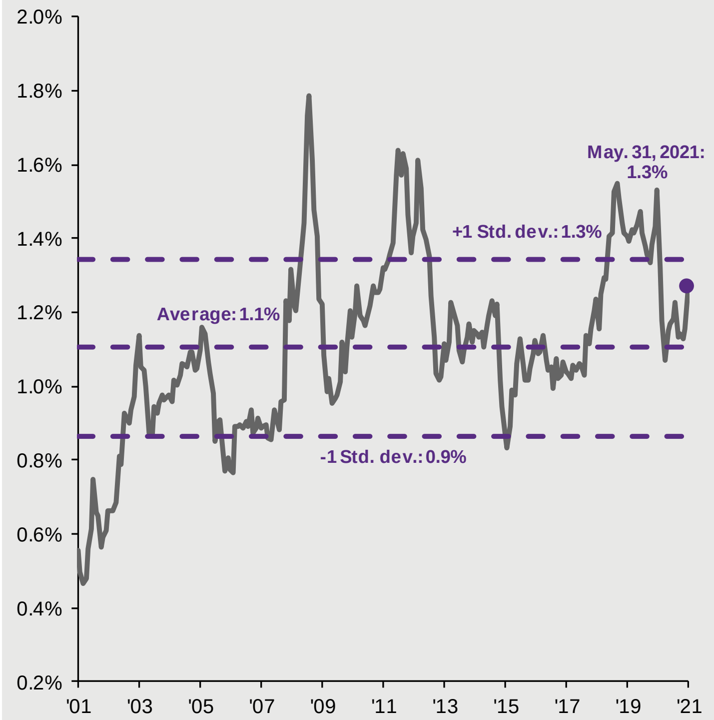
International: Price-to-earnings discount vs. U.S.

MSCI AC World ex-U.S. vs. S&P 500 Indices, next 12 months



International: Difference in dividend yields vs. U.S.

MSCI AC World ex-U.S. minus S&P 500 Indices, next 12 months



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of May 31, 2021.

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Asset Class Returns

Category	Representative Index	May 2021	YTD 2021	Full Year 2020
Global Equity	MSCI All-Country	1.6%	10.8%	16.3%
US Large Cap Equity	S&P 500	0.7%	12.6%	18.4%
US Small Cap Equity	Russell 2000	0.2%	15.3%	20.0%
Foreign Developed Equity	MSCI EAFE	3.3%	10.1%	7.8%
Emerging Market Equity	MSCI Emerging Markets	2.3%	7.3%	18.3%
US High Yield Fixed Income	ICE BofAML High Yield	0.3%	2.3%	6.2%
US Fixed Income	Barclays Aggregate Bond	0.3%	-2.3%	7.5%
Cash Equivalents	ICE BofAML 3 Mo Deposit	0.0%	0.0%	0.5%

Source: Morningstar (total returns shown gross of fees)
As of May 31, 2021

Prices & Interest Rates

Representative Index	May 31, 2021	Year-End 2020
S&P 500	4,203	3,756
Dow Jones Industrial Avg.	34,513	30,606
NASDAQ	13,687	12,888
Crude Oil (US WTI)	$66.32	$48.42
Gold	$1,903	$1,902
US Dollar	90.03	89.94
2 Year Treasury	0.16%	0.13%
10 Year Treasury	1.63%	0.93%
30 Year Treasury	2.30%	1.65%

Source: Bloomberg, US Treasury (total returns shown gross of fees)
As of May 31, 2021