

► Multi-Asset Solutions Strategy Report

Tariff uncertainty and asset allocation

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In brief

- Recent U.S. trade policy announcements have triggered a significant economic shock, affecting global trade relationships, the growth outlook and inflation. The uncertainty created has the potential to reshape the global trading system.
- The macroeconomic implications of the tariffs will impact growth, inflation, and recession probabilities. There is potential for a mild recession in the U.S., with effects on other economies including China, Japan, and the euro area. Monetary and fiscal policies could play a crucial role in mitigating these impacts.
- We are overweight bonds, focusing on attractive valuations and potential rate cuts. Our equity positioning is broadly neutral, reflecting caution due to elevated valuations and tariff-related risks. Credit markets continue to offer opportunities but require careful consideration of underlying economic conditions and corporate fundamentals.
- The U.S. dollar is expected to remain under pressure due to slower growth and a reassessment of U.S. exceptionalism. Many central banks are likely to ease policy to support domestic growth. However, inflation expectations are in flux and regional variations in stock-bond correlations will present both challenges and opportunities.

Summary

In his 1949 text, *The Intelligent Investor*, Benjamin Graham observed that “In the short run, the market is a voting machine; in the long run, a weighing machine.” Periods of market disruption over the subsequent decades have repeatedly borne out this insight. The recent sell-off in equity and bond markets had all the hallmarks of investors voting their view on the tariffs. Now, with the initial shock behind us, we enter a phase where the long-term effects of tariffs on growth, inflation and valuations are weighed.

Given the seismic nature of the tariff announcement and ensuing escalations, there is much the market needs to weigh (**Exhibit 1**). We believe that the period of uncertainty likely persists at least through the 90-day tariff pause announced on April 9, and possibly well into the third quarter.

Growth will inevitably suffer as a result, and we have sharply cut our 2025 fourth-quarter-over-fourth-quarter (4Q/4Q) U.S. GDP forecast, to just 0.5% from 2.1% at the start of the year, and raised recession odds from 20% to 45%. To be clear, recession risk is high but it is not our base case. Still, the U.S. economy may flirt with near-zero growth this year. Hence, we are broadly neutral on stocks, take a modest overweight to duration – mainly outside the U.S. – and stick with an overweight to credit.

While the ongoing tariff shock is hitting corporate confidence and driving earnings forecasts lower, there are reasons for optimism. First, the U.S. economy is entering this period from a position of strength. Typical signs of late-cycle hubris are absent, and private sector balance sheets are in good shape. Should the U.S. tip into recession, there is reason to expect it to be mild.

Tariffs throw sand in the gears for all U.S. trade relationships, yet for other countries, it is sand in the gears for just one bilateral relationship – albeit a key one. It may be that ongoing multilateral trade friction and the realignment of global trade flattens the eventual recovery for the U.S. But elsewhere, stimulus is at least partially offsetting the shock. And, China aside, the limited retaliatory tariffs so far suggest that outside the U.S., tariffs would be a disinflationary shock – potentially allowing a faster and more robust monetary response.

Effective tariff rates under various scenarios

Exhibit 1: Customs revenue as % goods imports



Source: Bloomberg, J.P. Morgan Asset Management Multi-Asset Solutions; data as of April 2024. *Announced policies are as of April 24, 2025.

The initial shock may have passed but the economic impact of a negative growth/positive price shock in the U.S. and a disinflationary shock to the rest of the world will take time to ripple through. Faith in U.S. exceptionalism has been shaken and even if tariffs are quickly dialed down, we doubt the valuation premium previously enjoyed by U.S. assets will fully recover.

Price action following tariff announcements – yields up, stocks down, the U.S. dollar down, volatility up, cross-currency basis¹ curiously well-behaved – points to widespread outflows from U.S. assets, which could persist even if tariffs are walked back.

Some of the more excitable bears whisper that the U.S. dollar's role as a reserve asset could be under threat. We disagree. While we note the economic axiom that trade deficit equals capital surplus, we do not believe that efforts to better balance the U.S. current account will mechanically drive reserves away from the dollar.

The depth of the Treasury market far exceeds comparable sovereign markets, so while rebalancing away from the U.S. may continue at the margin, it's more likely to be a steady drip than a stampede.

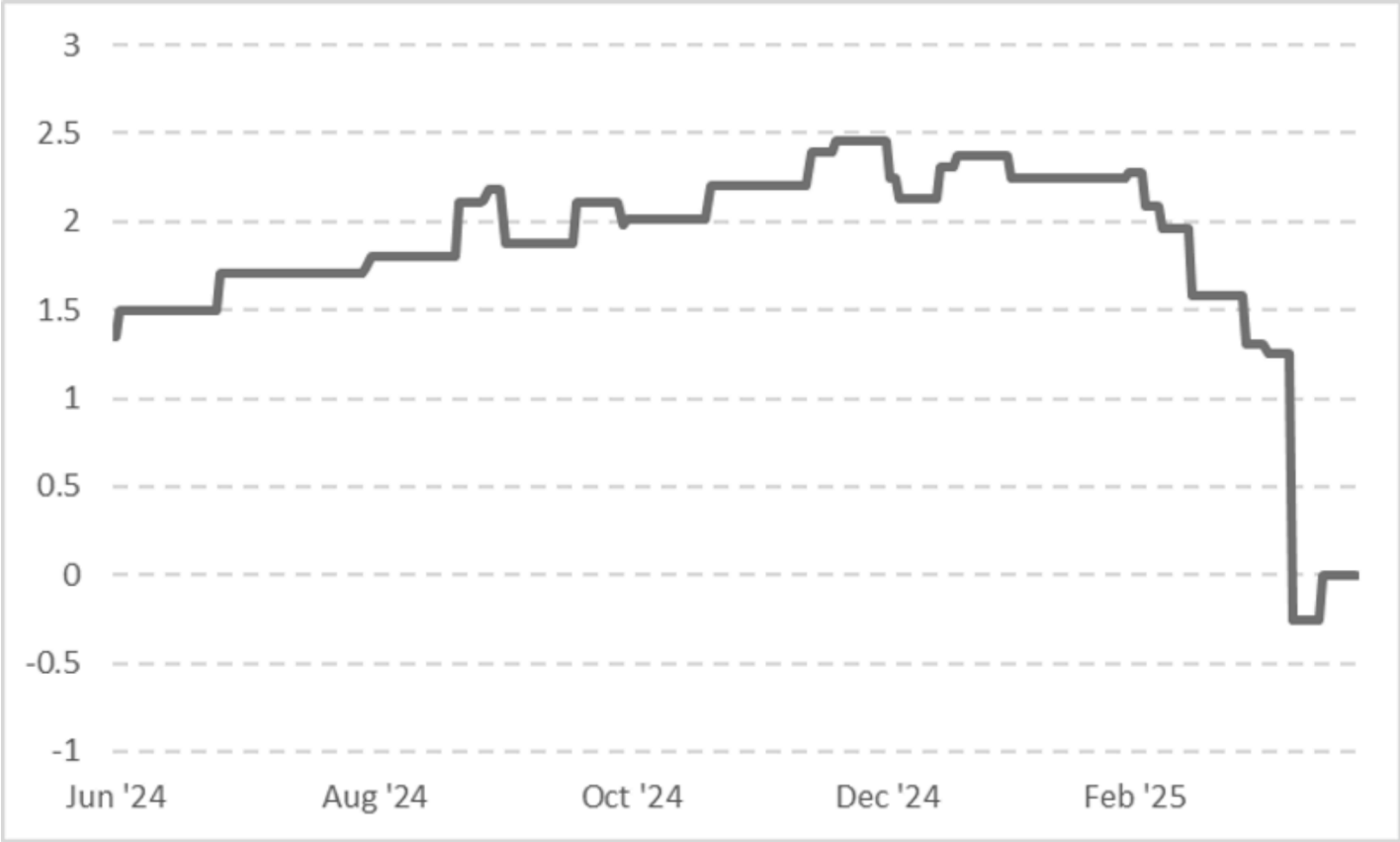
In sum, tariffs represent a major economic shock that has yet to fully flow into macro data and earnings expectations. The febrile trade negotiation process acts as a further headwind to confidence, and we expect growth to slow sharply, but the robustness of private sector balance sheets may be a powerful shock absorber. As the shape of tariffs becomes clearer, we expect dislocations to lead to opportunities but for now, we expect markets to remain skittish and believe macro risks are tilted to the downside.

Macroeconomic outlook

Recent U.S. trade policy announcements have introduced a significant shock to the global economy, potentially reshaping global trade relationships. The U.S. effective tariff rate has risen sharply, creating uncertainty about future trade deals and the trajectory of economic growth (**Exhibit 2A** and **Exhibit 2B**). We project 2025 U.S. GDP growth of 0.5% 4Q/4Q, with a 45% probability of recession. However, the resilience of private sector balance sheets is a key reason we favor balance sheet-gearred assets, such as credit, over more growth-gearred assets, such as equity.

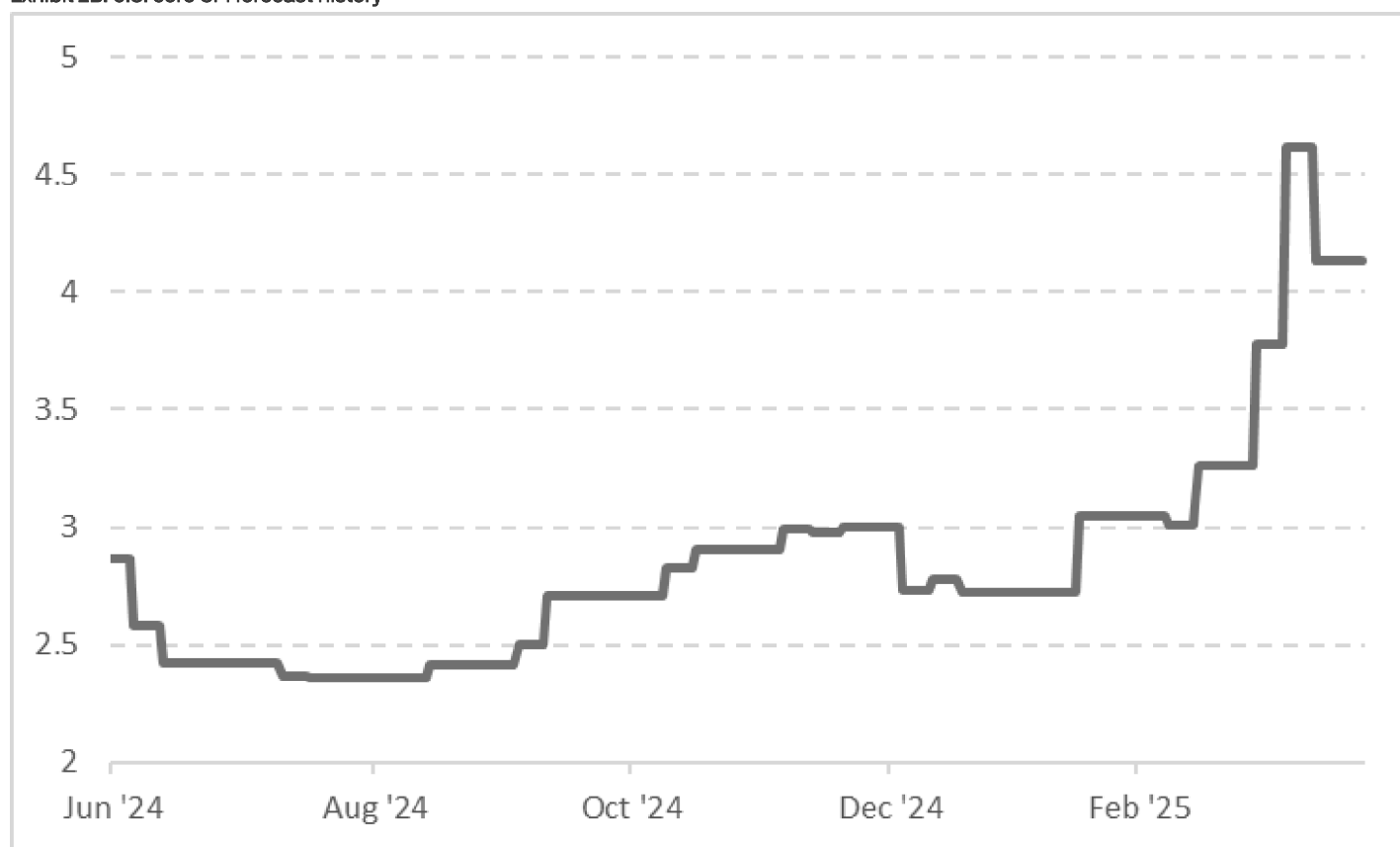
GDP growth forecasts have been downgraded; inflation forecasts have risen

Exhibit 2A: U.S. GDP growth forecast history



Source: Bloomberg, J.P. Morgan Securities LLC, J.P. Morgan Asset Management Multi-Asset Solutions; data as of April 2025.

Exhibit 2B: U.S. core CPI forecast history



Source: Bloomberg, J.P. Morgan Securities LLC, J.P. Morgan Asset Management Multi-Asset Solutions; data as of April 2025.

We see U.S. core CPI inflation rising to 4.1% year-over-year (y/y) by the end of 2025, driven by cost-push pressures from higher tariffs. The Federal Reserve (Fed) is likely to cut rates as growth slows but the timing remains unclear. The U.S.-China trade freeze poses significant global risks but stronger policy support in China may offset some challenges. Japan and the euro area face their own tariff-related challenges, but fiscal and monetary policies are expected to provide support.

While future trade deals may reduce tariff rates, the extent remains uncertain. In our base scenario, we expect the U.S. effective tariff rate to decrease to slightly below 20% as retaliatory tariffs on China drop to around 60%, and negotiations lead to some tariff concessions for certain economies. Consumption will likely be supported by frontloading during 2Q, due to the 90-day delay in reciprocal tariffs. The negative impact on capex could emerge sooner due to weaker business sentiment.

Although a recession is a close call for the U.S. economy, given the strong private sector balance sheet, any recession is likely to be mild as there is limited need for prolonged corporate and household deleveraging.

Recent Fed communications indicate a cautious approach to the U.S. inflation outlook. with Fed Chair Jerome Powell stating on April 4, "It feels like we don't need to be in a hurry." Despite a higher inflation forecast for 2025, we expect the Fed will cut rates by 25 basis points (bps) three to four times this year, starting in June, as growth slows and unemployment rises. However, the risk is that the Fed will wait for labor market weakness before cutting rates, especially if household inflation expectations continue to rise.

Growth outlook around the globe

A key question for both U.S. and global growth is how quickly the U.S. and China can agree to lower retaliatory tariffs from their current high levels. If the U.S.-China trade freeze persists, it will have significant negative effects globally. Furthermore, if the current 145% additional U.S. tariff on China remains, the total drag on China's 2025 GDP growth could be as high as 3 percentage points (ppts).

While there are downside risks to our 2025 China growth forecast of 4.0% y/y, we expect stronger policy support to partially offset the tariff challenges. We believe the recent trade tensions will prompt Chinese policymakers to accelerate policy easing. Fiscal policy-wise, we expect additional stimulus measures in China, potentially increasing the fiscal impulse by up to 2ppts, including support for consumer goods trade-ins and equipment upgrade programs, fertility and childcare subsidies and property inventory and land destocking.²

Japan was widely expected to avoid large U.S. tariffs, so the 24% reciprocal tariffs Washington announced on April 2 (currently on 90-day pause) came as a surprise. With tariffs currently at 10%, we estimate the impact of higher tariffs and uncertainty on Japan's real GDP growth will be around 0.3ppt–0.4ppts. Domestically, the virtuous cycle between wages and prices appears intact.

Robust wage hikes in the initial FY25 Shuntō³ data suggest that around 3% nominal macro wage growth will persist, likely returning real wage growth to positive in 2H25 as inflation moderates, which would support a gradual recovery in domestic consumption. Consequently, we have revised down our 2025 GDP growth forecast for Japan by 40bps, to 0.5% 4Q/4Q.

We maintain our call for the next Bank of Japan (BoJ) rate hike to occur in July, with balanced risks to our base case of two hikes per year. The BoJ's cautious approach will likely continue due to concerns about external demand and/or financial market turmoil. However, the BoJ may hike earlier if the Trump administration pressures Japan to address JPY weakness.

For the euro area, the success of negotiations with the U.S. remains ambiguous. Beyond the direct impacts of new U.S. tariffs, global supply chain disruptions and policy uncertainty are likely to further burden euro-area growth. We have lowered our 2025 euro-area GDP growth forecast, to 0.4% 4Q/4Q. We expect growth to improve in 2026 as European Central Bank (ECB) rate cuts and fiscal easing provide support.

The disinflationary process in the euro area appears on track and the net effect of a trade war is likely negative for inflation. With weaker growth and muted inflation, we see room for the ECB to cut below our current assumption of a terminal rate at 1.75%.

Rates

As the growth outlook deteriorated over 1Q25, our tilt towards duration increased and we have maintained an overweight position in bonds since early March. Core government bonds remain a diversifier to equity exposure, but volatile stock-bond correlations and risks from potential fiscal stimulus and foreign selling of U.S. Treasuries continue to be important factors to consider. Nevertheless, we look through prevailing bond market volatility, and continue to favor a long bias in global duration.

For U.S. Treasuries, the tension between higher inflation pressure and weaker growth has steepened curves more than it has pushed rates down in the belly of the curve. Lower rates along the curve depend on the Fed's evolving reaction function. Internationally, we favor duration in higher yielding bond markets, such as Italy, UK and Australia, that benefit from higher carry and have central banks with clearer room to cut rates more than markets are currently pricing. By contrast, central banks in U.S., Canada and Japan may have less scope to cut rates aggressively.

Preferences in global duration

In Australia, we like the positive carry and softer inflation trends that should allow the Reserve Bank of Australia to cut policy rates, after its longstanding hawkishness and tendency to worry about labor market tightness. Our quant model is picking up strong disinflation trends in Australia.

In Italy, we see government bonds (BTPs⁴) as a higher carry way of expressing a positive view on European duration (as **Exhibit 3** shows, the correlation of BTP yields to German Bund yields is strongly positive). We also see low risk that BTP spreads meaningfully widen, given the minimus eurozone break up risk and the scope for the ECB to cut rates aggressively in the coming quarters.

The correlation of BTP yields to German Bund yields is strongly positive

Exhibit 3: BTP and Bund yield correlation (2012—present)



Source: Bloomberg, J.P. Morgan Asset Management Multi-Asset Solutions; data as of April 2025.

Both our fundamental research process and our quantitative models see value in core duration. U.S. real yields above 2%, and correlations between U.S. stocks and bonds moving towards negative territory as growth cools, highlight the utility of duration as a portfolio diversifier. Furthermore, after the recent rise in yields, the 3m10y yield curve now has a positive slope, making the cost of holding longer-dated bonds (the carry of holding duration) less of a headwind.

In contrast to the material tariff-related inflation risk in the U.S., we expect to see further disinflation in the eurozone—given its below-potential growth rate and the high uncertainty surrounding tariffs. This reinforces our preference for European duration, which we choose to express principally via Italian BTPs and UK Gilts.

We see funding opportunities in Japan and Canada, as these markets screen expensive on a relative basis. Japanese government bonds (JGBs) recently outperformed along with the global duration rally, falling back close to 1% and cleaning out BOJ pricing for a further hiking cycle. We see this as an opportunity to increase our underweight exposure.

We also see an opportunity to use Canadian bonds as a funding source, primarily on a valuation basis. Canadian spreads are tight and bonds are expensive vs. other major sovereign markets, driven by the Bank of Canada's proactive rate cuts that appear to be working their way slowly through the Canadian economy. We also see a greater chance of tariff relief for Canada than for regions such as the eurozone, which would provide relief for Canadian bonds.

FX

Given our conviction that capital outflows from U.S. assets will continue as a steady trend, we favor a modest USD underweight. A USD underweight can also capture the material slowing in U.S. growth and the narrowing of its growth outperformance relative to peers. The reassessment of U.S. exceptionalism, coupled with lower secular demand for U.S. assets, particularly from European investors, should exert further downward pressure on

the dollar. The USD’s persistently expensive valuation, on both a real effective exchange rate (REER) and purchasing power parity (PPP) basis, reinforces our underweight stance.

Conversely, we are overweight the euro, driven by rising medium-term growth prospects. The German fiscal spending announcement, and the potential for European reform outlined in ECB President Mario Draghi’s report last autumn, suggest significant growth opportunities in defense and infrastructure investment. While the market may have overreacted to these developments, we view them as transformative for the eurozone’s investment outlook, with modest near-term growth impact but substantial long-term potential. Tariffs remain a risk, likely weighing on eurozone growth, but government spending, and the repatriation of funds from U.S. assets, are likely to present offsets.

We maintain a neutral stance on JPY. Although the currency benefits from safe-haven flows and potential Japanese economic normalization (**Exhibit 4**), our models indicate carry as a persistent headwind, with long positioning becoming the consensus.

We maintain neutral JPY positioning as the currency appreciates

Exhibit 4: JPY Z-score (2018–2025)



Source: Bloomberg, Citi, CFTC, BNP, J.P. Morgan Asset Management Multi-Asset Solutions; data as of April 2025.

Regarding CHF, we initially leaned into the Swiss National Bank’s cutting cycle, amid weak inflation and efforts to devalue the CHF. However, maintaining an underweight allocation to CHF proved challenging, since it continues to be a safe haven in a volatile environment. Despite the global tariff situation having potentially moved past peak policy uncertainty, a return to calmer global markets is not guaranteed. Consequently, we have shifted to a neutral position on CHF.

Credit

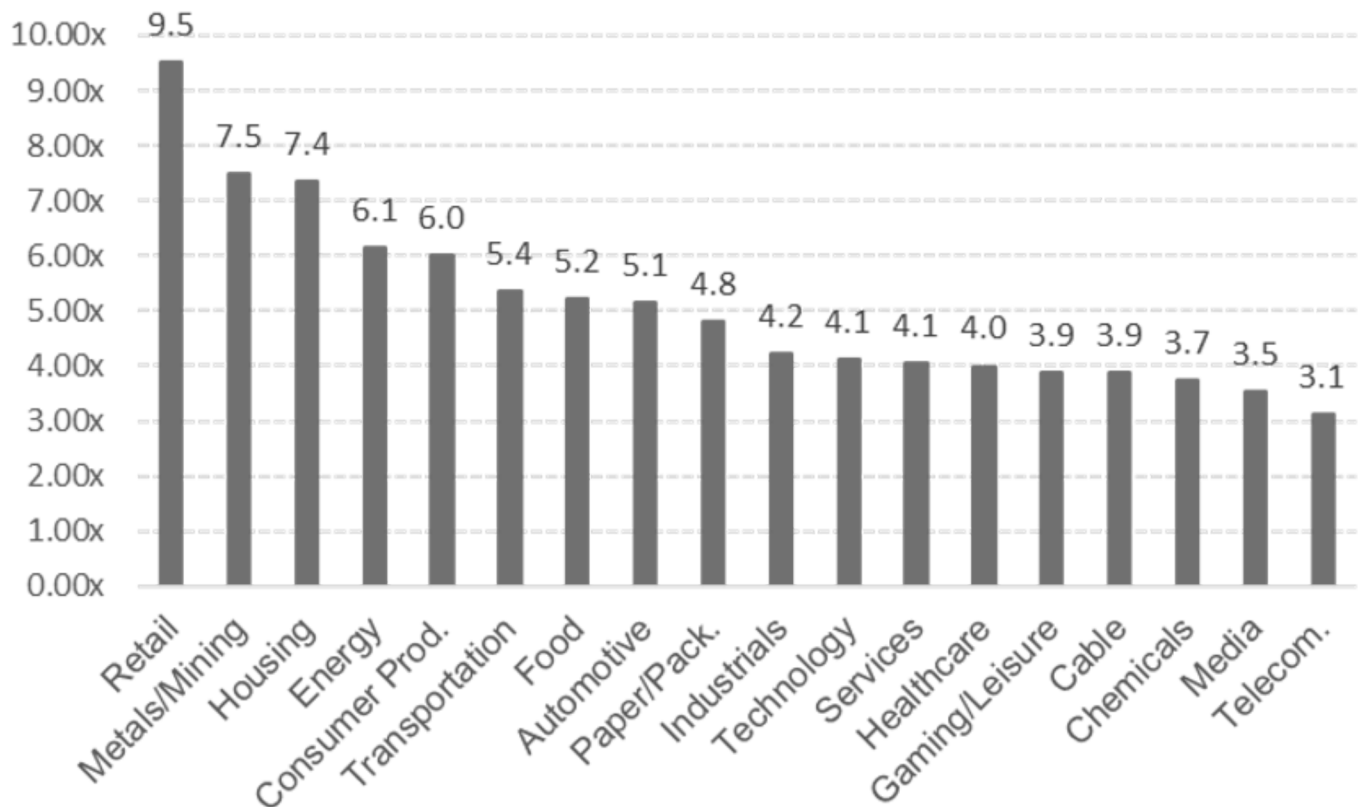
Many investors consider credit to be a “no recession” asset class – meaning credit can endure even as growth slows, provided the economy avoids a recession. However, tariff-related uncertainty, including increased probabilities of sharply slower growth, inflation, and greater recession risk, have raised questions among credit investors.

Still, recession is not our base case. Consequently, we maintain a constructive view on credit, with a preference for high yield (HY) over investment grade (IG), and U.S. dollar-denominated emerging market debt. Credit spreads have widened but haven't hit a compelling entry point yet. While the economic picture has deteriorated, corporate fundamentals remain solid. And since only 15% of U.S. HY issuers' revenues are generated abroad, direct tariff impacts may be muted compared to equities.

While risks have increased at the margin in the HY market, at the sector level, interest coverage ratios are generally healthy. For instance, only 11% of HY companies have an interest coverage ratio below 2x earnings, providing some comfort to investors. Telecom, a sector marked by high leverage and low coverage ratios, may present opportunities for security selection. Retail and health care, two sectors exposed to tariffs, have on average ample coverage ratios, of about 9x and 4x, respectively (Exhibit 5).

High yield bond issuer interest coverage ratios vary by sector

Exhibit 5: EBITDA-to-net interest expense



Source: J.P. Morgan Investment Bank High Yield Strategy, J.P. Morgan Asset Management Multi-Asset Solutions; data as of December 2024.

From a technical perspective, primary markets remain open but issuance has slowed since the U.S. announcement of hawkish trade policies. Newly issued IG bonds are trading at wider spreads, some pending issues are being postponed and banks are facing challenges in syndication. Some credit mutual funds and ETFs have also seen outflows.

The high yield market is sensitive to U.S. economic activity. Recent survey data imply wider spreads, while labor and consumer data suggest tighter spreads. Spread volatility is likely to remain elevated and this data tug-of-war to continue until greater clarity emerges on trade policy.

The historical relationship between high yield issuers' revenue growth and nominal GDP growth is robust. Nominal growth of 2% historically has aligned with a 5% high yield market default rate. Assuming a U.S. real growth rate of 0.5% and inflation of 3.5% in 2025, the implied HY bond market default rate would be 4.1%. Current spreads imply a default rate of around 3% and the trailing 12-month default rate at publishing time was at a 2.5-year low of 1.2%. Markets are pricing in some pain, which seems justified even if recession is avoided.

Overall, we remain comfortable treating HY as a going concern. Spreads are predictably reflecting the macroeconomic environment. However, the asset class remains subject to policy uncertainty and volatility is expected to persist until tariffs are removed or the wait ends for clarity on fiscal policy.

Equity

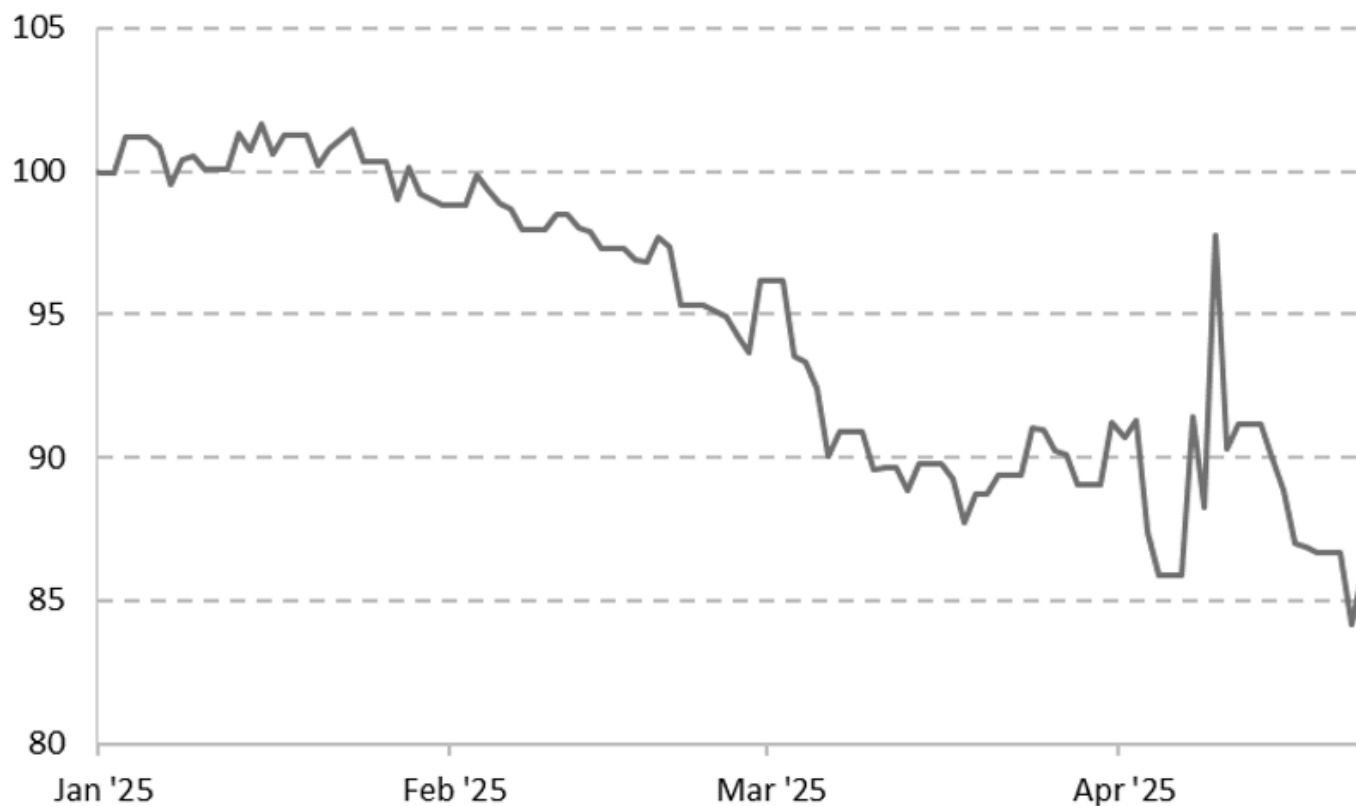
At the start of 2025, our baseline outlook for equities was generally favorable. While we did not anticipate another year of 20%-plus returns given elevated starting valuations, double-digit U.S. earnings growth seemed poised to drive global equities higher. However, as we noted in December 2024, U.S. policy changes – and their timing – were the key risks. These risks materialized quickly as the Trump administration focused first on significantly altering tariff and immigration policies, adopting a more aggressive and volatile approach than we had anticipated.

The MSCI ACWI index has declined by 7% year-to-date and by 11% since the peak in February 2025. The sell-off was initially driven by U.S. equities, as investors began to question the path of U.S. growth, the mega-caps' elevated valuations and the broader theme of whether U.S. exceptionalism would survive the shifting global trade order and U.S. public spending cuts.

Non-U.S. equities were resilient at first, due to their relatively lower valuations and lighter investor positioning compared to the U.S. Sentiment improved around Chinese assets (after DeepSeek emerged as a potential U.S. AI competitor and Beijing shifted its policy stance towards the private sector) and a pickup in European growth forecasts followed Germany's unprecedented fiscal stimulus package. However, as the global trade war has escalated, non-U.S. equities have plunged 13% from their peak (**Exhibit 6**).

Resilient at first, non-U.S. equities have plunged as the global trade war has escalated

Exhibit 6: U.S. equities vs. MSCI ACWI ex-US YTD performance



Source: Bloomberg, J.P. Morgan Asset Management Multi-Asset Solutions; data as of April 2025. Index: Jan 1, 2025 = 100.

Despite the sell-off, we are not yet ready to buy the dip and we maintain a broadly neutral position in our portfolios. Since the start of the year, we have cut our 2025 U.S. earnings growth forecast from 11% to near zero to take account of tariff frictions and slower growth. However, the consensus continues to expect around 10% EPS growth this year, faster than the earnings growth delivered in 2024.

U.S. valuations remain elevated, at around 19x forward earnings, and a sustained re-rating is unlikely while the trade war continues. Risks that weak survey data starts to spill over into hard data, together with the wait-and-see policy setting prevailing at the Fed, also act as headwinds to multiple

expansion. The equity market also appears now to matter less to members of the Trump administration than the bond market as a barometer of their evolving economic policy – which suggests, in turn, that any “Trump put,” should one exist, is struck in the bond market not the stock market.

To increase our equity risk in portfolios, we are looking for one or more of the following: valuations that reflect overly pessimistic sentiment; resilient U.S. economic data or a shift away from tariffs and spending cuts towards growth-friendly policies, such as tax cuts or deregulation.

U.S. companies account for more than two-thirds of ACWI market cap – keeping us wary of taking equity beta risk in the near term while the outlook remains so uncertain. Nevertheless, we see opportunities for judicious relative value positions both outside the U.S. and within U.S. sectors.

Among non-U.S. regions, we favor cheap (Hong Kong, Japan) and defensive markets (U.K.). relative to more expensive (U.S.) and cyclical ones (Canada). Hong Kong equities should also benefit from investment in non-U.S. AI and China’s potentially imminent fiscal stimulus to combat the impact of tariffs. Japan’s economy was reflatting prior to tariffs and appears likely to be one of the first countries to reach a trade deal with the U.S., and the government has scope to provide fiscal support, if needed.

In the U.S., our more preferred sectors are communication services and utilities, which provide a combination of AI exposure and defensiveness. Stocks most exposed to AI have plummeted this year, first on concerns about DeepSeek, and then as investors jettisoned risk on recession fears. The Magnificent Six⁵ – a proxy for the AI theme – now trades at around 21x forward earnings, lower than its troughs during COVID and the 2022 bear market.

Information technology stocks also provide AI exposure; however, we remain neutral on the sector as it is more cyclical than communication services and utilities. It is also more exposed to specific sectoral tariff threats and relies on many imported Chinese components. Our preference for defensiveness and insulation from tariffs drive our underweights to materials and staples, respectively.

Portfolio Implications

Across our multi-asset portfolios, we have significantly reduced equity risk, added duration and maintained a reasonable allocation to credit. This positioning reflects our base-case expectation that the economy undergoes a sharp growth slowdown while sidestepping recession. We anticipate a sizeable hit to corporate earnings but believe that resilient private sector balance sheets will prevent a drop in profits from morphing into a solvency or credit crisis. Central banks are set to turn more dovish as growth slows, although policymakers outside the U.S. likely have more latitude to bring rates down.

Our preference for credit over equity reflects our view that income statements are more at risk from tariff uncertainty than corporate balance sheets. We expect consensus earnings forecasts to be cut meaningfully in the months ahead, which could weigh on equity markets. While lower expected earnings would probably spark some spread widening, we see few signs of distress among borrowers today. Moreover, as growth weakens, we expect riskless rates to decline, offsetting part of the impact should spreads widen. Above all, we believe that equities are both more exposed to tariff risks and, being more liquid than credit, a better means of modulating overall portfolio risk levels.

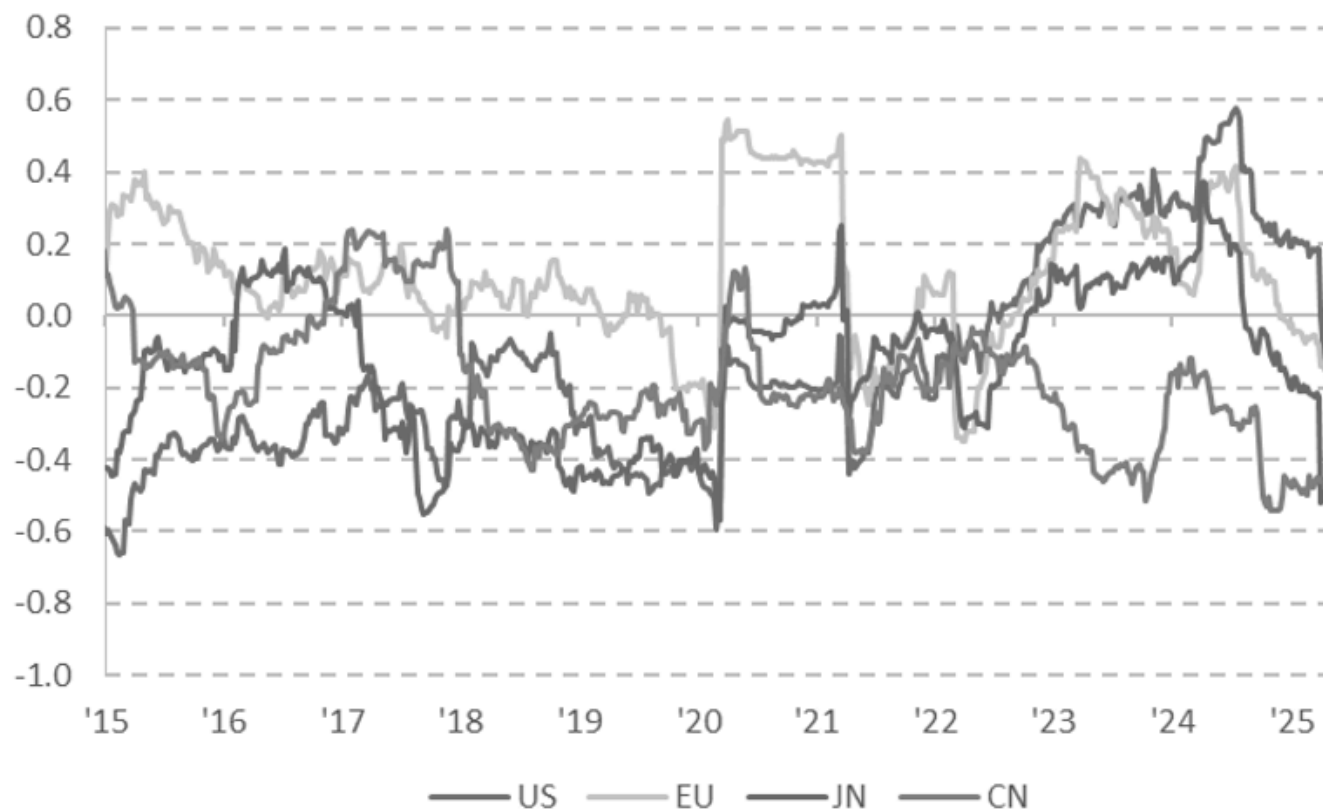
The U.S. economy faces a combined negative growth shock and positive price shock from tariffs, which have manifested in yield curve steepening and a decline in the dollar. We expect curve-steepening pressure to persist, so we favor holding U.S. duration at the shorter end of the curve.

Away from the U.S., however, the impact of tariffs is more of a disinflationary shock, giving central banks in those regions more room to cut and longer-dated yields more room to fall. Should the global growth shock be greater than our forecasts, we believe that duration positions in markets such as the UK, Italy and Australia will offer good portfolio protection.

A disinflationary environment outside the U.S. suggests greater potential for stock-bond correlation to remain in negative territory (Exhibit 7), allowing us to lean more into equity risk in non-U.S. developed markets and add local bonds as ballast to the portfolio. However, in the U.S., the inflationary impulse from tariffs may keep stock-bond correlation positive, limiting the effectiveness of U.S. Treasuries as a portfolio hedge.

Disinflation outside the U.S. suggests greater likelihood negative stock-bond correlation persists

Exhibit 7: Stock bond correlation in US, EU, JN, CN, rolling 52-week correlation



Source: Bloomberg, J.P. Morgan Asset Management Multi-Asset Solutions; data as of April 2025.

Overall, our preferences for credit over equities, our modest tilt toward non-U.S. assets, and our holding of international duration hedges with a steepening bias in U.S. Treasuries, help us navigate both the uncertainty of tariff negotiations and the certainty of slower growth. As clarity emerges on trade negotiations and economic data, we remain poised to make opportunistic adjustments to our portfolio strategy.

Exhibit 8: Multi-Asset Solutions Asset Class Views

| Asset Class | Opportunity Set | UW | N | OW | Change | Conviction | Description |
|---------------------------|-----------------|----------------------|---|----|--------|------------|---|
| Main asset classes | Equities | ○ | ● | ○ | ▼ | | Global growth converges toward trend, supporting ongoing earnings growth; valuations a headwind even with easing cycle in play |
| | Duration | ○ | ○ | ● | ▲ | Low | Rate cutting cycle limits upside for yields and moderation in the pace of U.S. growth supports a constructive view |
| | Credit | ○ | ○ | ● | | Moderate | Below-trend growth, healthy fundamentals, and attractive all-in yields supportive despite tight spreads |
| Preference by asset class | Equities | U.S. | ○ | ● | ○ | ▼ | Solid EPS growth – driven by tech – and quality bias are supportive, but elevated valuations will remain a headwind while policy uncertainty persists |
| | | Europe | ○ | ● | ○ | ▲ | More robust fiscal impulse and "Europe first" agenda supportive, but valuations stretched versus history and positioning more neutral than start of 2025 |
| | | Japan | ○ | ○ | ● | | ModerateMost positive earnings outlook and revisions across regions, reasonable valuations, and light positioning; upside risk from corporate governance |
| | | UK | ○ | ○ | ● | | LowAttractive valuations (especially relative to other DM equity markets) and limited tariff risk partially offset by mixed fundamentals and technicals |
| | | Australia | ● | ○ | ○ | | ModerateWeak earnings growth, negative revisions, and stretched valuations; soft demand for base metals a headwind to mining sector |
| | | Canada | ● | ○ | ○ | ▼ | ModerateNegative technicals and low quality characteristics, with the risk of further downside from trade war with the U.S. |
| | | Hong Kong | ○ | ○ | ● | | LowLow valuations, improving outlook for the tech sector, and shift in private sector stance supportive; however, fiscal policy remains reactive and insufficient |
| | | EM | ○ | ● | ○ | | Valuations are attractive on a relative basis and ERR's are improving, although U.S. trade policy and persistent outflows remain a risk |
| | Fixed Income | U.S. treasuries | ○ | ○ | ● | ▲ | LowDisinflation process intact despite sticky price pressure; rates likely range-bound but risk is to the downside given below-trend growth |
| | | German Bunds | ○ | ● | ○ | ▼ | Valuations more attractive after recent rise in rates, but debt brake reform & increased defense spending will lead to structurally higher deficits |
| | | JGB | ● | ○ | ○ | | LowFurther BoJ hikes in 2025 and the path of wages keep the risk to JGB yields to the upside, relative valuation looking less attractive |
| | | UK Gilts | ○ | ● | ○ | | Favorable valuations offset by mixed inflation trends; lacking clear catalyst to unlock this value |
| | | Australia bonds | ○ | ○ | ● | ▲ | LowValuations attractive, especially from a carry & real rate perspective; recent inflation prints create scope for RBA easing |
| | | Canada bonds | ○ | ● | ○ | ▲ | Economic activity potentially finding a bottom as downside inflation surprises fade; relative valuations unattractive and technicals a headwind |
| | | BTPs | ○ | ○ | ● | | LowDeclining ECB policy rate should be supportive for periphery bonds as valuations are fair; higher YTD issuance has been well digested |
| | | Corporate Inv. Grade | ○ | ○ | ● | ▲ | LowRobust corporate health and demand for quality carry; spreads tight, but carry advantage over sovereigns persists |
| | Currency | Corporate High Yield | ○ | ○ | ● | | ModerateContained recession risks and healthy fundamentals & technicals are supportive; spreads are tight but all-in yields are attractive |
| | | EMD Sovereign | ○ | ● | ○ | | Favor U.S. high yield to EMD sovereign given more fragile tail credits in EMD and U.S. trade policy uncertainty |
| | | USD | ○ | ● | ○ | ▼ | Carry still attractive, but macro signals have deteriorated; USD screens expensive and policy crosscurrents not as clearly positive as originally thought |
| | | EUR | ○ | ○ | ● | ▲ | LowCheap on a PPP basis and growth differentials may be turning more favorable; technicals improving given recent equity momentum |
| | | JPY | ● | ○ | ○ | ▼ | LowBoJ the only major central bank hiking rates, but not clear that data alone can push JPY higher; positioning remains elevated |
| | | CHF | ● | ○ | ○ | | ModerateValuations and fundamentals both negative; SNB still biased toward weaker currency to mitigate disinflation risks |

The tick chart and views expressed in this note reflect the information and data available up to April 2025.

¹The amount by which the interest rate required to borrow in one currency via an FX swap differs from the cost of directly borrowing in the currency (Chicago Mercantile Exchange).

²Trade-in subsidies and rebates encourage consumers to upgrade their vehicles and large home appliances; destocking is a price-support policy meant to reduce the inventory of unsold land, to stabilize real estate markets.

³Japan's annual spring wage negotiations between trade unions and employers.

⁴Buoni del Tesoro Poliennali.

⁵The Magnificent Six: Apple, Amazon, Nvidia, Microsoft, Google and Netflix.

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