

➤ On the Minds of Investors

Where are markets headed from here?

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There are four market outcomes: higher or lower equities in combination with higher or lower yields.

While peak uncertainty has subsided, many outstanding questions for investors remain: How much will the Fed cut rates? Will tariffs boost inflation? Is labor market weakness a headwind or head-fake? Forecasting definitive answers to these questions may be challenging – let alone how these dynamics interact – but devising a spectrum of scenarios to assess how markets could be impacted can help investors position portfolios. We've done just that in partnership with our Portfolio Insights team.

Principally, there are four market outcomes: higher or lower equities in combination with higher or lower yields. With that as a framework, here are **four potential scenarios** that could play out in markets over the next 6-12 months:

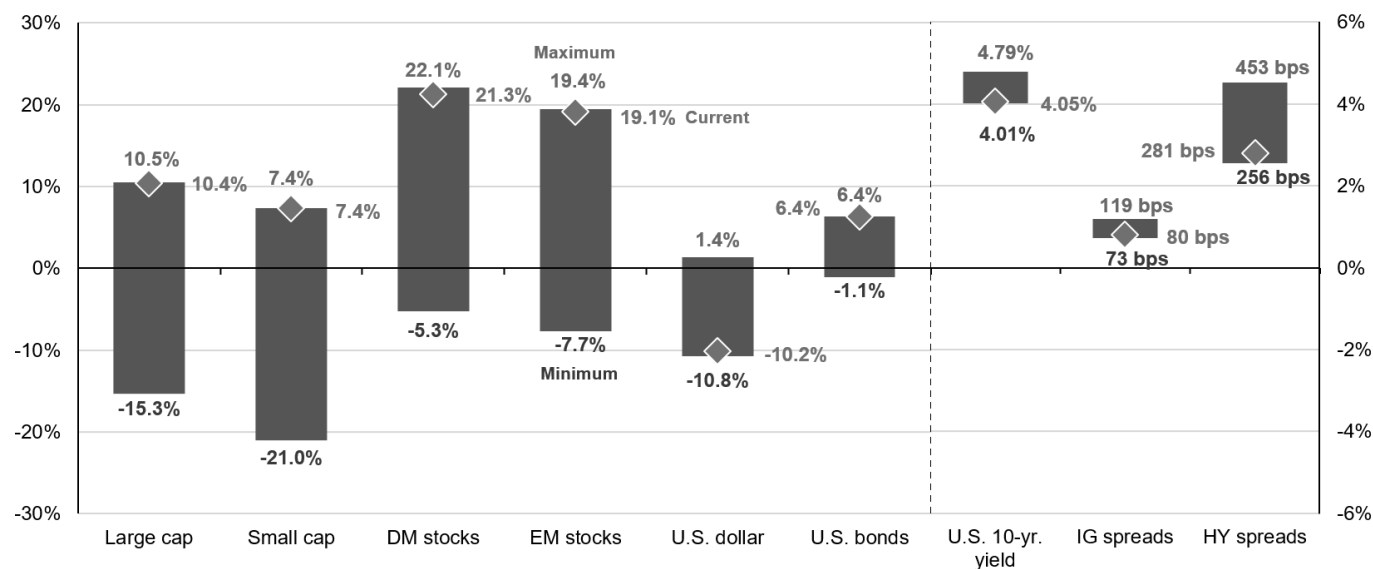
- **Full steam ahead: Accelerating growth (stocks up, yields up)** - Weakness in the labor market proves to be a head-fake, unemployment remains low, and tariff impacts prove to be manageable. With peak uncertainty behind us, consumption picks up and AI capex balloons, further aided by tax cuts enacted. The Fed delays rate cuts. Stocks, yields, and the U.S. dollar rise. **Opportunities: Large cap, small cap, high yield | Risks: Core bonds**
- **Steady as she grows: Slow and stable growth (stocks up, yields down)** - The U.S. economy is growing but slowing. Corporations pick up most of the tab on tariffs, which weighs on profits, but revenues are solid given the consumer absorbs less of the cost and inflation remains relatively contained. Markets drift higher and yields drift lower. The Fed cuts modestly and the U.S. dollar falls further. **Opportunities: Large cap, international stocks, core bonds | Risks: Small cap, U.S. dollar**
- **Rough waters: Recession (stocks down, yields down)** - Cost pressures and lingering uncertainty prompt companies to pull back on hiring and capex. Labor market weakness accelerates, and unemployment rises. Consumers pull back on spending. Profits decline. The U.S. economy enters recession. Stocks tumble, but bonds protect. The Fed cuts meaningfully to support the economy. The U.S. dollar rises as investors seek refuge. **Opportunities: Core bonds, U.S. dollar | Risks: Domestic (large and small) and international stocks, high yield**
- **Inflation unanchored: Stagflation (stocks down, yields up)** - Inflation reaccelerates due to tariffs and rising service costs. The labor market weakens, and consumption slows. Growth sputters but avoids recession. The Fed is forced to reverse course and hike rates. This U-turn in monetary policy causes stocks to stumble and the dollar to fall, while yields spike above 5%. **Opportunities: Short-term fixed income, international stocks | Risks: Large cap, small cap, core bonds, U.S. dollar**

These four scenarios can directionally inform investors on how markets could react if they were to come to fruition, but starting points matter. Applying these scenarios to specific portfolio allocations in our **Portfolio Analysis tool** can further illuminate individual portfolio risks and opportunities. While investors cannot predict the future, building resilient portfolios can help prepare for a variety of outcomes.



Market narratives - and markets - have already shifted many times this year

Maximum, minimum, and current YTD return; yields; option-adjusted spreads



Source: Factset, J.P. Morgan Asset Management.

Large cap = S&P 500 price index, Small cap = Russell 2000 price index, DM stocks = MSCI EAFE price index (USD), EM stocks = MSCI Emerging Markets price index (USD), U.S. dollar = DXY, U.S. bonds = Bloomberg U.S. Aggregate total return index, IG spreads = Bloomberg U.S. Corporate Investment Grade Index option-adjusted spread, HY spreads = Bloomberg U.S. Aggregate Corporate High Yield Index. Data are as of September 8, 2025, except IG and HY spreads as of September 2, 2025.

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