

# Guide to the Markets

## Five charts for a market downturn

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UK | April 2020

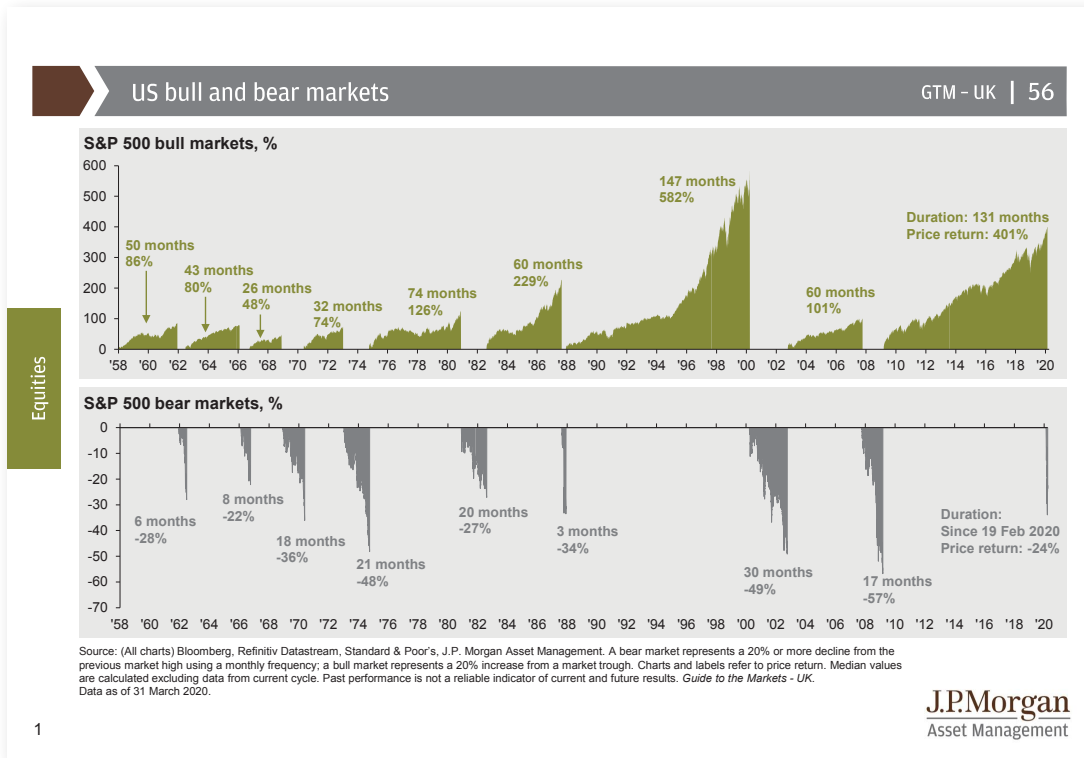


With US stocks falling more than 20% since the February peak, the first bear market since 2009 has rattled investors. Here are five long-term investment considerations to keep in mind:

- 1 The depth and duration of bull and bear markets
- 2 The importance of diversification
- 3 A focus on fixed income
- 4 Market timing can be tough
- 5 The role of alternative assets

1 The depth and duration of bull and bear markets

The COVID-19 outbreak is severely impacting activity across the world, and economic growth forecasts for the first half of 2020 have been cut aggressively. The depth and duration of a contraction in growth is dependent on two key factors: how quickly infection rates peak, and the policy response. Even if growth does rebound later in 2020, the hit to earnings will be significant, and both earnings expectations and valuations may take time to fully reflect the impact of this outbreak. The global economy should recover once the outbreak is contained. In the near-term, new infection numbers and the size and speed of the policy response continue to be the key gauges to focus on.



## 2 The importance of diversification

The current market downturn reinforces the importance of diversification. Government bonds have done their job so far in 2020 - to go up in price when equities fall - despite having started the year with yields close to record lows. Holding bonds can help investors to manage portfolio volatility.

Asset class returns (GBP)														GTM - UK   96	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Q1 20	Ann. return since '08	Vol.
Govt bonds	52.8%	EME	REITs	EMD	REITs	DM Equities	REITs	REITs	HY bonds	EME	Govt bonds	DM Equities	Govt bonds	REITs	EME
IG bonds	26.5%	HY bonds	EME	REITs	HY bonds	Portfolio	EMD	EMD	Cmnty	DM Equities	IG bonds	REITs	IG bonds	HY bonds	Govt bonds
EMD	23.3%	DM Equities	Cmnty	Govt bonds	EME	HY bonds	DM Equities	DM Equities	EME	Portfolio	HY bonds	EME	Cash	EMD	Cmnty
Cash	8.9%	Portfolio	HY bonds	IG bonds	EMD	Hedge Funds	IG bonds	HY bonds	EMD	HY bonds	REITs	Portfolio	Hedge Funds	DM Equities	REITs
Hedge Funds	6.3%	EMD	DM Equities	HY bonds	DM Equities	REITs	Portfolio	Govt bonds	REITs	Cash	EMD	EMD	EMD	Portfolio	HY bonds
Portfolio	2.5%	REITs	EMD	Cash	Portfolio	Cash	HY bonds	IG bonds	DM Equities	EMD	Cash	HY bonds	Portfolio	IG bonds	DM Equities
HY bonds	1.2%	IG bonds	Portfolio	Portfolio	IG bonds	IG bonds	Hedge Funds	Hedge Funds	Portfolio	REITs	Portfolio	IG bonds	HY bonds	Govt bonds	EMD
Cmnty	-10.9%	Cmnty	Govt bonds	DM Equities	Cash	EME	Govt bonds	Portfolio	IG bonds	IG bonds	Hedge Funds	Hedge Funds	DM Equities	EME	IG bonds
REITs	-13.2%	Cash	IG bonds	Hedge Funds	Hedge Funds	Govt bonds	EME	Cash	Hedge Funds	Govt bonds	DM Equities	Cmnty	Cmnty	Hedge Funds	Portfolio
DM Equities	-17.4%	Hedge Funds	Hedge Funds	Cmnty	Govt bonds	EMD	Cash	EME	Govt bonds	Hedge Funds	Cmnty	Govt bonds	EME	Cash	Hedge Funds
EME	-35.2%	Govt bonds	Cash	EME	Cmnty	Cmnty	Cmnty	Cmnty	Cash	Cmnty	EME	Cash	REITs	Cmnty	Cash

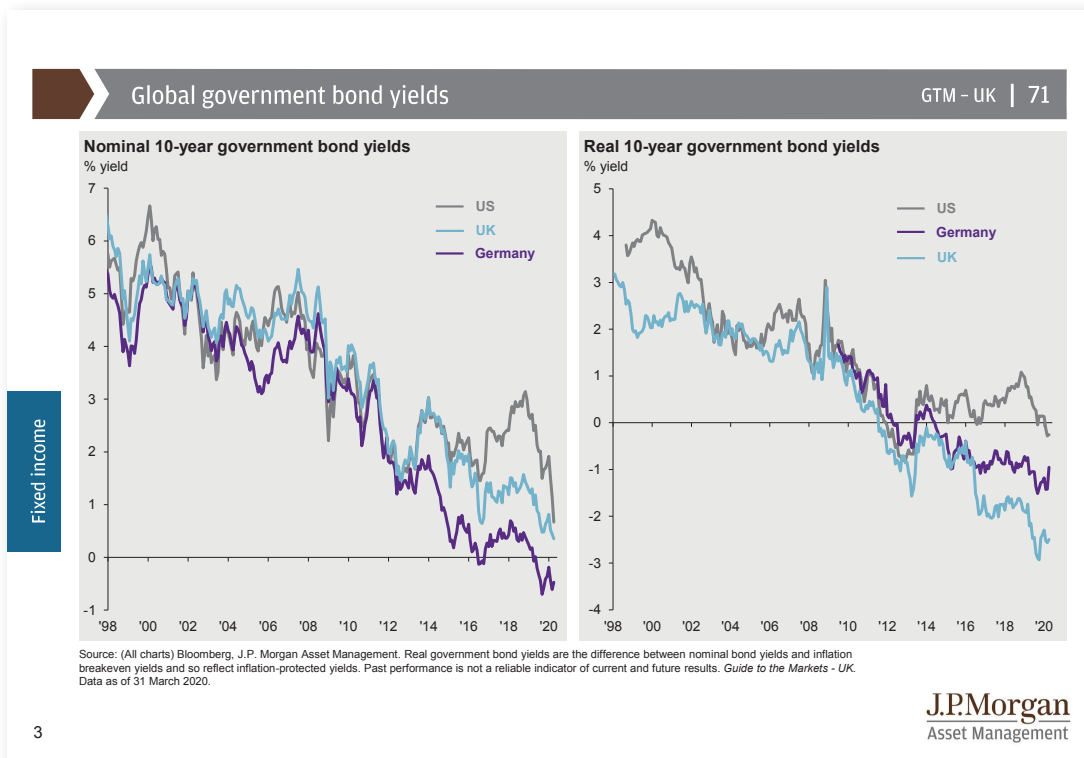
Source: Bloomberg Barclays, FTSE, J.P. Morgan Economic Research, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Annualised return covers the period from 2008 to 2019. Vol. is the standard deviation of annual returns. Govt bonds: Bloomberg Barclays Global Aggregate Government Treasuries; HY bonds: Bloomberg Barclays Global High Yield; EMD: J.P. Morgan EMBI Global; IG bonds: Bloomberg Barclays Global Aggregate – Corporates; Cmnty: Bloomberg Commodity; REITs: FTSE NAREIT All REITS; DM Equities: MSCI World; EME: MSCI EM; Hedge funds: HFRI Global Hedge Fund Index; Cash: JP Morgan Cash United Kingdom (3M). Hypothetical portfolio (for illustrative purposes only and should not be taken as a recommendation): 30% DM equities; 10% EM equities; 15% IG bonds; 12.5% government bonds; 7.5% HY bonds; 5% EMD; 5% commodities; 5% cash; 5% REITs and 5% hedge funds. All returns are total return, in GBP, and are unhedged. Past performance is not a reliable indicator of current and future results. Guide to the Markets - UK. Data as of 31 March 2020.

Investing principles

J.P.Morgan Asset Management

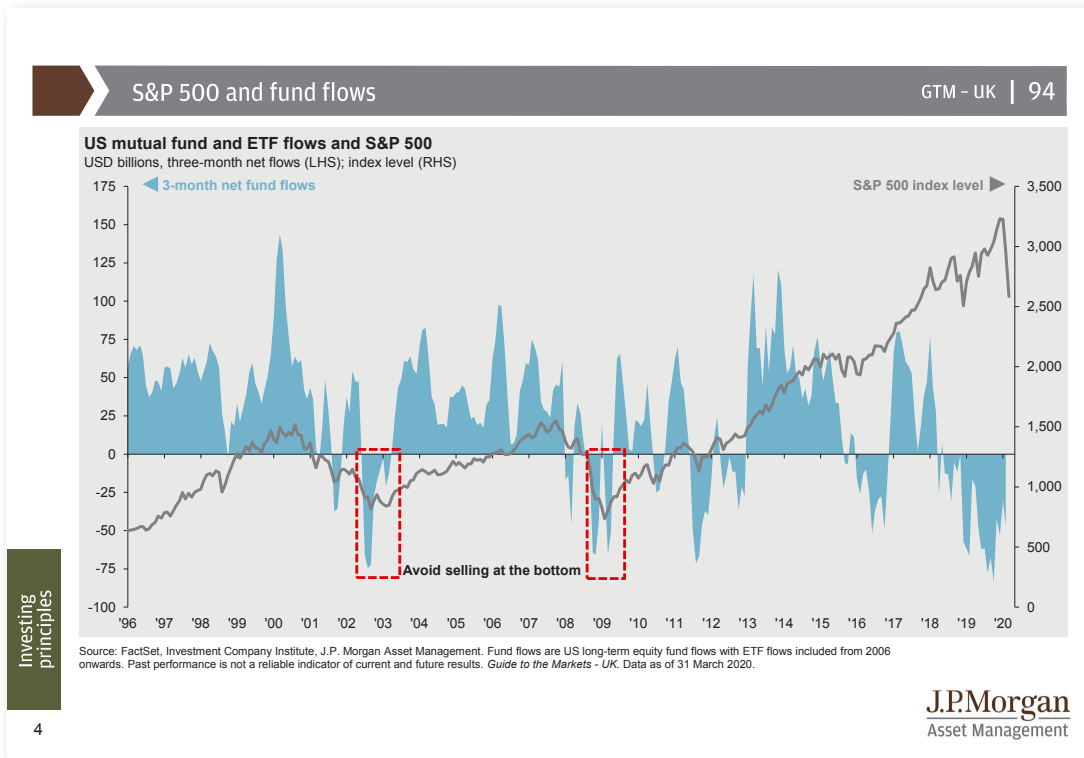
3 A focus on fixed income

US Treasuries have outperformed UK and German government bonds year-to-date. With the Federal Reserve having cut interest rates aggressively, the potential for US Treasury yields to fall further has diminished. Fixed income still has an important role to play in adding portfolio ballast, but the attractiveness of longer-dated government bonds over shorter-dated options has reduced given the dramatic rally in long-dated yields this year.



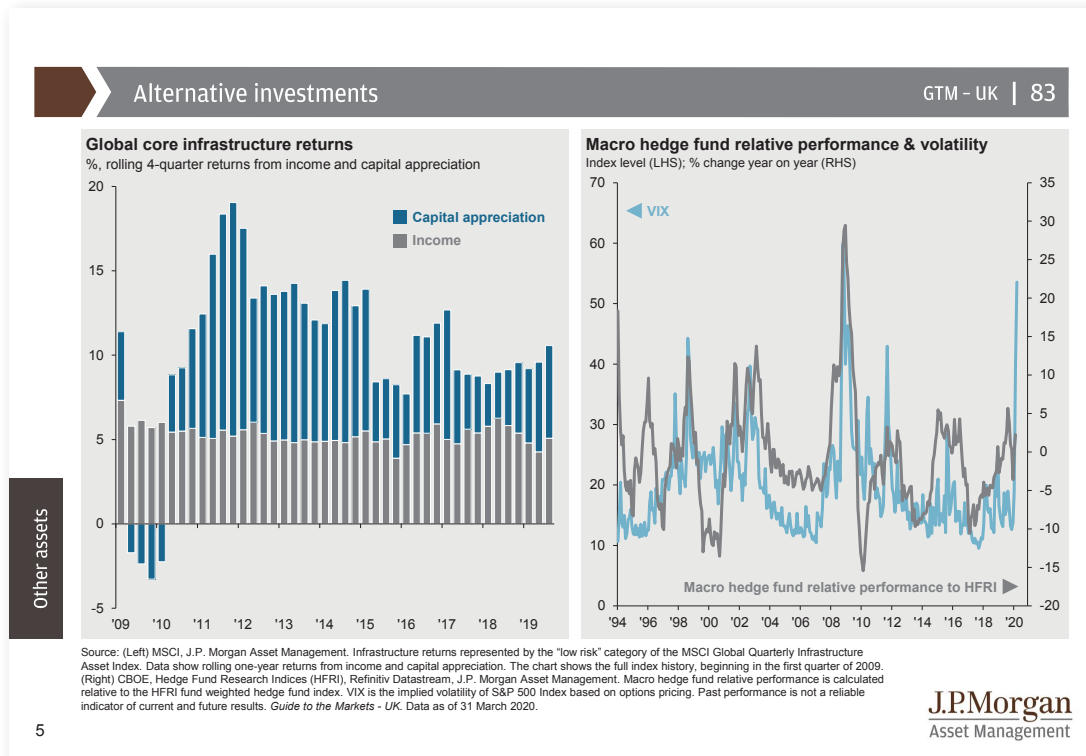
4 Market timing can be tough

Timing the stock market is hard. History tells us that investors have often sold out of stocks in the aftermath of sharp market corrections, but this can often be the worst time to sell risky assets.



5 The role of alternative assets

The current market sell-off has emphasised the importance of alternative investments. Income-hunting investors will have seen the yields on government bond portfolios shrink dramatically, which makes alternative income sources such as infrastructure more attractive provided that investors have the ability to invest in less-liquid assets. Macro-style hedge funds have also historically proven their worth as diversifiers in periods of elevated stock market volatility.



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