

Fed rate hikes

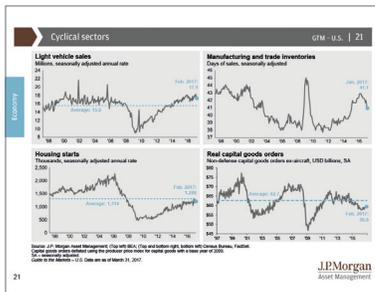
Portfolio Discussion | U.S.

2Q | 2017



After a brutal recession and a painfully slow recovery, the U.S. economy no longer needs emergency measures of support from the U.S. Federal Reserve. Policymakers began the process of normalizing monetary policy at the end of 2015, and although the Fed is raising rates because the economy is healthier, the prospect of higher rates has created consternation and angst among some investors.

SLIDE COMBO: 21 | 33 | 34

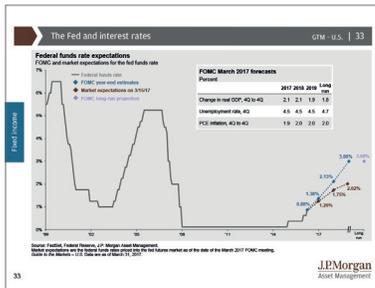


The Fed has hiked interest rates because the economy is healthier

- In 2008 and 2009, the U.S. economy was in dire straits. The “Great Recession” took a huge toll, resulting in significant weakness across a range of economic measures, including jobs, housing and business spending.
- Today, the economy is much healthier than it was during the crisis, suggesting that the emergency level of monetary medicine administered by the Federal Reserve is no longer warranted, or appropriate.

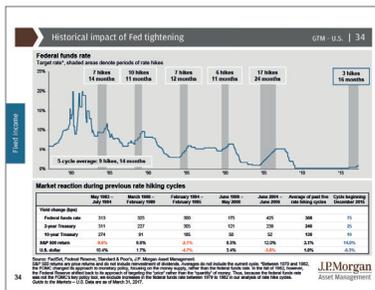
Mind the gap between the Fed and the market

- While the Fed’s own projections are for a slow and gradual rate hike cycle, futures pricing suggests that the market thinks rate hikes may be a bit slower.
- Although the gap between the Fed’s projections and the market’s view has narrowed, there is still room for surprises and volatility. The key thing to watch will be how market expectations adjust to the Fed’s new forecasts, as a Fed that hikes more quickly than the market expects could lead to upward pressure on the U.S. dollar and a de facto tightening for the U.S. economy.



Stocks have generally tolerated rate hikes in the past

- As long as a gap between the Fed’s expectations and the market’s expectations remains, there is a risk of an uptick in volatility.
- However, volatility is normal and should be expected. Furthermore, equities have tended to perform fairly well during past rate hikes, largely reflecting improving economic conditions.
- Fixed income has been a bit trickier. As a result, investors should be well diversified in order to prepare for a range of outcomes, and take advantage of opportunities.



Investment implications

- Rate hikes are not a reason to abandon equities. Investors, however, should prepare for volatility as the Fed initially hikes rates.
- Fixed income investors can expect the short end of the yield curve to rise as the Fed normalizes policy, but longer-dated bond yields should remain low due to continued demand for duration and easy monetary policy abroad.
- Investors should remember that the Fed is only considering rate hikes because the economy is healthier than it was in the aftermath of the crisis. Overall, this is a good thing.

NEXT STEPS

For more information, contact your J.P. Morgan representative.

The Market Insights program provides comprehensive data and commentary on global markets without reference to products. Designed as a tool to help clients understand the markets and support investment decision-making, the program explores the implications of current economic data and changing market conditions.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit, and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields is not a reliable indicator of current and future results.

J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide. This communication is issued by the following entities: in the United Kingdom by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other EEA jurisdictions by JPMorgan Asset Management (Europe) S.à r.l.; in Hong Kong by JF Asset Management Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited; in Singapore by JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), or JPMorgan Asset Management Real Assets (Singapore) Pte Ltd (Co. Reg. No. 201120355E); in Taiwan by JPMorgan Asset Management (Taiwan) Limited; in Japan by JPMorgan Asset Management (Japan) Limited which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Korea by JPMorgan Asset Management (Korea) Company Limited; in Australia to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Cth) by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919); in Brazil by Banco J.P. Morgan S.A.; in Canada for institutional clients' use only by JPMorgan Asset Management (Canada) Inc., and in the United States by JPMorgan Distribution Services Inc. and J.P. Morgan Institutional Investments, Inc., both members of FINRA/SIPC.; and J.P. Morgan Investment Management Inc.

In APAC, distribution is for Hong Kong, Taiwan, Japan and Singapore. For all other countries in APAC, to intended recipients only.

Copyright 2017 JPMorgan Chase & Co. All rights reserved

Prepared by: Samantha M. Azzarello, Gabriela D. Santos, David M. Lebovitz, Abigail B. Dwyer, John C. Manley, Ainsley E. Woolridge, Tyler J. Voigt and David P. Kelly.

Unless otherwise stated, all data are as of March 31, 2017 or most recently available.