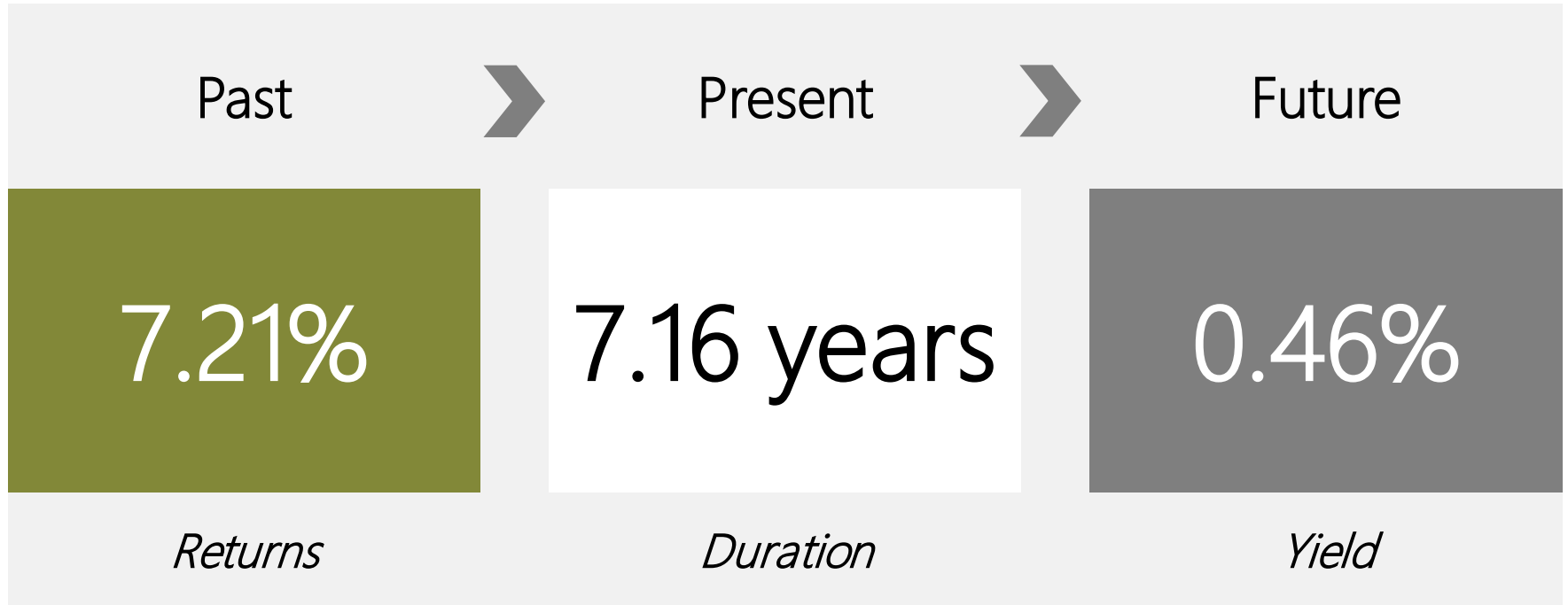


The Future of Fixed Income is anything but Fixed!

Claire Cullen, CFA, ACMA
J.P. Morgan Asset Management

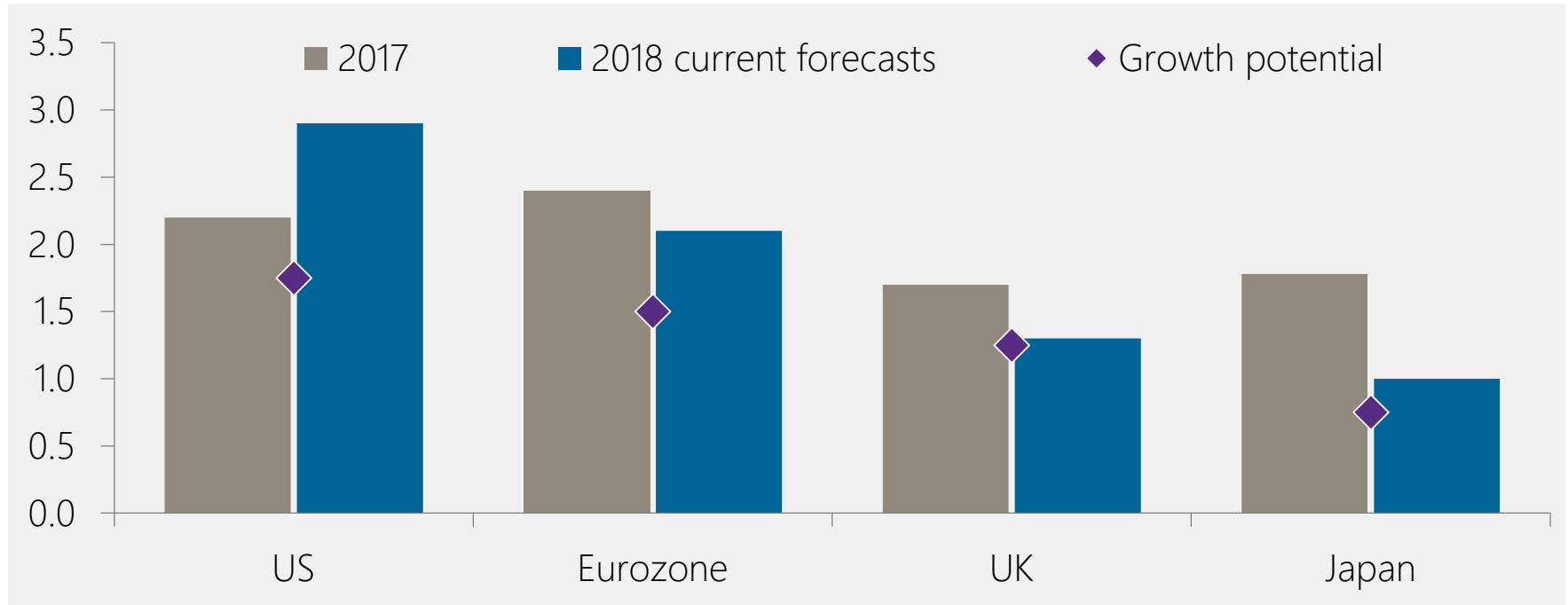
3 numbers to keep in mind



Source: Bloomberg. 10 Year Irish Sovereign Bond. Return data from 1988-26 Sept 2018. Duration as of Sept 26 2018. Yield as of Sept 26 2018.
Past performance is not a reliable indicator of current and future results.

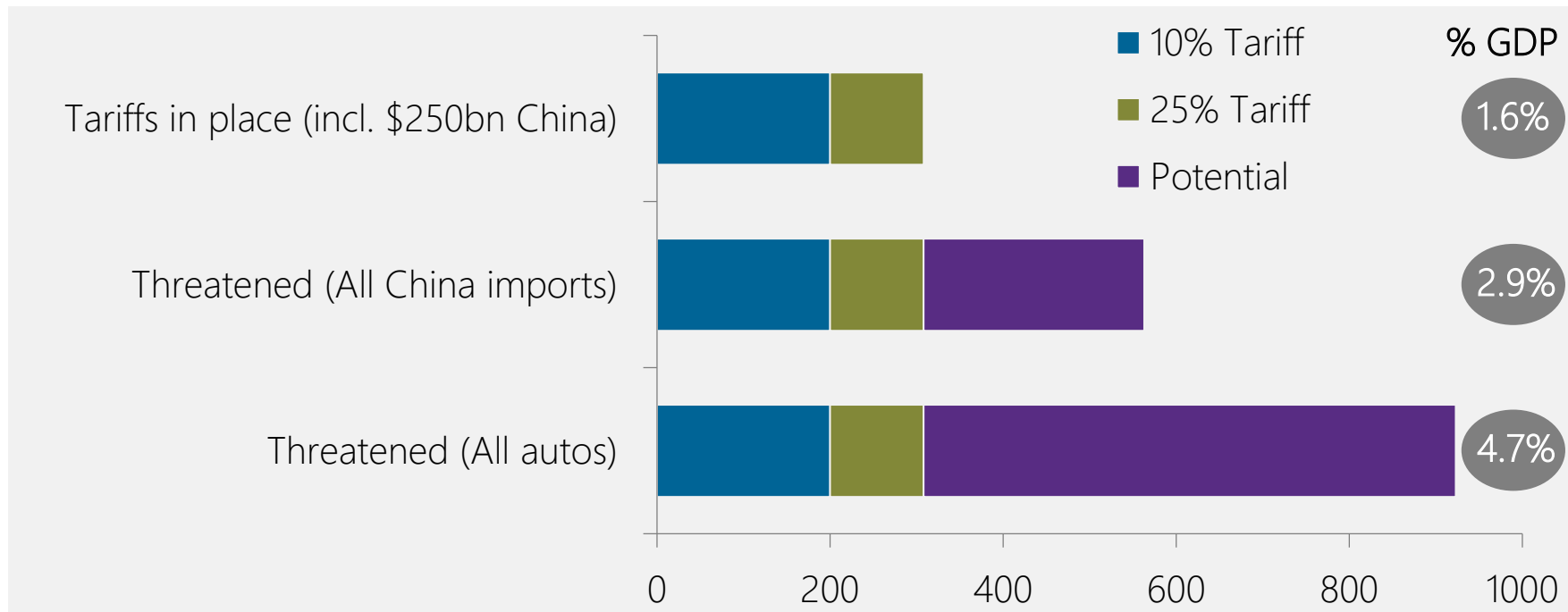
Present

Growth above trend but there is a divergence across markets



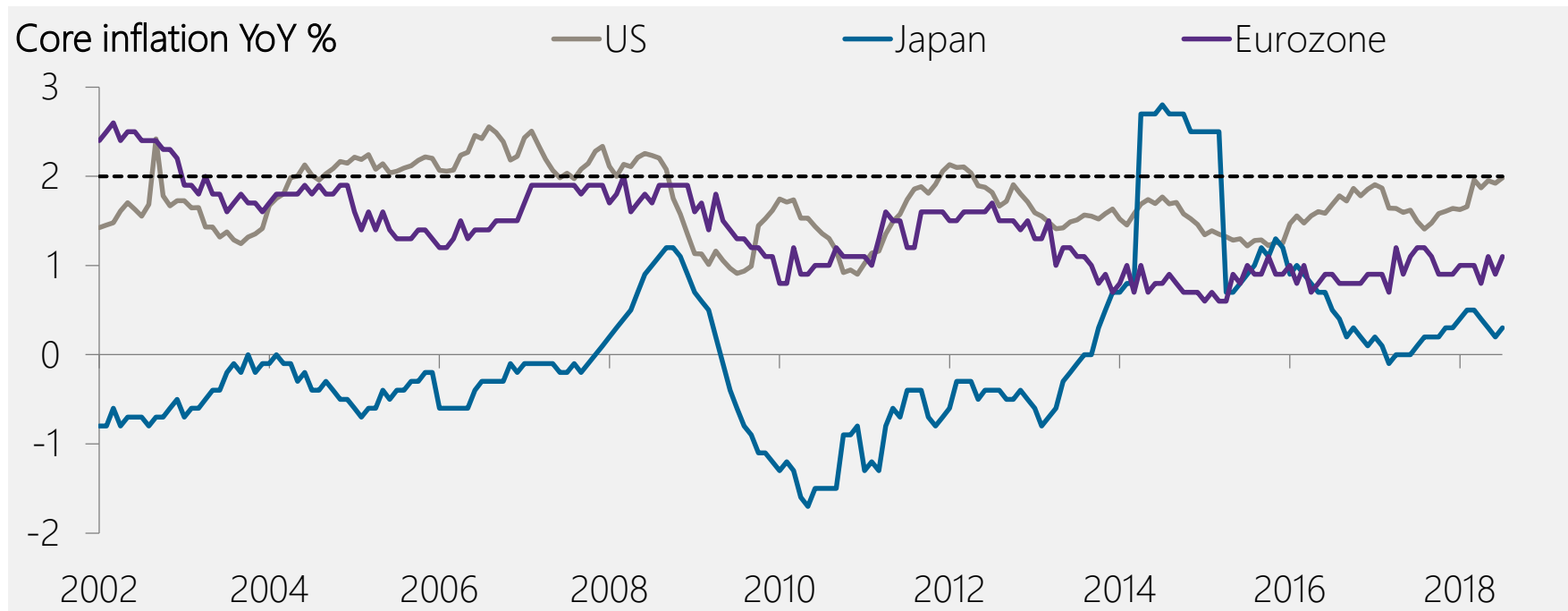
Source: Bloomberg, J.P. Morgan Asset Management. As at 13 September 2018. Forecasts are Bloomberg consensus, potential growth based on J.P. Morgan Asset Management estimates. Opinions, estimates, forecasts, projections and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

A further escalation of tariffs could pose risks to growth



Source: J.P. Morgan Asset Management. As at September 27th 2018. Opinions, estimates, forecasts, projections and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

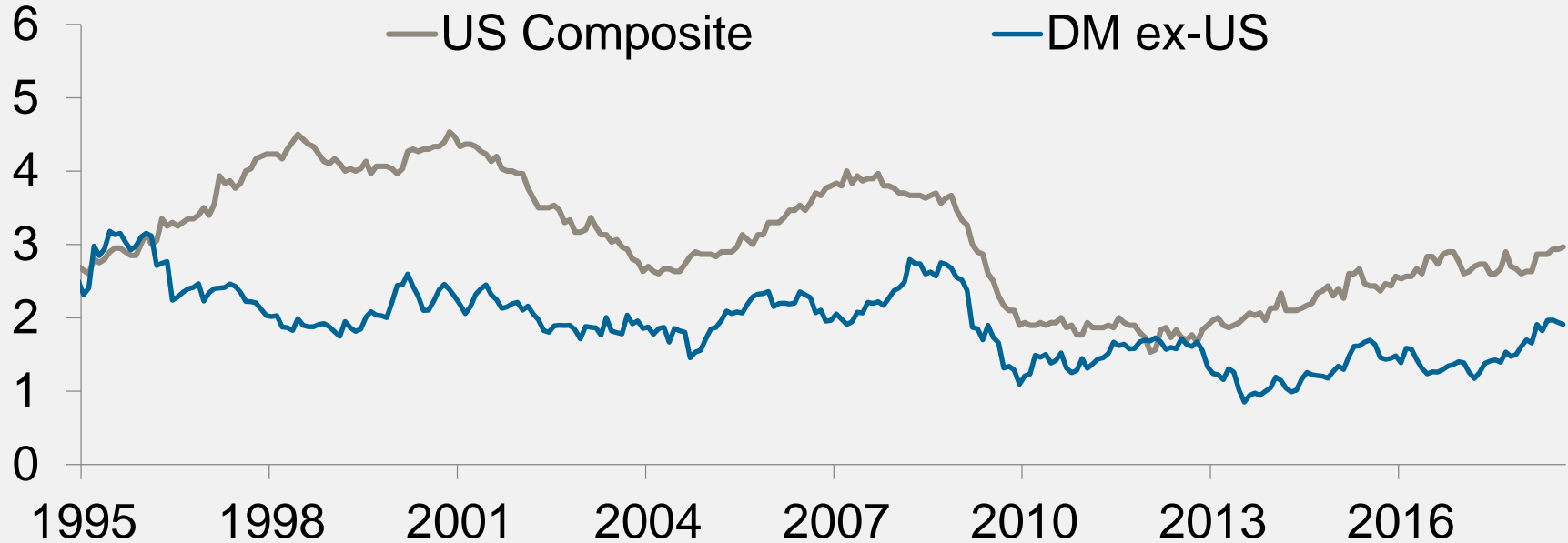
Inflation is soft outside of the US but picking up



Source: Bloomberg, J.P. Morgan Asset Management. As at 31 July 2018

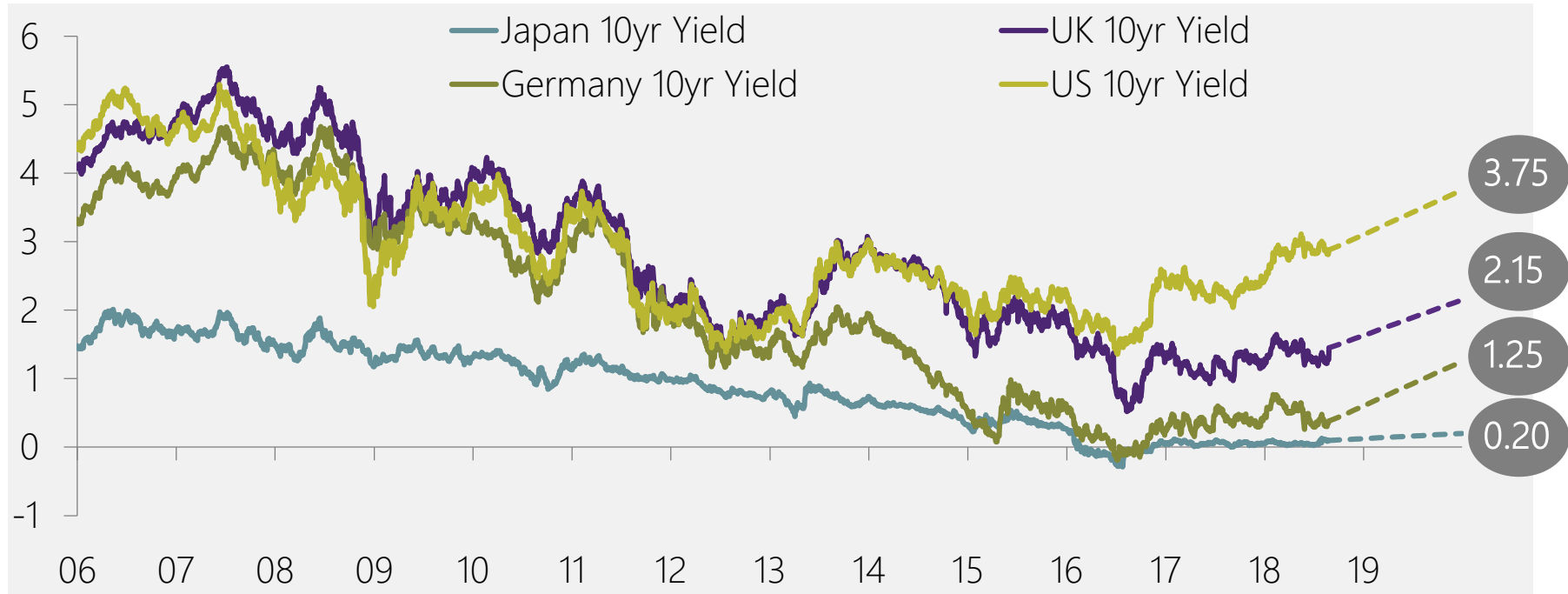
Developed market wages gradually improving

Wage growth, % YoY



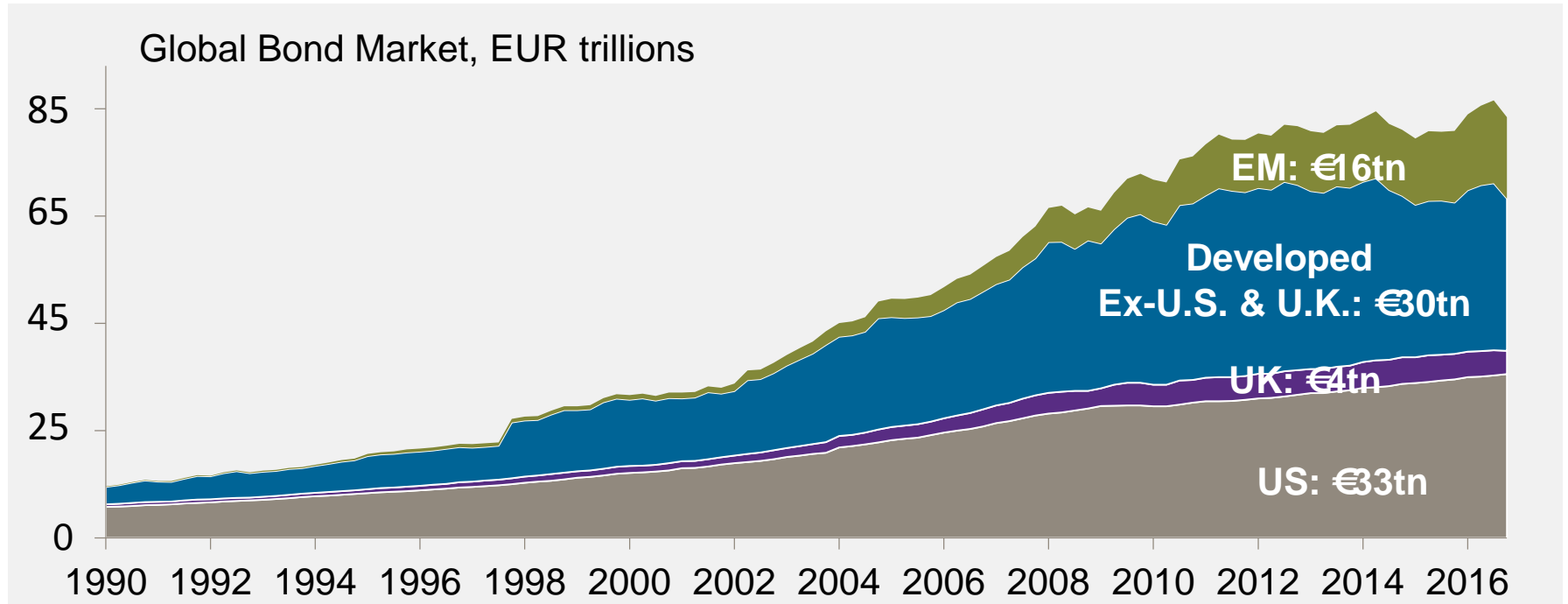
Source: Atlanta Fed, Bureau of Labor Statistics, Bloomberg, J.P. Morgan Asset Management. As at 31 August 2018.

Are we at an inflection point?



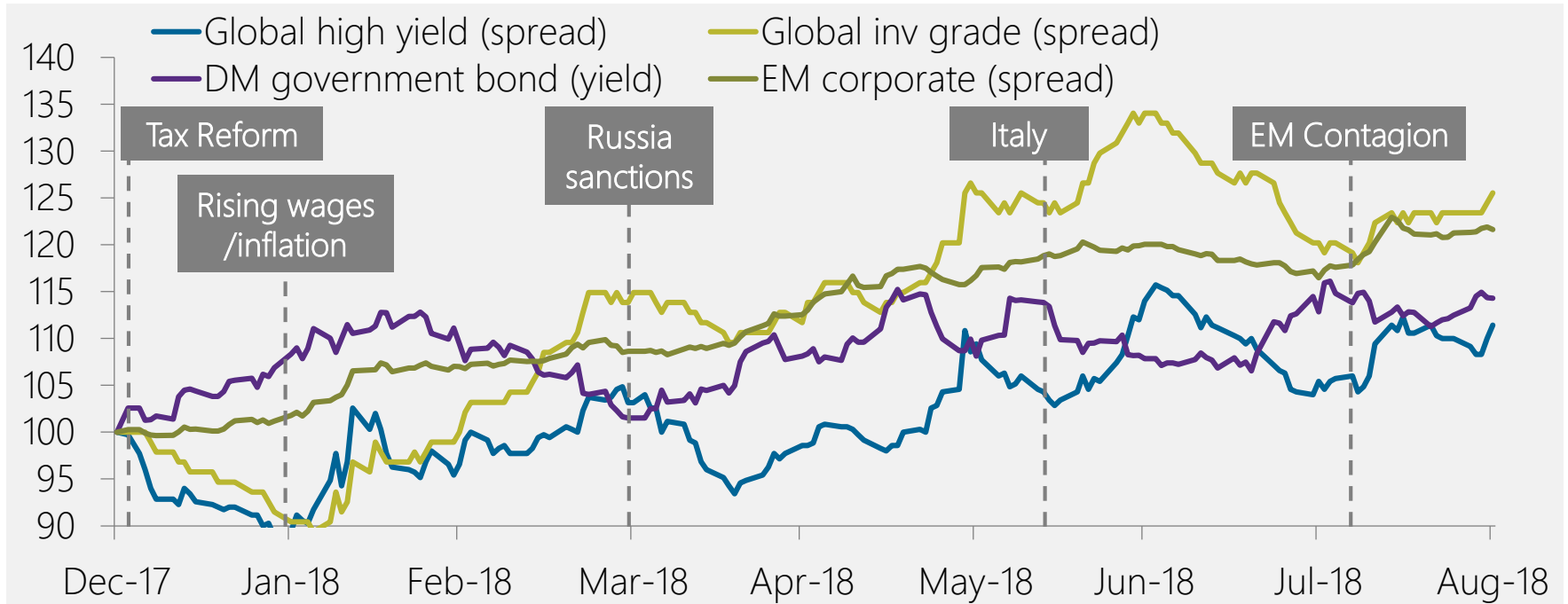
Source: Bloomberg to August 31st 2018, J.P. Morgan Asset Management end of 2019 estimate. Opinions, estimates, forecasts, projections and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

The opportunity set continues to expand



Source: Barclays Capital, BIS, FactSet, J.P. Morgan Asset Management. Data from 31 March 1990 to 31 December 2016.

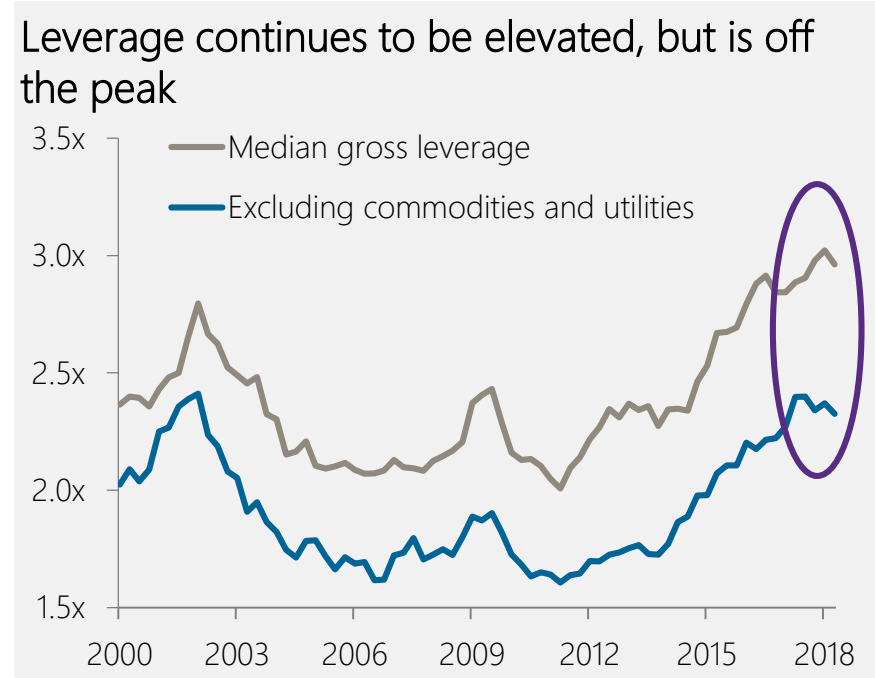
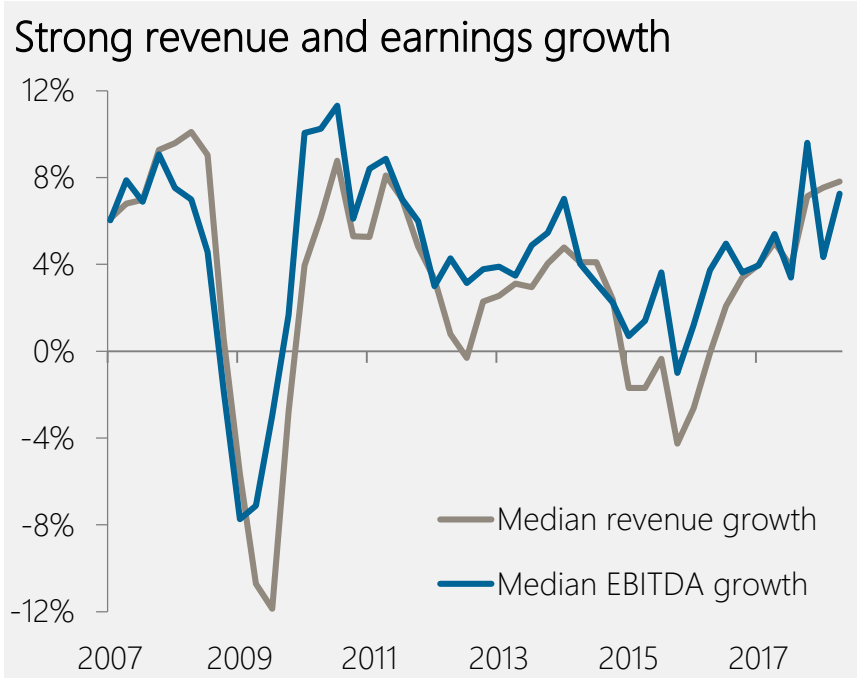
Fixed income markets have seen volatility this year



Source: Bloomberg. Chart data from 29 December 2017 to 31 August 2018. Global high yield, global investment grade and EM corporates are shown by spread (bps); DM government bonds shown by yield. Rebased to 100 as at 29 December 2017.

Future

US investment grade: Operating trends remain strong and seeing some balance sheet improvements but remain cautious



Source: Bank of America Merrill Lynch. Data is ex-financials (except where otherwise noted) and the median of each metric in each period. As of 2Q18 filings.

Where are we in the business cycle?

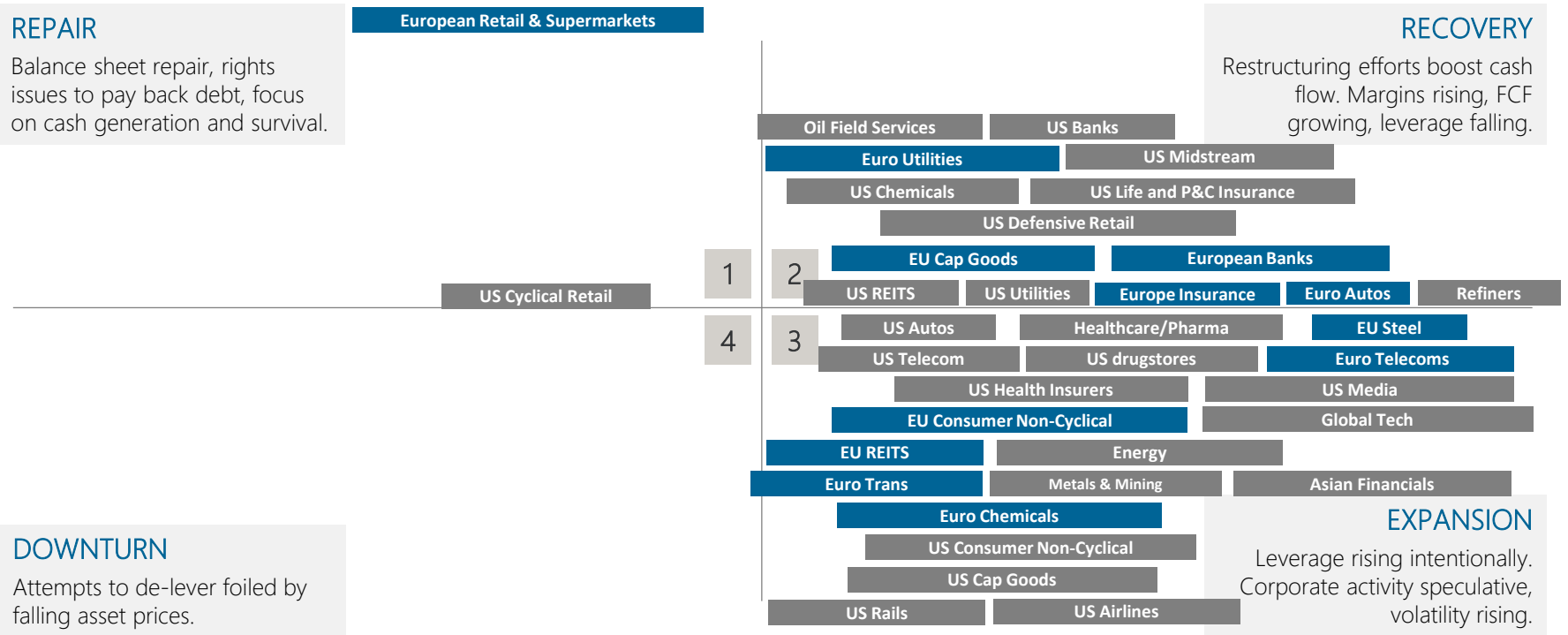
REPAIR

Balance sheet repair, rights issues to pay back debt, focus on cash generation and survival.

European Retail & Supermarkets

RECOVERY

Restructuring efforts boost cash flow. Margins rising, FCF growing, leverage falling.



DOWNTURN

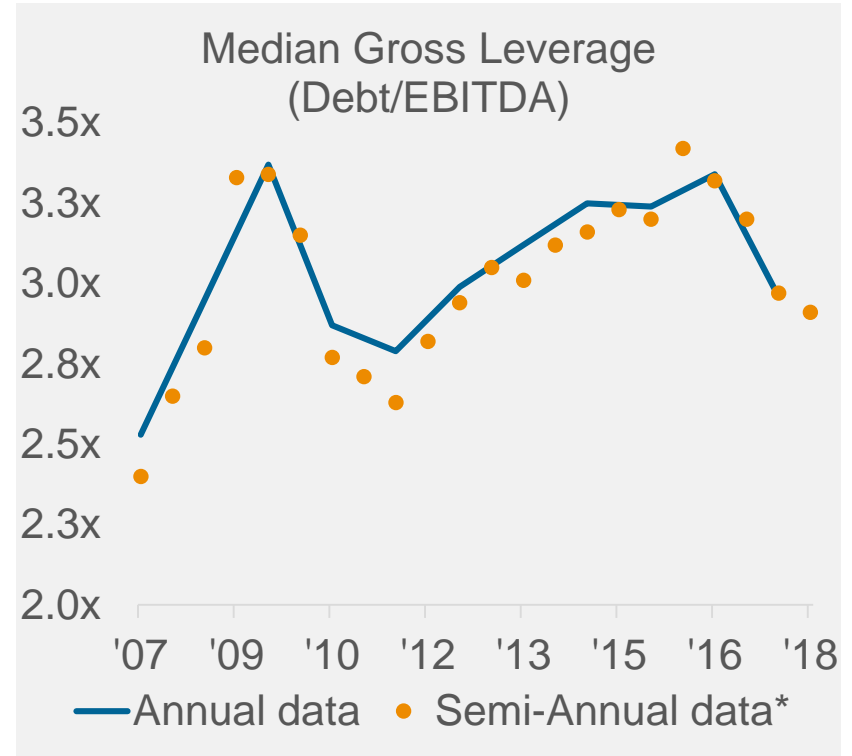
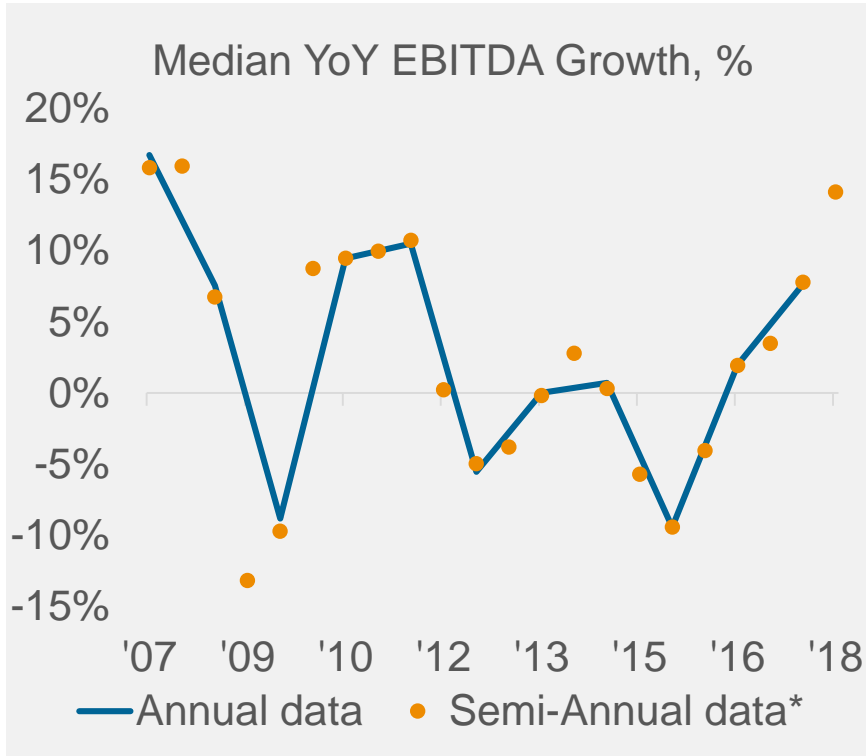
Attempts to de-lever foiled by falling asset prices.

EXPANSION

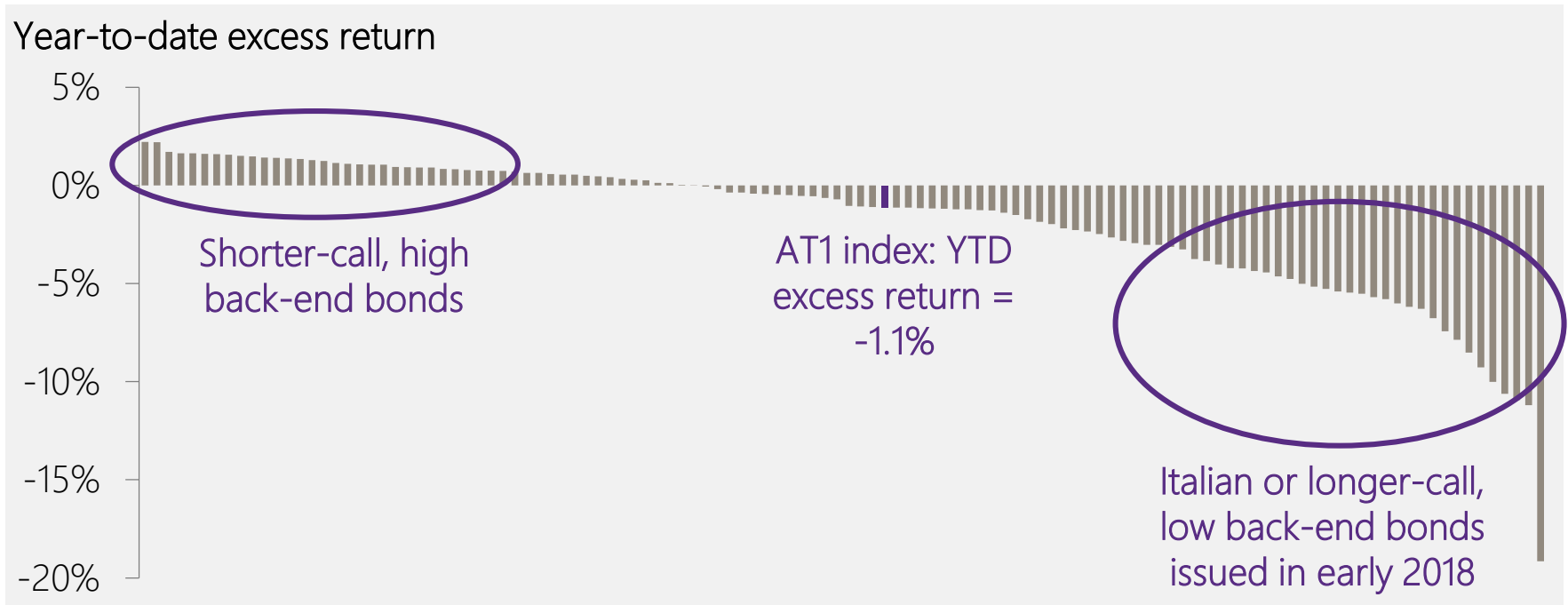
Leverage rising intentionally. Corporate activity speculative, volatility rising.

Source: J.P. Morgan Asset Management as of September 2018. Debt clock over time chart calculated using nominal count of industries in each category. The securities above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell.

European credit fundamentals continue to improve







Continue to like selective European subordinated financials



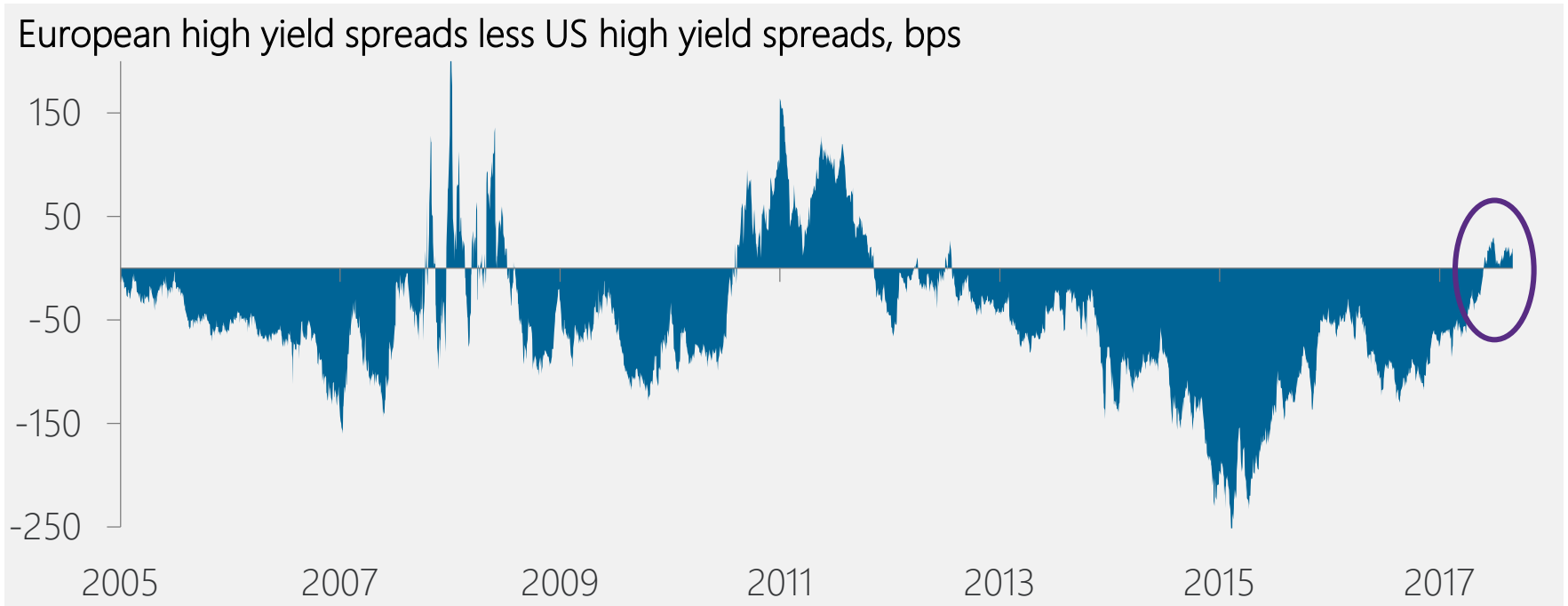
Source: Barclays POINT. Data from Jan 1 2018 to 7 September 2018. Excess return is return over the Barclays AT1 index.
Past performance is not a reliable indicator of current and future results.

HY fundamentals in the US remain strong...

Revenues	+12.8% Year on Year	Increasing	
Coverage Ratios	3.9 times (LT Avg 3.2)	Increasing	
Net Leverage Ratio	4.1 times (LT Max 7.6)	Decreasing	
Default Rates	1.65% (LT Avg 3.67%)	Historic lows	

Source: BofAML High Yield Research, 2Q2018 fundamental data is based on a sample of approximately 364 issuers. Adjusted metrics are calculated using adjusted EBITDA which removes the impact of unusual items from earnings including but not limited to non-recurring items, impairments, goodwill, etc. Last updated with preliminary 2Q18 data on September 5, 2018. The above information is shown for illustrative purposes only.

European high yield valuations look increasingly attractive

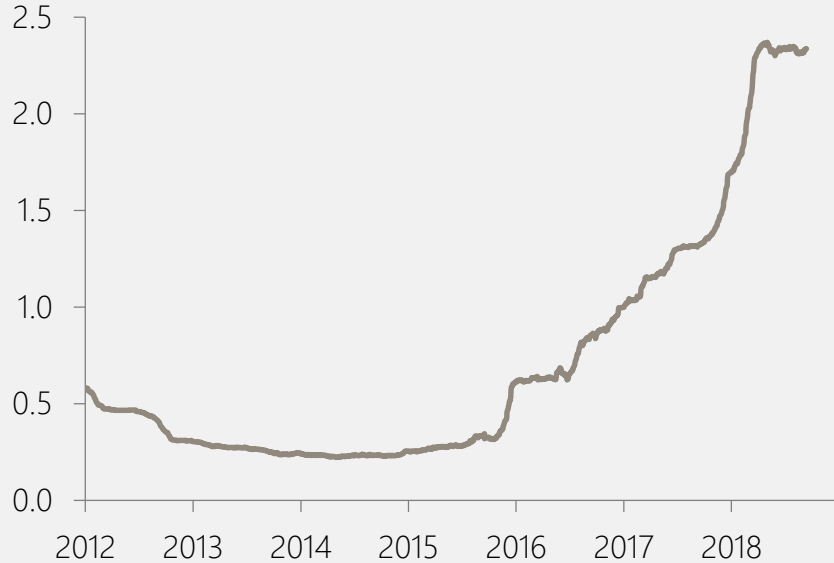


Source: Bloomberg, Bank of America Merrill Lynch. As at 8 August 2018.

Securitized credit can benefit in a rising rate environment

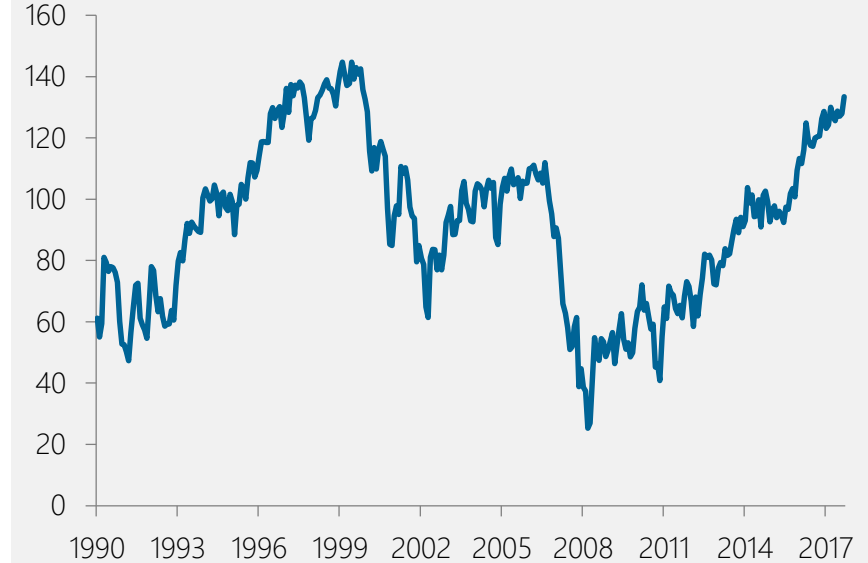
Floating rate securities benefit from rising LIBOR

USD 3-month LIBOR (%)



The US consumer is very robust

US Consumer Confidence Index

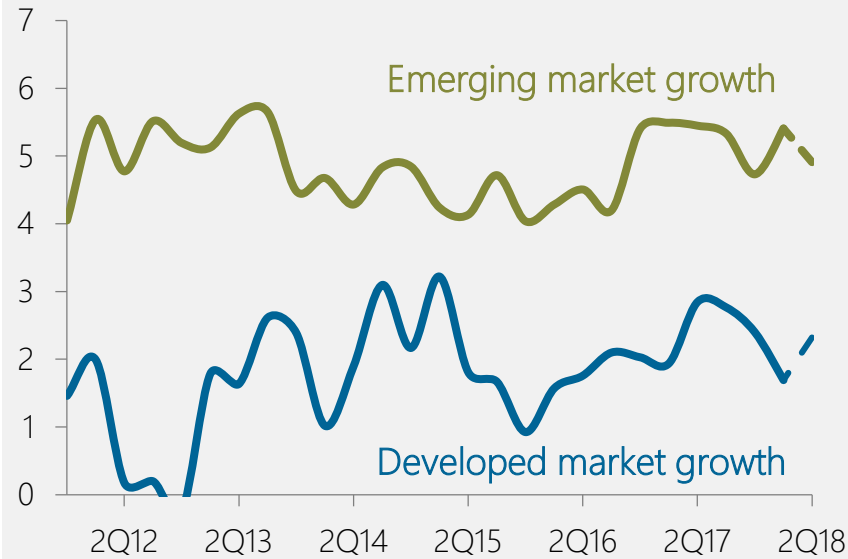


Source: Bloomberg, Conference Board. Left-hand side graph as at 31 August 2018, right-hand side graph as at 14 September 2018

Emerging markets are currently hard to gauge

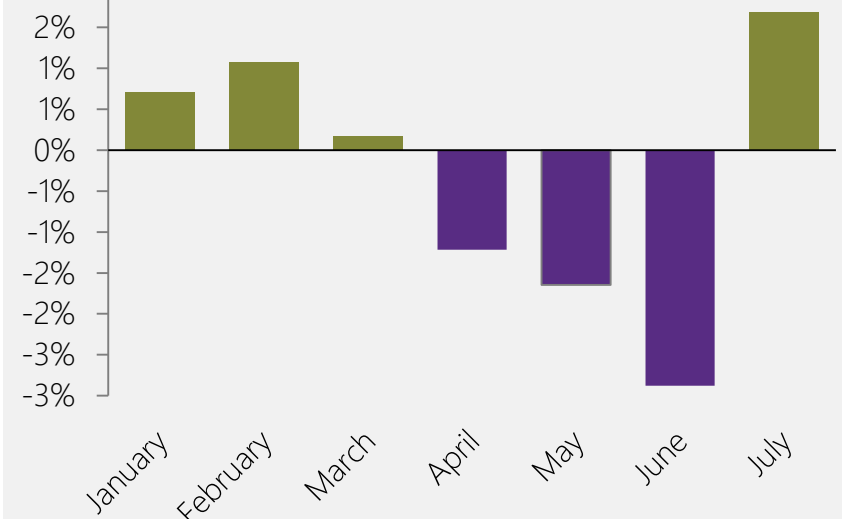
Growth is still elevated in emerging markets...

GDP, quarter-on-quarter %)



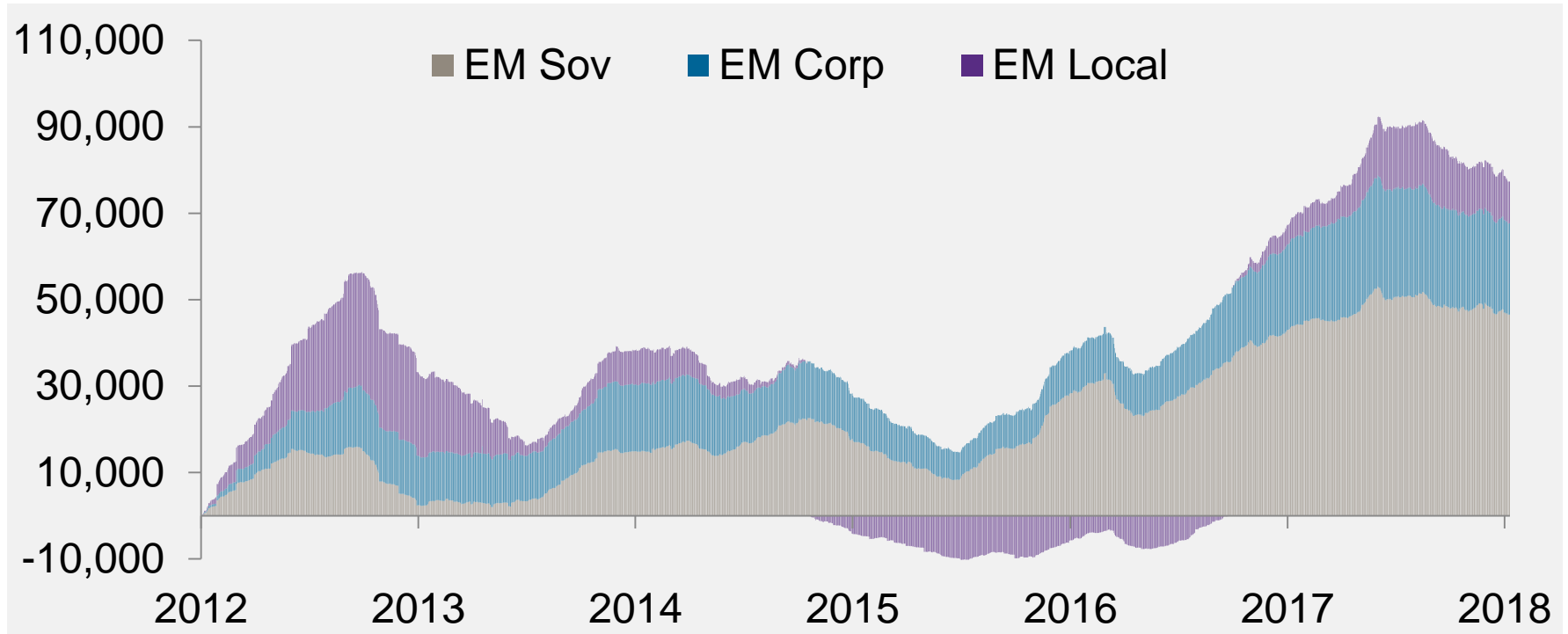
...but returns have proven highly unpredictable

EM local government bond returns (EUR, %)



Source: JPMorgan, Bloomberg, J.P.Morgan Asset Management, National Sources, Haver. As of May 28th, 2018. Data for Q1 '18 includes some estimates. Data for Q2 '18 are forecasts from JPMorgan. Aggregates are GDP-weighted. LatAm is ex-Venezuela. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met. Right hand chart: Source J.P. Morgan Chase & Co. Data as at 31 July 2018.

Large inflows since post-taper tantrum also pose a risk



Source: J.P. Morgan Asset Management Quantitative Research Group, Bloomberg. As at September 2018. USD millions.

The Future of Fixed Income is... Dynamic & Opportunistic

	Past 30 yrs	Present	Future '18-..
Ireland 10 year sovereign	7.21% return	7.16 yrs duration	0.46%....+yield
CPI	2.13%	0.95%	1.88%
GDP per capita	€16,838	€64,862	€72,343
Size Global Market	€9tr	€86tr	€86tr+
# of Sectors	3	15	15+
Use of derivatives	Limited	Average	Extensive
Style	Buy & Hold	Benchmark driven	Dynamic & Opportunistic

Source: Bloomberg, J.P. Morgan Asset Management, International Monetary Fund, World Economic Outlook Database. Past is from 31 Dec 1988-26 Sept 2018. Present is as of 26 Sept 2018. Future is as per IMF April 2018 outlook for 2023.

Past performance and forecasts are not reliable indicators of current and future results.

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