J.P.Morgan
WEALTH MANAGEMENT

MID-YEAR OUTLOOK 2026

Promise and Pressure

What could go wrong,
and what could go right?

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Foreword

Today's market environment is unsettled. Investors are navigating fast-moving headlines and disruptive forces from geopolitics to technology. Our Mid-Year Outlook lays out a practical path through a range of possible outcomes. The themes we highlighted in our 2026 Outlook six months ago – global fragmentation, inflation and artificial intelligence – have evolved quickly and become even more consequential. In this report, we examine what could go right and wrong for each theme and the strategies we believe can hold up across both stronger and weaker scenarios.

Markets under stress can also create opportunity for disciplined investors. As we enter the second half of the year, we remain selective, but constructive. You'll see that approach reflected throughout the Outlook: global fragmentation points to opportunities in select emerging markets, gold, defense and companies strengthening domestic resilience. Inflation argues for anchoring in real assets and expanding what diversification means, including alternative strategies. And as artificial intelligence evolves, we believe this transformation still has meaningful room to run.

Thank you for your continued trust in J.P. Morgan. We're proud to serve as your financial partner and remain committed to helping you stay focused on your goals through changing market environments.

Kristin Lemkau
CEO, J.P. Morgan Wealth Management

Key takeaways

Invest through global fragmentation and geopolitical tensions

Look past worst-case scenarios – explore adding U.S. and select emerging market securities and the beneficiaries of higher security spending.

Prepare for stickier inflation

Energy shocks are the latest force to spark higher, more volatile inflation.

Plan with intent, and look to diversify beyond traditional stocks and bonds with real assets and select hedge fund strategies.

Position for a continuing AI supercycle

Record AI adoption is driving real productivity gains.

Consider owning beneficiaries of data center spending, exploring private markets and avoiding vulnerable legacy software.

Ask the tough questions

The world is structurally different from a decade ago.

- Are cash holdings eroding your wealth?
- Has your portfolio been stress-tested?
- Are stocks and bonds enough for the next investment cycle?

Contents

Introduction

The global economy is beset by the push and pull of contradictory forces. In this mid-year update of our 2026 *Outlook*, we refresh our analysis of global markets and economics, building on our views from the start of the year. At that time, we asserted that three powerful and interconnected forces – artificial intelligence (AI), fragmentation and inflation – were defining a new market frontier. So far, those views have proven prescient.

In this edition, we explore what could go right and what could go wrong for these key themes and identify actionable implications for portfolios today.

Understanding each of them remains central to strengthening your long-term wealth plan and pursuing your financial goals.

Fragmentation

Global fragmentation, including conflicts in the Middle East and Eastern Europe, has forced a repricing across risk assets. Crude oil prices nearly doubled, and reversed that spike, since the start of the year. Major stock markets experienced roughly 10% drawdowns, and emerging market equities faced even greater volatility. Forward rates markets are pricing renewed hiking cycles from some central banks. And recession probabilities have fluctuated.

Even with a potential resolution of the conflict, the initial damage to physical energy infrastructure, and the risk premium in commodities, will likely continue to create economic friction.

We believe long-term investors should view those moments as opportunities to add long-term equity exposure.

Inflation

Inflation is often fueled by geopolitical conflict – a familiar pattern. But the trouble started before the March energy shock. U.S. core and headline inflation were already running near 3%. What cash earned over the rate of inflation was a slim cushion. Now, the gap between cash yields and price inflation has narrowed, and it seems set to narrow even further.

A traditional 60% stock/40% bond (60/40) allocation can be pressured by more volatile inflation – both asset classes could fall further if inflation remains stickier than expected.

As another one-off economic shock unfolds in the post-COVID era, we continue to believe inflation's floor is higher than it was before the pandemic and that the correlation between stocks and bonds could now be structurally higher. Rolling shocks may be the new reality. We continue to search for portfolio exposures that exhibit lower volatility than equity markets but that are also positively correlated to inflation – to potentially drive real returns and mitigate drawdowns due to inflationary shocks.

Artificial intelligence

Artificial intelligence could indeed prove to be a significant disinflationary force over the medium term. But that potential future – in which AI-driven productivity gains reduce debt, and the AI supercycle drives global expansion and improves corporate profitability – is missing from the current discourse, which is rife with contradictions. While private market investors' demand for equity stakes in AI leaders continues to be strong, the public market has been punishing the companies building the data centers because investors aren't convinced this spending will pay off.

Influential thinkers warn of "technological unemployment" due to widespread AI deployment and adoption. Yet many semiconductor stocks are trading at price-to-earnings (P/E) multiples that suggest the data center investment cycle may have already peaked. The software sector may pursue layoffs to increase efficiency, but historically, technological transitions tend to create more jobs than they destroy.

These contradictions create opportunity, especially for long-term investors. While conflict in the Middle East was the market's immediate focus in the first half of the year, we believe AI is the more durable driver of returns. The evidence suggests to us that AI is a productivity enhancer, revenue generator and margin widener, and even if some industries are disrupted, it could still be a net job creator.

As markets reflect increased pressure across all three of our core themes, we urge investors to ask several critical questions:

- Are cash holdings eroding your wealth?
- Has your portfolio been stress-tested?
- Are stocks and bonds enough for the next investment cycle?

OUR ANSWERS

Cash will likely be a drag, especially after inflation. We believe alternative assets are a strategic necessity for this new frontier. And the AI supercycle may just be getting started.

Our 2026 ***Mid-Year Outlook*** explores what that pressure could mean for investors – and the upside scenarios that could promise opportunity for portfolios.

Part 1

Fragmentation: The end of seamless globalization

One of the most apparent consequences of global fragmentation was the closure of the Strait of Hormuz. Catalyzed by a joint U.S.-Israeli attack on Iran, it led to the largest oil supply shock since World War II.[1]

The bear markets of 1990 and 2022 were also associated with energy price shocks driven by conflicts (the first Gulf War and Russia's invasion of Ukraine). Investors today must grapple with a White House that may miscalculate, with potential consequences for the global economy. Even as the conflict appears to be on the path of de-escalation, we believe the disruption has lasted long enough to cause higher inflation and lower growth worldwide.

Instead of viewing conflicts in the Middle East as isolated shocks, they might be better contextualized as a continuation of trends that investors have been monitoring since the COVID-19 pandemic. The world has become a more fragmented and potentially more dangerous place, and policymakers' reactions are driving markets and economies.

U.S. trade policy has been reconfigured to repatriate supply chains. European policymakers have agreed to double or triple defense and infrastructure spending as a share of gross domestic product (GDP). China has made pursuing natural resource and energy independence among its primary goals while maintaining its global export share and extending its influence across the Global South.

1 International Energy Agency, "Oil Market Report," April 14, 2026.

These policy decisions are driving market outcomes. European defense stocks doubled in 2025, and global equities linked to natural resources rallied nearly 30% over the same period. Emerging market (EM) equities outperformed developed market (DM) stocks by 11% last year. Gold, long regarded as a diversifier against the risks posed by geopolitics and sovereign deficits, has surged approximately 130% over the last three years.

So far, stock markets have powered through this global reorientation, and certain thematic exposures have outperformed. But the risk is that geopolitical turmoil could continue to play havoc with two inputs – oil and semiconductors – that are crucial to the global economy, financial markets and capital flows. (Rare earth metals are another critical, related vulnerability.)

The strategic struggle between the United States and China, and Europe's structural headwinds, are also critical dynamics that we consider important for investors to understand and interpret.

At the same time, long-term investors have been rewarded historically for investing through geopolitical uncertainty. We also consider it plausible that this period of upheaval could potentially give way to a new equilibrium, one that allows for lower risk premiums for emerging markets, a more unified Europe and a more shareholder-friendly China.

We do not know if this process of geopolitical fragmentation will ultimately lead to a more peaceful world order or a more chaotic one. But we do believe we know which assets, regions and companies could potentially benefit either way.

Crucially, the near-term conditions seem to present a compelling opportunity for long-term investors to add to their equity market holdings.

What could go wrong?

1.

Energy and semiconductor bottlenecks close

One of the most tangible risks to the global economy is its dependence on critical materials moving through narrow physical corridors. This reliance is most visible in two places: Taiwan and the Middle East. Because these regions have powerful linkages to the semiconductor and energy sectors, they represent the potential fault lines in a more fragmented global economy.

The conflicts in the Middle East present a clear risk to the global economy. The Strait of Hormuz is critical for global energy exports. About 20 million barrels of oil normally move through this narrow corridor every day – it's the source of roughly one-fifth of global petroleum consumption and nearly one-quarter of seaborne oil trade. About 20% of the world's liquefied natural gas (LNG) shipments ride the same route.[2]

In the days after the first U.S. and Israeli strikes, crude oil prices almost doubled, and the price of LNG in Europe surged nearly 100% in two days. Qatar Energy's CEO said over 15% of Qatari LNG capacity could be offline for as long as five years, suggesting a protracted impact even if hostilities de-escalate.

Any export logjam creates downstream impacts on related products, such as fertilizer, plastics and even semiconductors. Qatar supplies roughly 30% of the world's helium,[3] a gas critical to the foundry process. As a result, South Korean authorities have warned about the possibility of chip manufacturing shutdowns.

Officials from South Asia to Denmark urged their citizens to drive less, Indian state-owned oil companies must hold prices steady, and gasoline prices in the United States surged above $4 per gallon.[4] A durable geopolitical risk premium has likely been embedded in energy prices for the foreseeable future. While global growth has become much less oil intensive over the last 50 years, the global economy is still impacted by higher oil prices.[5]

The severe macroeconomic costs of energy supply shocks create incentives for policymakers to invest in more diversified (gas, nuclear, solar), secure and flexible energy generation, transmission and storage systems. This could help reduce the single-point-of-failure risk that the Hormuz closure exposed.

Semiconductor disruption could be more catastrophic

The economic disruption caused by the Strait of Hormuz closure might pale compared with what could happen if Taiwan's ability to produce or transport semiconductors was impaired. Taiwan's TSMC manufactures more than 90% of the world's advanced semiconductors. Taiwan also imports roughly 90% of its primary energy and 60% of its food, leaving the economy structurally exposed to a blockade.[6]

2 U.S. Energy Information Administration, March 31, 2025.

3 U.S. Geological Survey, 2025.

4 Oxford Economics, "Asia Pacific: Energy availability is the key macro risk," March 26, 2026.

5 Michael Cembalest, "Eye on the Market Energy Paper: Fighting Words," J.P. Morgan Asset & Wealth Management, March 2026.

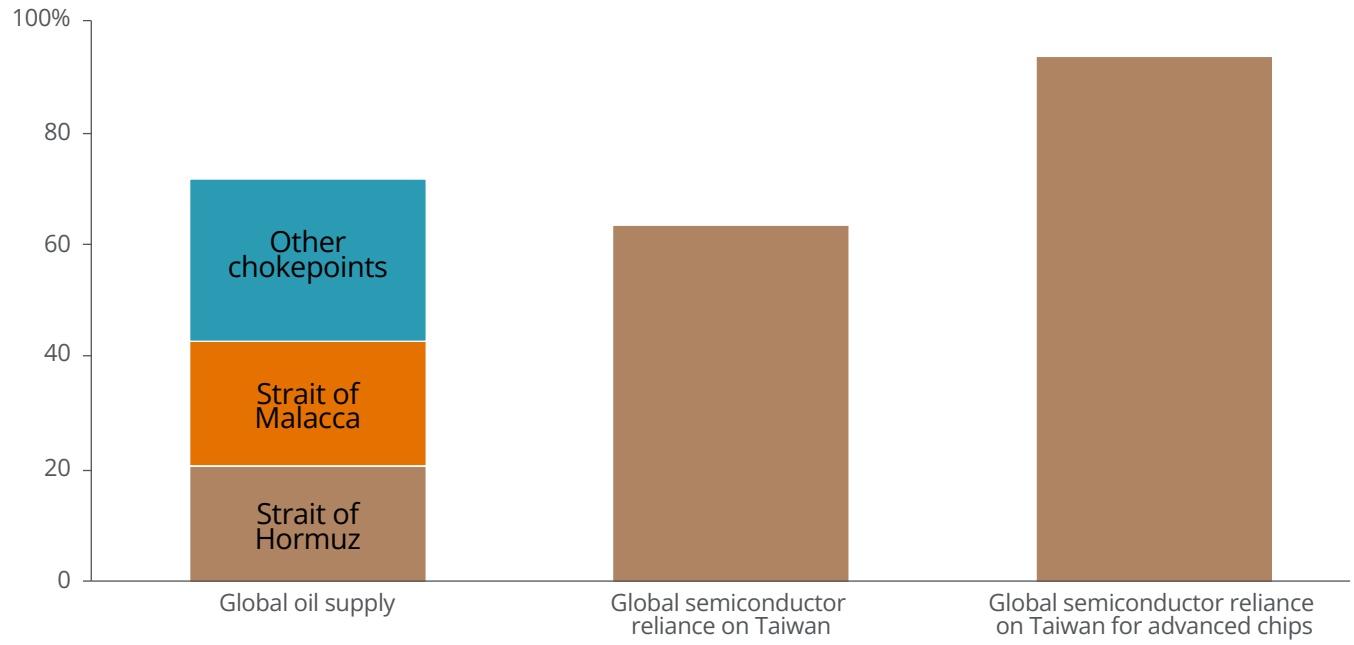
6 Michael Cembalest, "Eye on the Market Outlook 2026: Smothering Heights," J.P. Morgan Asset & Wealth Management, January 2026.

Although Chinese President Xi Jinping has reportedly ordered the military to be ready to have the capability to seize Taiwan by 2027, markets are not pricing an imminent escalation.[7] Prediction markets put the probability of a military clash before 2027 at around 11% – and the People's Liberation Army lacks modern combat experience, not having engaged in active combat in over 40 years.

Regardless, the stakes are outsized. A blockade of the Taiwan Strait would shock the global technology ecosystem and consumer goods markets and likely cripple TSMC. Economists estimate that a blockade of Taiwan would be a -5% shock to global GDP growth. U.S. firms could run on inventory for only a few months. A sustained disruption would likely be catastrophic for the global economy. One estimate of the cost of a Taiwan blockade suggested U.S. GDP could fall 6.7% – about equivalent to the global financial crisis (GFC) – while China's could shrink by 17%.[8]

OIL AND SEMICONDUCTOR TRADE IS RELIANT ON CHOKEPOINTS

Regional reliance, %



Sources: U.S. Energy Information Administration (EIA), Short-Term Energy Outlook, February 2026; BP Statistical Review; ROC Taiwan; Global Guardian. Oil data as of 1H 2025, semiconductor data as of 2024. Notes: Regional reliance for global oil supply is measured as the amount of oil supply transiting through the specific chokepoint. Regional reliance for semiconductors is measured as the share of semiconductors manufactured in Taiwan. EIA analysis based on Vortexa tanker tracking and Panama Canal Authority data, using EIA conversion factors and calculations. World maritime oil trade excludes intra-country volumes except those volumes that transit global chokepoints and the Cape of Good Hope. The Danish Straits do not include flows through the Kiel Canal. Data for the Panama Canal are by fiscal year (October 1 to September 30).

7 Congressional Research Service, "Taiwan: Defense and Military Issues," February 9, 2026.

8 "The $10 Trillion Fight: Modeling a US-China War Over Taiwan," Bloomberg Economics, January 8, 2024.

What could go wrong?

2.

The energy shock underscores Europe's challenges

Energy dependence continues to challenge Europe. The economy diversified away from its reliance on Russian natural gas but has shifted that reliance toward Norway, the United States and Gulf states.[9] While the region is pursuing supply from Canada and North African producers, diversification is not self-sufficiency. European electricity prices are double to quadruple those in the United States, and energy price shocks exacerbate this limit on Europe's competitiveness.[10]

The current conflict also has a forceful impact on European monetary policy. The energy price shock has pushed inflation higher, and the European Central Bank (ECB) and the Bank of England (BoE) have telegraphed a potential hike in interest rates, even absent an overheating domestic economy.

With price stability as both central banks' sole mandate, neither has the same flexibility as the Federal Reserve (Fed), with its dual mandate to balance inflation and full employment.

While the external shocks are pressing, the structural headwinds to economic growth and innovation remain. European government defense and infrastructure spending will have to be balanced with concerns about high deficits. Of the 10 countries with the highest debt-to-GDP ratios, six are European.[11]

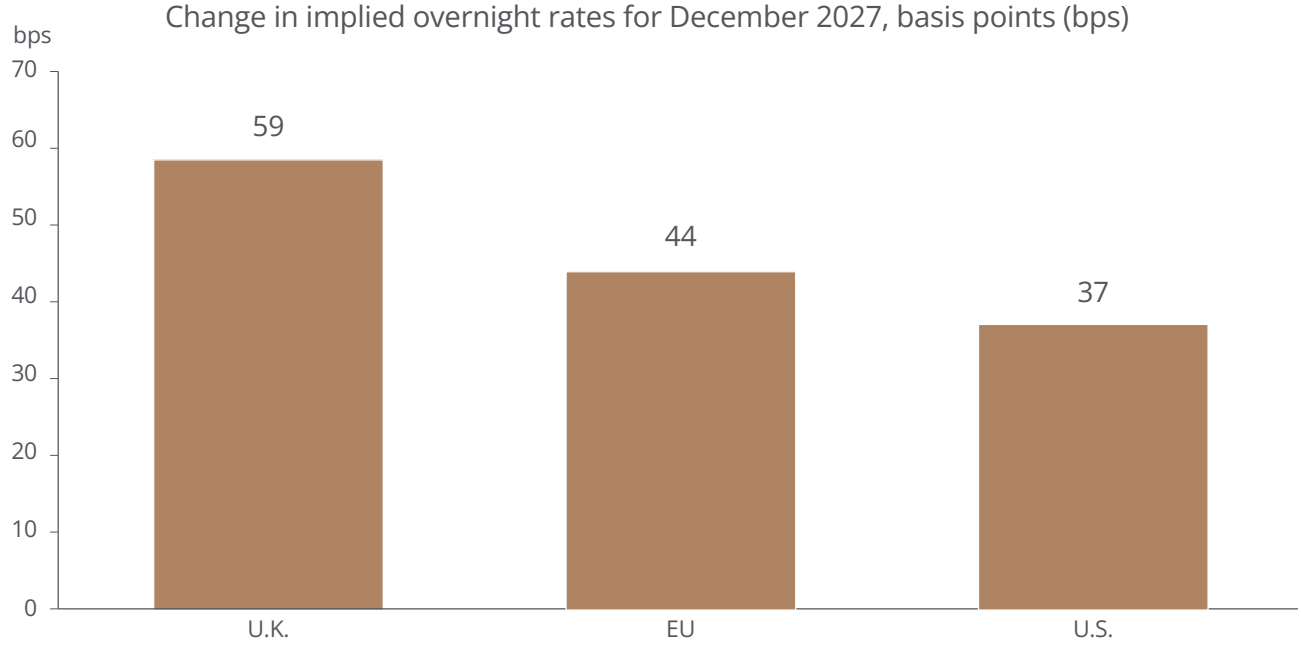
9 The United States accounts for about 27% of the EU's gas imports, up from 5% in 2021. New contracts could lift this to as high as 40% by 2030, including roughly 80% of overall LNG imports, according to the Institute for Energy Economics and Financial Analysis.

10 Tom Fairless and Max Colchester, "Europe's Green Energy Rush Slashed Emissions – and Crippled the Economy," *Wall Street Journal*, December 1, 2025.

11 They include the United Kingdom and five EU members: Greece, Italy, France, Belgium and Spain. IMF, 2024.

EUROPE HAS HAD TO REPRICE MORE THAN THE UNITED STATES

Change in implied overnight rates for December 2027, basis points (bps)



Source: Bloomberg Finance L.P. Data as of April 20, 2026. Change measured against pricing on February 27, 2026.

Passing budgets has also become politically contentious. France's rounds of fiscal impasses are a case in point. The United Kingdom also illustrates the bind acutely as the economy juggles fiscal headroom, long-term productivity challenges and debt markets already wary of high public sector debt. Aging populations will further pressure fiscal balances.

The European Union (EU) already operates at multiple speeds – not all member states share the euro or participate fully in the border-free Schengen Zone, for example.[12] Further strain between Europe's core and its periphery will likely create winners and losers. The rise of populist, less centrist political parties also suggests that power and policies could shift, possibly as soon as after the 2026 elections taking place in eight EU member states.[13]

Separately, as former ECB President Mario Draghi has highlighted, innovation in Europe has been curtailed by regulatory fragmentation[14] and limited access to financing. Research and development spending, at about 2.2% of GDP, trails the United States (3.6%) and Korea (5.2%). The EU's share of global tech revenue has slipped while the U.S. share has risen, and European productivity is about 77% of U.S. levels. Europe's share of global foreign direct investment (FDI) flows has halved in the past five years. Venture investment in Europe, equivalent to 0.05% of GDP, is one-tenth what it is in the United States.[15]

12 Formal opt-outs from EU policies and treaties, through mechanisms such as "enhanced cooperation," allow some EU countries to move ahead without the full bloc, but they also formalize a tiered Europe.

13 Five EU member states – Slovenia, Hungary, Sweden, Latvia and Denmark – elect new parliaments in 2026. Portugal, Estonia and Bulgaria elect presidents in 2026.

14 The EU has 270 tech-related regulators and over 100 tech-related laws.

15 Sharmila Whelan, "Europe's Economy Holds Up, but Headwinds Mount," Haver Analytics, October 8, 2025.

What could go wrong?

3.

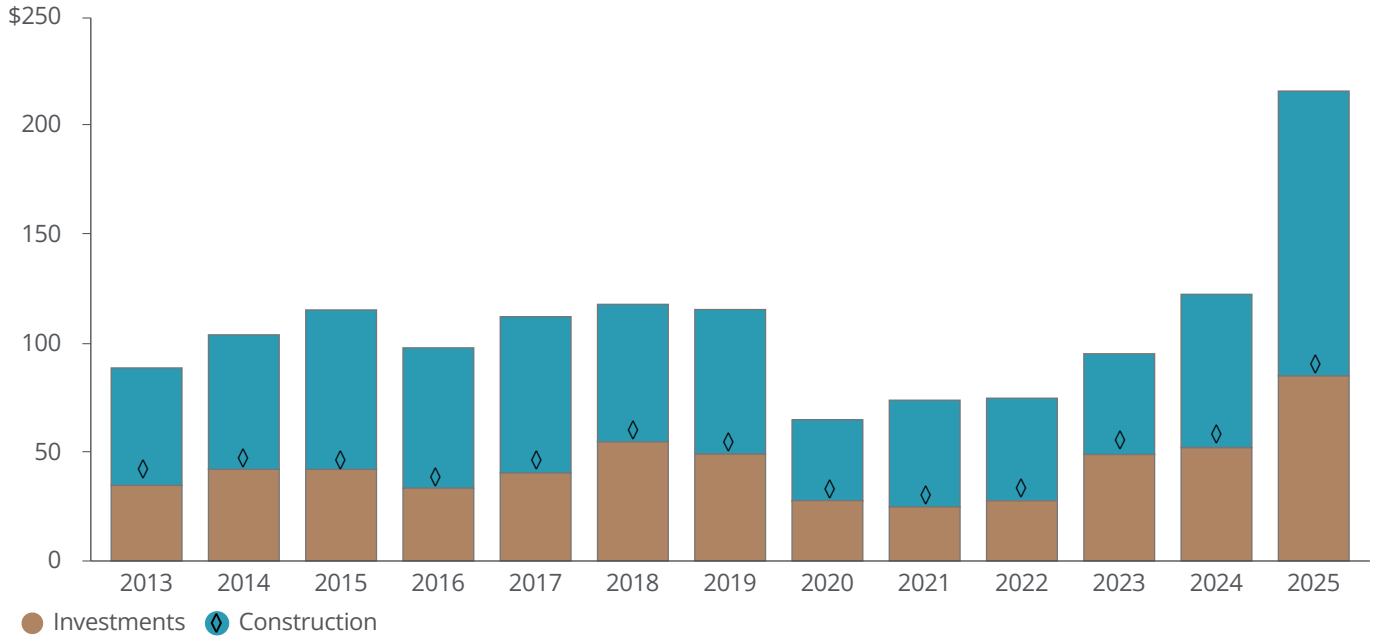
The U.S.-China relationship drives industrial policy

Perhaps the most important structural driver of global fragmentation is the long-term U.S.-China relationship. Over time, strategic competition has increasingly been expressed through industrial policy: export controls, security-driven regulation, subsidies, procurement priorities and "trusted supply chain" rules that shape which companies can participate. The implication for investors: Markets may become more segmented, with a growing divide between U.S.-aligned and China-aligned ecosystems.

China is using this moment to deepen its influence across regions that historically leaned toward or relied on the United States. Targeted FDI and large-scale global initiatives (most notably, the Belt and Road Initiative) have expanded Beijing's financial and physical footprint. According to China's Ministry of Commerce, 2025 was the most active year for Belt and Road investment, in nominal terms, since the program began. The significance for investors is not the volume of investment but rather the durable relationships investment can create.

THE LARGEST YEAR OF BELT AND ROAD INVESTMENT YET?

China nonfinancial direct investment in Belt and Road countries, $ billions



Sources: Ministry of Commerce of China. Green Finance and Development Center. Data as of December 2025.

Latin America illustrates how China has been building connective tissue through what was once viewed as a U.S. stronghold. China invested $53 billion in Brazil alone in 2025 and $50 billion in other Latin American countries since 2020, supporting trade corridors and commodity supply relationships that can reinforce China's strategic depth.[16] U.S. trade with South America rose from $270 billion in 2010 to $378 billion in 2025. By comparison, China's trade with South America increased from $158 billion in 2010 to $438 billion in 2025.

In Europe, China's economic footprint is visible in its significant share of goods imports and in a series of strategic infrastructure and industrial investments, including Shanghai-based COSCO Shipping's majority stake in Greece's Port of Piraeus. Chinese involvement also includes the Budapest–Belgrade Railway and electric vehicle (EV) battery projects in Hungary. Even in the Arctic, Beijing's "Polar Silk Road" ambition (aligned with Moscow) signals a growing interest in shaping future commercial routes and access to strategic resources.

China's expanding economic influence matters more in the current geopolitical context. Conflicts in the Middle East have diverted valuable U.S. military assets away from Asia, including advanced missile defense systems, the Marines and naval aircraft carriers.

Public statements by officials in Japan, South Korea and the Philippines suggest heightened concern about China ramping up its regional military pressure and influence.

Even without a direct confrontation, the perception of U.S. distraction could accelerate hedging behavior among partners, driving them to diversify their security relationships, trade ties and technology procurement patterns.

Since the United States raised tariffs on Chinese goods in 2025, China has also increased its exports to non-U.S. markets substantially and built new trading relationships, particularly across emerging markets. For example, from 2022 to August 2025, China's share of clean tech exports to emerging economies rose from 23% to 31%,[17] underscoring China's expanding influence in global energy markets, which may become more significant after the current global energy shock.

Even as China's exports to the United States shrank 20% from 2024 to 2025, it expanded overall exports by nearly $200 billion. According to the JPMorganChase Center for Geopolitics, the Chinese government's latest five-year plan "frames deglobalization and competition as the dominant drivers of the global economy and accordingly prioritizes supply chain resilience, technological self-sufficiency and military modernization."[18]

16 Green Finance and Development Center, 2025. China has invested about $30 billion since 2020 in the Latin America region through the Belt and Road Initiative (BRI) initiative, which excludes major non-BRI regional investments including $53 billion in Brazil in 2025 and $2.3 billion in net FDI in Mexico in 2017-24, to support trade corridors and commodity supply relationships that can reinforce China's strategic depth.

17 BloombergNEF, August 2025.

18 Derek Chollet, "Window on the World," JPMorganChase Center for Geopolitics, April 2, 2026.

The United States (and allies) push back, shaping separate ecosystems

The United States is actively responding. Nearly a decade of more protectionist tariff policy has materially reduced direct U.S. imports from China (even allowing that some Chinese goods reach the United States via transshipment through third countries). Washington has also coordinated with key allies – most notably, the Netherlands and Japan – to restrict the export of advanced semiconductor equipment to China and encouraged several partners (including the United Kingdom, Canada and Australia) to bar leading Chinese tech company Huawei from their critical networks, citing national security concerns.

AI will be central to how the U.S.-China relationship evolves. Nvidia chips, which are designed in the United States and manufactured in Taiwan, remain among the most strategically sensitive technologies in the global economy. U.S. export policies have increasingly moved toward calibrated restrictions on certain advanced products, with case-by-case licensing under strict conditions.

Reports that Chinese AI labs have attempted to acquire restricted chips through illicit channels[19] underscore a key point for investors: China's domestic semiconductor industry is improving but still appears to lag at the leading edge. Closing that gap is now a Chinese national priority receiving major capital and policy support.

The United States has also begun pushing back on Chinese influence in Latin America. Following the U.S. raid that captured Venezuelan President Nicolás Maduro, aiming to instill a more U.S.-friendly regime, Panama's Supreme Court also ruled that it is unconstitutional for CK Hutchinson, a Hong Kong company, to operate the canal terminals, passing control back to Panama. This is a substantial shift. Panama had been one of China's closest strategic partners in the region.

Fragmentation as a catalyst for "national champions"

Beyond the immediate security concerns, the deeper risk for investors is a gradual consolidation of a China-centric economic bloc competing alongside a U.S.-aligned bloc – each with its own standards, supply chains and lists of "trusted" vendors. Importantly, China does not need to displace the United States outright to benefit. It can gain if U.S. trade partners merely hedge, by building deeper relationships with Beijing, adopting China-influenced standards or channeling incremental investment toward China-aligned supply chains.

For markets, the implication is structural: As trade and production ecosystems bifurcate, returns may increasingly reflect geopolitical alignment and strategic integration, not just growth and profitability. Market access, financing conditions and competitive intensity can begin to diverge across blocs.

19 Thomas Howell, Sujai Shivakumar and Charles Wessner, "Balancing the Ledger: Export Controls on U.S. Chip Technology to China," Center for Strategic and International Studies, February 21, 2024.

What could go wrong?

1. Emerging markets could benefit

Fragmentation could be a long-term opportunity for emerging markets. The macro stage has been set: Vital measures, including EM debt-to-GDP, inflation and current accounts, have strengthened meaningfully. The average volume of EM importers' oil reserves has doubled since the end of 2021. Real interest rates in almost every EM economy are higher than in the United States.[20]

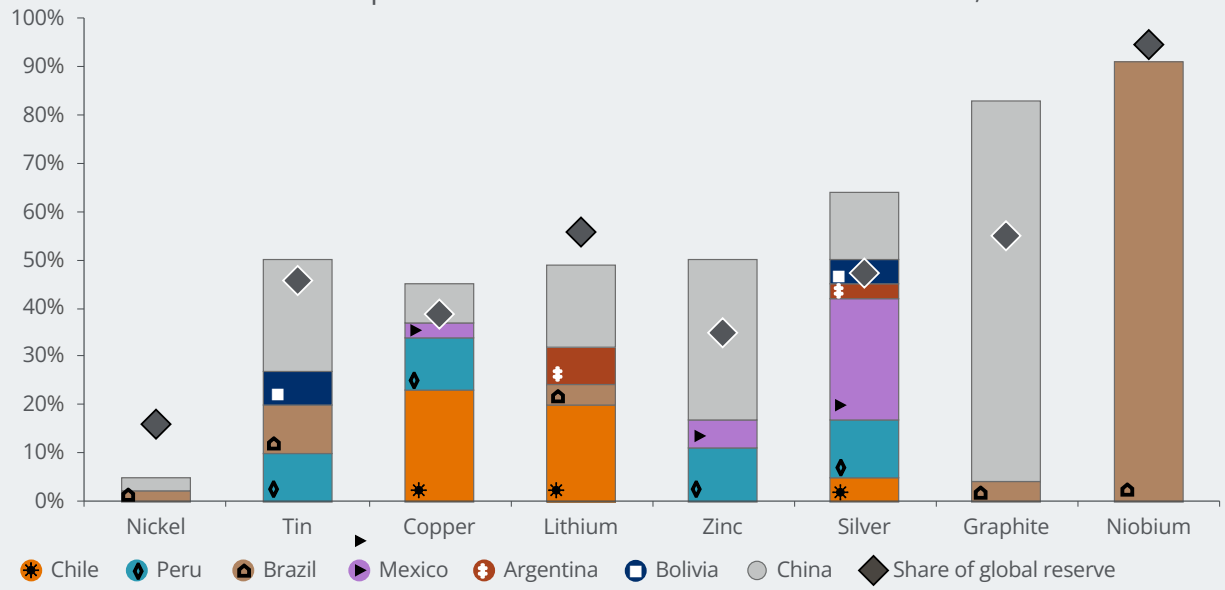
Those buffers help explain why EM credit and foreign exchange (FX) have outperformed Europe's during the energy shock. A more fragmented global economy could generate new EM bargaining power – particularly for resource-producing economies and those with scalable manufacturing or strategic geography.

Latin America sits on a unique concentration of inputs for AI and the energy transition as home to more than 40% of the world's copper and nearly 60% of known lithium reserves. The region is also rich in nickel, rare earths, agriculture and energy resources. FDI has doubled in two decades, with Brazil the top destination. The region's attractive demographics and robust supply chain logistics and infrastructure could also help it climb the value chain.

Latin American central banks have proven adept at managing inflation, in some cases more successfully than their DM counterparts.[21] Commitment to monetary policy and inflation targets, among other factors, has allowed a sustained appreciation of local currencies, leading to a lower volatility regime.

EMERGING MARKET COUNTRIES HAVE WHAT THE WORLD NEEDS

Share in the production and reserves of selected minerals, %



Sources: Mineral Commodity Summaries, U.S. Department of the Interior, U.S. Geological Survey. Data as of December 31, 2022.

20 Meanwhile, debt-to-GDP for economies in our EM market benchmark have also declined, from 65% in 2022 to 60% today, and average inflation has fallen below 4%, according to Bridgewater Associates.

21 Despite high fiscal deficits and strong domestic consumption, Latin American nations contained their post-COVID inflation surge in, on average, 13 months – eight months faster than the United States and Europe. Brazil, Mexico, Colombia, Chile and Peru managed their inflation more adeptly.

Finally, the political cycle in Latin America is pointing to the return of more pragmatic and business-friendly governments than their left-leaning and populist predecessors. A return to rule of law and investment certainty could reignite domestic investment and lead to higher FDI, as global companies leverage the region's competitive advantages to supply a world hungry for what Latin America has to offer.

The Gulf economies are channeling their balance sheet strength and abundant energy toward building a lower-cost AI-era industrial base. Saudi Arabia, since 2019, has prioritized building AI data centers and has ambitions to capture a meaningful share of AI contributions to the regional economy.[22] Recent evidence of success includes a $3 billion Humain–Blackstone data center partnership.[23]

Gulf leaders will need to address challenges – water scarcity and volatile geopolitics among them. Several Bahraini Amazon data centers, for example, sustained damage from the conflict. The developments could also potentially usher in a wave of security spending that may help persuade international tech and finance investors that their assets are safe. A positive outcome would be a more secure and stable Middle East.

East Asia dominates in manufacturing capacity for critical AI infrastructure, including Taiwan's advanced semiconductor manufacturing (TSMC makes most of the world's supply), South Korea's memory power (75% of global capacity),[24] and China's rare earth mining (70%) and processing (90%).[25]

If the AI capital expenditure (capex) cycle continues – through agentic models' growing computing intensity, hyperscalers' further expansion of data centers or robotics adoption – demand for these products could echo patterns of past supercycles. That would position East Asian manufacturers to capture disproportionate value through their export volume of, and pricing power over, critical AI supply chain inputs.

22 In 2019, the kingdom established the Saudi Data and Artificial Intelligence Authority.

23 Other significant landmarks: $1.79 billion in Saudi AI investments announced at the LEAP 2025 tech conference in Riyadh; Oracle's Mostaqbali workforce program expected to train 50,000 Saudis in AI by 2027; collaborations with Alibaba Cloud and the Humain-Blackstone project encompasses three major complexes that are expected to cost 30% less than they would in the United States, and others.

24 Jihye Lee, "Korea Warns That Prolonged Middle East Conflict Could Hurt Chip Industry," *Wall Street Journal*, March 5, 2026.

25 Gracelin Baskaran, "China's New Rare Earth and Magnet Restrictions Threaten U.S. Defense Supply Chains," Center for Strategic and International Studies, October 9, 2025.

What could go right?

2.

Developed markets could balance globalization and self-reliance

Although inherently costly, global fragmentation need not be a net negative. The more constructive scenario: Economies intentionally sacrifice some growth and efficiency benefits in exchange for security and resilience, while staying tied economically and financially to trusted partners. Fragmentation would then refine rather than dismantle globalization, leading to better management of geopolitical risk.

We can envision this "selective fragmentation" in Europe and the Americas.

In Europe, governments are already coordinating security, leading to a doubling or tripling of their defense spending, relative to 2014 levels, after years of underinvestment. A further step could be integrated procurement and defense supply chains.[26]

Capital markets could participate, too, and are already helping build strategic resilience. JPMorganChase's $1.5 trillion, 10-year Security and Resiliency Initiative (SRI), launched last year, is designed to finance sectors including quantum computing, healthcare, AI and energy infrastructure.[27]

Canada, the United States and Mexico may be bellwethers for selective fragmentation. This longstanding economic bloc's regional trade is valued at about $2 trillion per year.[28] North America's mutually reliant value chains feed a deeply integrated cross-border production ecosystem[29] in which imports from one country are often transformed into final products in another.

In 2025, Mexico overtook China in exports of advanced technology products to the United States. Data center–related exports significantly exceeded auto-related products for the first time ever.[30]

Competitive advantages for the bloc include North American countries' proximity, scale, abundant energy and materials, advanced manufacturing, deep capital markets and shared legal frameworks. A potential renegotiation of the USMCA trade agreement will be important to watch.

If fragmentation goes right, globalization does not disappear. Supply chains become more reliable, capital is directed toward resilience and economically aligned trade blocs deepen their integration.

26 "Defence Expenditure of NATO Countries (2014-2025)," North Atlantic Treaty Organization, June 3, 2025.

27 JPMorganChase expects the SRI to deploy up to $10 billion through direct equity and venture investments. The broader initiative is designed to mobilize lending and capital markets activity across strategic industries.

28 Office of the United States Trade Representative, 2022.

29 For example, 63% of U.S. imports from Mexico and 72% of those from Canada are industrial products used in further manufacturing. National Association of Manufacturers, November 12, 2025.

30 U.S. Census Bureau, February 2026.

What could go right?

3.

A secular bull market for Chinese assets

For much of the past decade, Chinese equities have underperformed their regional peers – the MSCI China Index has broadly lagged MSCI Asia ex-China – even as China's GDP has expanded roughly 5%–6% annually, and authorities have deployed substantial support, including infrastructure spending and policy easing. Growth hasn't translated into market performance.

But there are two key reasons for global investors to consider Chinese equities: valuations and AI.

The MSCI China Index is trading at its steepest discount to MSCI Asia ex-China in around 20 years. With expectations depressed and positioning light, Chinese equities – alone in the region – offer exposure to potential AI beneficiaries. This advantage may power a renewed bull market in Chinese stocks.

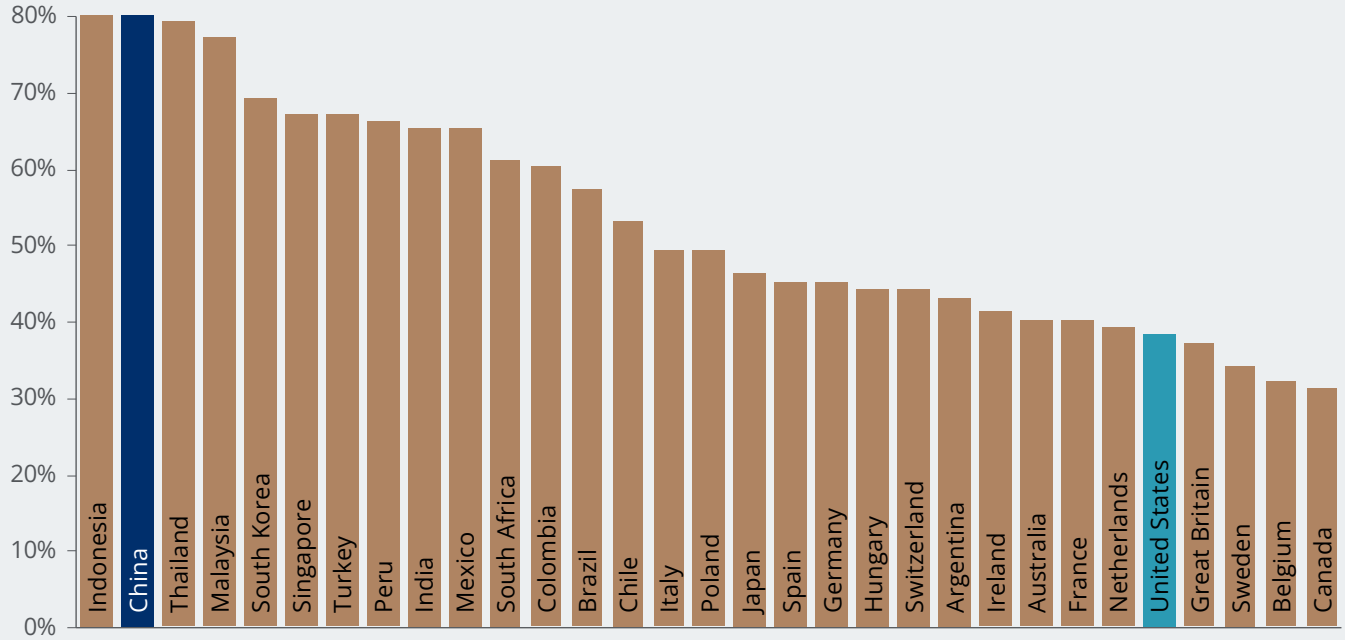
The government has made aggressive investments to build a leading position in AI, directing tens of billions of dollars to research institutes and related infrastructure. China produces around 40% of the world's STEM graduates,[31] and seven of 10 generative AI inventions came out of China.[32]

31 Center for Security and Emerging Technology, November 27, 2023.

32 World Intellectual Property Organization, "Generative Artificial Intelligence. Patent Landscape Report," 2024.

CHINESE CONSUMERS SEEM TO BE MORE OPTIMISTIC ABOUT AI THAN AMERICANS

Percentage who said they were excited by products and services made using AI



Source: Ipsos AI monitor. Data as of April 19–May 3, 2024.

On another measure, China appears to be outpacing developed markets: A survey found 80% of respondents in China were excited about AI products and services, compared with 38% in the United States. Productivity growth has historically been determined by speed of new technology adoption. Where AI is seen as a threat, a country is likely to regulate, delay adoption and defend incumbents. China appears poised to quickly integrate AI into work, consumption and daily life.

China's hyperscalers, Baidu, Tencent and Alibaba, also have a very different strategy than their U.S. competitors, in part because they are still excluded from purchasing cutting-edge components. Instead of prioritizing infrastructure capex, they are prioritizing commercial applicability and efficiency. For example, they are accelerating AI's diffusion into end products, such as BYD's electric vehicles.[33]

Perhaps China's biggest advantage in the AI race is energy. Chinese electricity costs about half the U.S. level, and the country has focused on adding capacity. Coal accounts for nearly 60% of China's energy consumption, but new wind, solar, hydro and nuclear capacity alone has added more than 6 trillion kilowatt-hours since 2005. To put that number in context: The added kilowatt-hours are equivalent to 1.35x total U.S. electricity consumption in 2025.[34]

If the market cycle rewards real-world deployment and productivity, and Chinese policymakers make a shift toward more business-friendly stances, Chinese equities could be well-positioned to benefit.

33 Brian Buntz, "BYD and DeepSeek plan to bring 'God's Eye' autonomous driving features to sub-$10k vehicles," *R&D World*, February 11, 2025.

34 Antonio De Pinho, "The Power Divide: China, U.S. and the Future of the Grid," VanEck, December 2, 2025.

Investment implications

We have long argued that geopolitical shocks, while devastating in their human toll and bound to command investor attention, tend to inflict limited lasting damage on diversified investment portfolios. That assessment still holds, particularly when a conflict does not materially disrupt energy supply.

While the conflict in the Middle East presents clear downside risks, we believe that markets are right to rally in the face of continued energy supply disruption. We believe the risks are skewed in favor of a resolution to both the geopolitical conflict and market volatility as policymakers in the United States and China have a common desire to keep energy prices low.

During the 10% correction in U.S. equity markets in the month after the start of the Middle East conflict, the S&P 500 P/E multiple dipped below 20x and earnings revisions continued to move higher. The VIX volatility index had breached 30, a level historically associated with strong forward-looking returns. Our historical analysis finds that investors who bought the S&P 500 when the VIX closed above 30 enjoyed positive returns 70% to 83% of the time, with an average gain of 12.4% over the subsequent six months.[35]

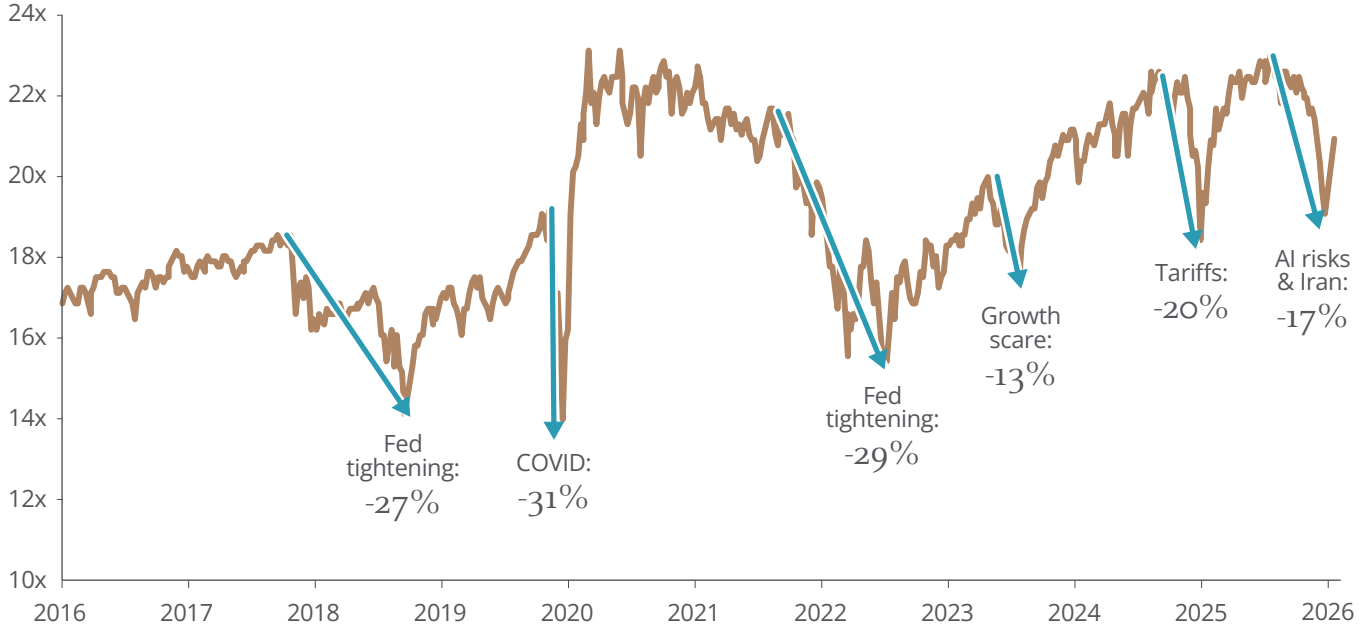
Small- and mid-cap stocks could also continue to bounce back once concerns around energy prices ease. We view this as an opportunity for long-term investors to add to U.S. equities.

Beyond acting as the key near-term catalyst, the long-term theme of global fragmentation is also becoming a material driver of asset returns. Global decision-makers continue to move away from an overriding focus on efficiency and lower costs toward shoring up domestic resilience and security – at a time when access to energy, safe trade routes and critical materials can no longer be assumed. This shift toward resilience will also likely be associated with more fiscal activism and wider sovereign deficits.

35 Our historical analysis examined the 724 instances in which the VIX closed above the 30 mark over the past 30 years, excluding the two most recent instances. The probability of a positive return rose from 70% one month after the VIX exceeded 30 to 83% at the six-month mark.

VALUATIONS HAVE CORRECTED TO MORE COMPELLING LEVELS

S&P 500 next-12-months P/E ratio



Source: Bloomberg Finance L.P. Data as of April 20, 2026.

We believe these changes could ultimately help build a more durable foundation for global growth and support capital flows, yet the adjustment process is likely to be uneven and marked by shocks. We offer these five pieces of advice to long-term investors to manage through the transition:

- ## Prepare for a potential continuing rally in emerging markets

  Emerging markets outperformed their DM peers by 11 percentage points (ppt) in 2025 but still lagged by 500 basis points (bps) annually over the last five years. The slog for EM may be over. Structural foundations are translating into earnings delivery.

  In calendar year 2026, EM corporate earnings are expected to grow 46%, while EM P/E multiples have corrected to 11.8x, still below longer-term historical averages. EM sovereign bond yields are above 6.5%, even as EM central banks have embraced more orthodox policy stances. Real interest rates in almost every EM economy are higher than in the United States. As the conflicts in the Middle East evolve, global investors could begin to view EM equities and fixed income as potential return drivers, given their broad structural support, improved fundamentals and relatively attractive valuations.

  Two EM markets in particular, Taiwan and Korea, are central to global semiconductor supply chains and stand to benefit from the AI investment cycle. In addition, fragmentation and industrial reinvestment should remain broadly supportive of commodity prices, improving terms of trade for several EM economies.

  Together, these forces support opportunities across both EM public equity and fixed income. In a world of shifting alliances, emerging markets may have a rare chance to capture capital, production and pricing power, rather than merely absorb volatility.

  Beyond the tactical backdrop, we believe investors should consider EM assets as part of their asset allocation.

- ## Position for the next phase of security-driven investment

  Continued conflict in the Middle East reinforces our view that the global economy is being reoriented toward security and resilience. Europe has already begun to invest in its own security. Poland, geographically at increased risk, has been spending 4.5%–5% of GDP on defense. We believe that such spending by the Gulf states, Korea and Japan could rise from current levels.

  Investors should recognize that defense spending is backed by sovereign balance sheets and locked in by treaty pledges and multiyear procurement cycles. The defense customer does not churn, and defense companies' revenue visibility can extend out a decade.

  Private markets are financing the next generation of defense and space technology: Defense tech now represents roughly 8% of all global venture capital, about double its share in 2020.

  These venture-backed challengers, such as SpaceX, Anduril and Palantir, are ascending the Department of Defense contractor rankings rapidly. Autonomous systems saw venture investment grow 143% in 2025.[36]

  Policymakers are also likely to stockpile critical resources and subsidize expanded domestic production, including energy and infrastructure capacity, reducing future vulnerabilities. In an environment defined by supply constraints and geopolitical risk, commodity prices – and commodity producer equities – are likely to retain structural support.

- ## Prioritize national champions

  In a more fragmented world, we expect opportunity to concentrate in a narrower set of preferred firms within each bloc's trusted ecosystem. Fragmentation can create national champion companies on all sides, today focused on supply chain independence, strategic manufacturing, defense systems, technology, infrastructure and energy resources.

  Year-to-date, earnings expectations have doubled for a basket of companies we have identified as global national champions. The portfolio challenge lies in identifying the strongest such companies while managing the higher volatility and policy risk that comes with investing in a more fragmented world.

- ## Prepare for more divergent inflation and FX volatility

  Several secular forces associated with fragmentation – resource stockpiling, fiscal expansion tied to security spending, energy-related supply risks, reduced labor mobility – point to likely wider sovereign deficits, higher inflation volatility and greater currency dispersion. That makes it more important for global investors to diversify their currency exposures.

  One way to achieve that is by allocating to gold. Our best thinking suggests investors may allocate between 3% and 6% of their portfolios to the precious metal.

- ## Remain thematically focused in Europe and China

  Our outlook for European assets remains selective, and we prefer to add equity exposure through private rather than public markets. Higher defense and infrastructure spending should support profits for domestic industrials and other national champions. We would avoid autos and consumer staples. Market participants also appear to be pricing a more aggressive ECB hiking path than is likely.

  In China, we are warming to pockets of the AI complex, but to substantially shift our view, we would need to see a more full-throated endorsement of enterprise from the policy apparatus.

36 Pitchbook, Q4 2025.

Part 2

Inflation: A new regime

The March energy price shock associated with the conflict in the Middle East has only exacerbated inflation's ongoing structural shift. Throughout the 2020s, inflation has posed an ever greater risk than in the pre-COVID-19 period to investors building and maintaining purchasing power and reaching their long-term goals.

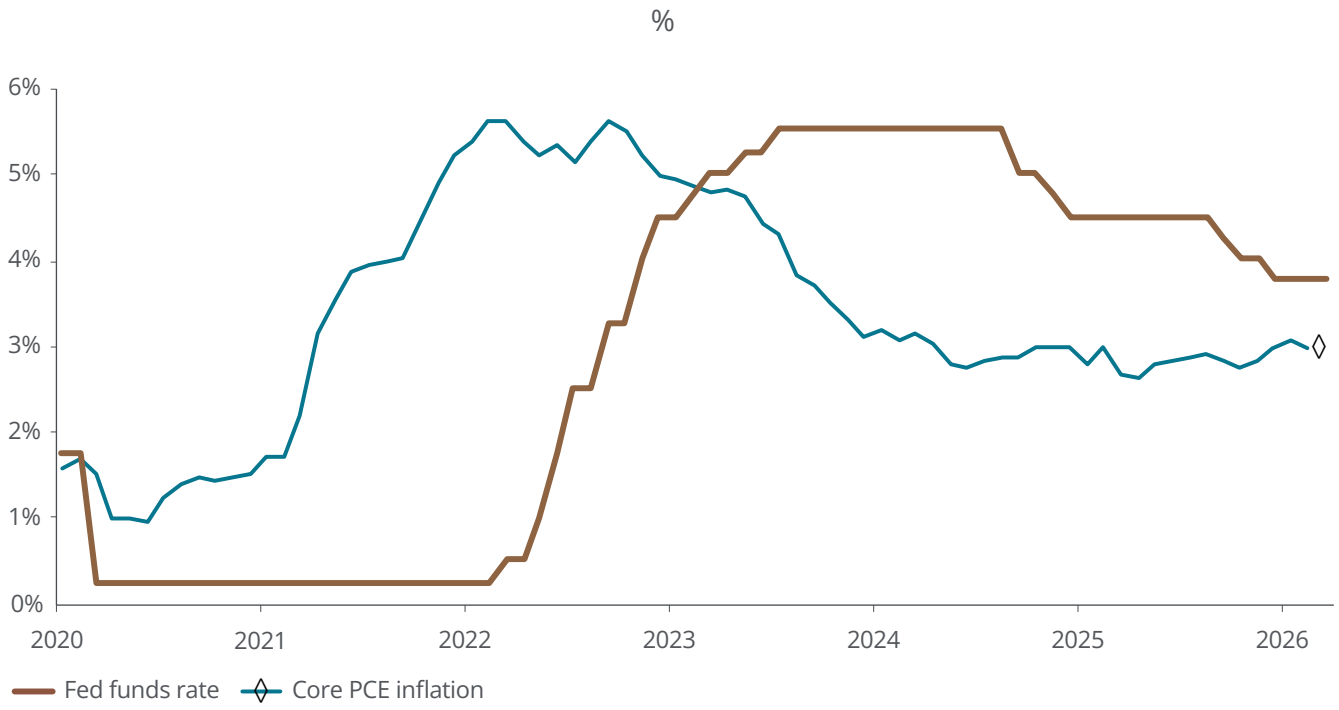
U.S. consumer prices have gained over 25% cumulatively since the start of the decade, while core fixed income has only managed a 6% return. Still, our clients hold nearly 20% of their assets under supervision in cash and securities maturing within one year.

U.S. inflation was running near 3% even before the energy price shock, and the gap between yields on cash and the inflation rate continues to narrow. This erosion will likely worsen as the latest energy supply shock ripples through the economy. Concerningly, this shock is the latest in a series of "one-time" events that have placed upward pressure on prices. We are forced to ask a critical question: Is your long-term investing plan well suited for a world of higher and more volatile inflation? And are the assets within it fragile or resilient in the face of the risks?

Our view that inflation will be more volatile than before the pandemic, and more susceptible to upward shocks, sets the expectation for a higher correlation between stocks and bonds – and bears strongly in favor of assets that can provide a lower volatility profile than equities but can also perform well in more inflationary environments.

We believe portfolios that are aligned with a goals-based plan, incorporate real assets and rely on active management strategies – as diversified hedge funds do – will be more resilient than those that don't. Whether inflation worsens or a more benign scenario unfolds, investors should have a broad toolkit at their disposal.

INFLATION WAS ALREADY AT 3% BEFORE THE ENERGY PRICE SHOCK



Source: Bloomberg Finance L.P. PCE data as of February 28, 2026. Fed funds rate data as of March 18, 2026.

What could go wrong?

1.

The 2020s could replay the 1970s

An unsettling lesson from the 1970s, and a risk today, is that price shocks can become quickly normalized when they occur in rapid succession. Since the COVID-19 pandemic spiked inflation, the U.S. economy has absorbed four additional inflationary catalysts: Russia's invasion of Ukraine, tariffs, sharp swings in immigration policy and now the conflict in the Middle East. Each shock was initially framed as temporary but was rapidly followed by a new shock before the last one's effects had reversed.

These repeated bouts of inflation may redefine what households and firms perceive as "normal," as occurred in the 1970s, when inflation crept higher with each successive shock. Over time, price increases that once felt exceptional became familiar. Altered expectations can embed themselves in wages, contracts and corporate pricing behavior.[37]

In the 1970s, "guns and butter" government spending collided with an economy already running hot. Today, the AI infrastructure build-out, rearmament and industrial policy are increasingly framed as strategic necessities, making governments and hyperscalers potentially less price-sensitive. That could sustain persistent demand, even as some costs skyrocket.

THE 1970s SAW TWO DISTINCT SURGES IN INFLATION

Consumer Price Index, year-over-year change, %

Source: Bloomberg Finance L.P. Data as of March 31, 2026.

37 This section has been influenced by both Matthew Klein's *The Undershoot* report and Bridgewater Associates inflation analysis.

38 Along with oil in the wake of the 1973 Arab-Israeli war, commodity spikes in the 1970s hit natural gas, industrial metals, gold and silver, and coffee and sugar.

Another parallel that could emerge: supply constraints. The more resource-intensive character of the U.S. economy in the 1970s[38] amplified the commodity shocks' effects across industries. Today's tight supplies look different but may be similarly binding. Critical inputs, including electrical grid capacity and specialized equipment, can become chokepoints magnifying inflation as investment demand accelerates. Over the last year, the price of printed circuit assemblies has soared 80%.[39]

Then and now, an energy price shock is a classic risk, particularly if geopolitical disruptions extend beyond weeks and months into quarters.

Monetary policy fails to contain inflation

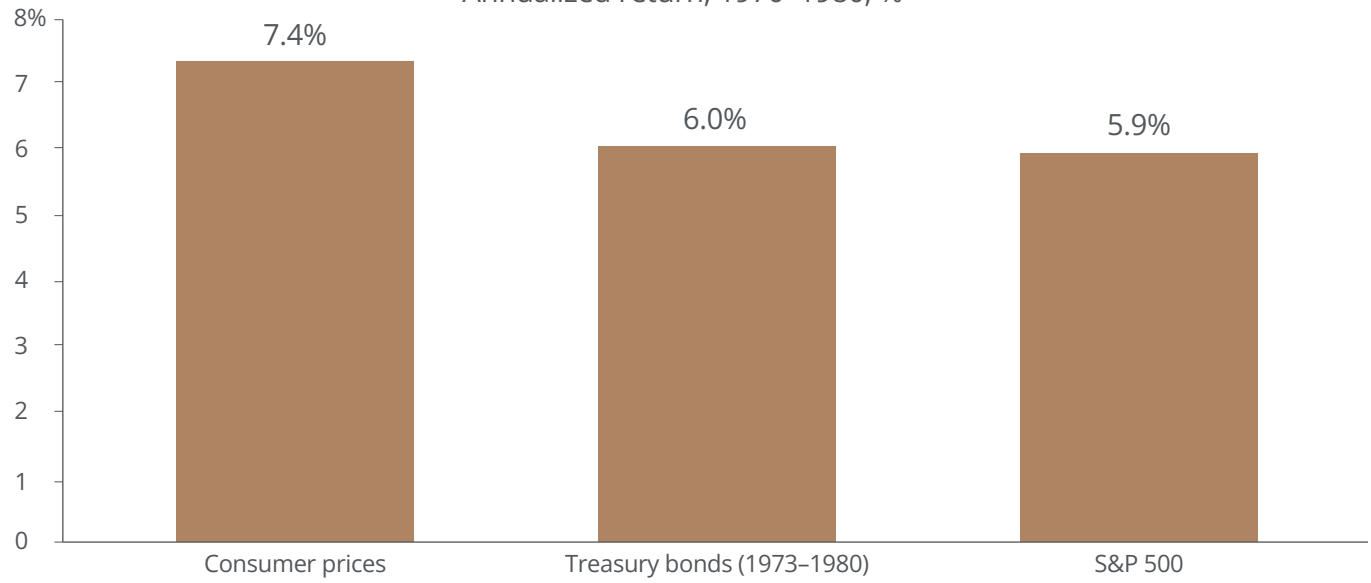
The double-peaked 1970s inflation cycle worsened when the Fed eased prematurely and allowed real rates to stay too low for too long. With different structures and priorities today, we don't expect a repeat, but if the Fed did make the same mistake, it could unlock an underappreciated inflation risk that currently lies dormant: untapped home equity.

U.S. households have accumulated about $66 trillion in additional net wealth, including $16 trillion in untapped home equity, since the end of 2019 – more than three times current annual personal consumption expenditures.[40] If mortgage rates declined substantially, consumers would likely start extracting and spending this equity, possibly boosting consumer spending far in excess of businesses' ability to increase production, sending prices upward and unleashing an inflationary spending wave that could be difficult to contain.

The more desensitized consumers and business become to inflation, the more difficult, and painful, it becomes to restrain. Returns from U.S. equities and fixed income both failed to outpace consumer price hikes during the 1970s. The short-term inflation outlook is troubling before you consider that U.S. policymakers (outside the Fed) appear intrigued by a strategy of running the economy hot through wider budget deficits.[41]

INFLATION OUTPACED BOTH STOCKS AND BONDS IN THE 1970s

Annualized return, 1970–1980, %



Source: Bloomberg Finance L.P. Note: Treasury bonds represented by the Bloomberg US Treasury Index, data begins January 31, 1973.

39 Bureau of Labor Statistics, "Producer Price Index," March 18, 2026.

40 The housing component of Americans' balance sheets alone totals roughly $16 trillion in untapped equity gains, which has not been monetized (meaning, spent and entering the economy, spurring demand). Federal Reserve, "Financial Accounts of the United States (Z.1)," Table B.101.

41 Japan provides the template. Debt-to-GDP has fallen from 220% five years ago to 190% today. Inflation has risen to a 1.5%-2.0% pace, and wage growth has firmed. Policymakers seem to have finally generated reflation after 30 years of stagnation. Japanese equities made a new high for the first time since 1989. The cost was borne by the yen and domestic savers. Long-term Japanese bond yields have soared since 2022, to the highest levels since the late 1990s. The yen is at its weakest versus the U.S. dollar since 1989. And before inflation returned in 2022, Japanese bond returns were -2.5% annually.

What could go wrong?

2.

An energy price shock could collide with sticky inflation

Consider the inflationary backdrop before the Middle East conflict began to snarl energy supplies and trigger price surges.

Inflation had been sticky. Core U.S. consumer prices and private sector workers' pay were rising about 1.0 ppt to 1.5ppt faster per year than in the prepandemic period. The core personal consumption expenditure deflator (PCE), the Fed's preferred metric, accelerated markedly in 2025, and in January 2026, prices had risen 3.1% year-over-year (y/y), above the Fed's target. In that report, inflation was firm in discretionary consumer services, such as sit-down restaurants and personal care services – categories largely insulated from global supply and tariff effects.

Such persistent inflation suggests robust domestic demand and consumers' willingness to pay higher prices. Meanwhile, the Employment Cost Index, another measure of wage growth, is still above pre-COVID levels. Absent rising household savings, that means faster spending growth, fueling the demand side of inflation.

Then the Strait of Hormuz price shock hit, just as inflation was returning to the Fed's target.[42] Higher fuel costs began flowing through the economy via transportation, logistics and manufacturing inputs, while directly impacting household budgets and inflation expectations. Fed research suggests each sustained $10-per-barrel increase in oil prices raises inflation by roughly 30bps to 35bps.[43] A roughly $40-per-barrel sustained increase in oil prices (above preconflict prices) would imply, by the Fed's math, nearly a 1-ppt higher inflation rate.

42 Maximiliano A. Dvorkin, Fernando Leibovici and Ana Maria Santacreu, "How Tariffs Are Affecting Prices in 2025," Federal Reserve Bank of St. Louis, October 16, 2025.

43 Federal Reserve Board, "FEDS Notes," Q4 2025.

Policymakers' difficult choice

While current inflation dynamics do not look nearly as troublesome as in 2022, the possibility of a repeat bears watching. In 2022, core PCE was running at 5.2% when Russia invaded Ukraine in February, setting off a 60% surge in oil prices. The Fed responded by raising interest rates 425 bps over that calendar year. The S&P 500 ended 2022 down 20%; core fixed income lost 13%.

Most portfolios suffered the consequences. Macro hedge funds delivered a 9% return – one of the only asset classes to withstand the hiking cycle.

The Federal Open Market Committee (FOMC) could be forced to make a difficult choice: Maintain its easing bias (as several members, the treasury secretary and the president clearly prefer) and risk stoking even more inflation and higher long-term bond yields, keep rates steady or pivot back toward rate hikes that risk destabilizing financial markets, at a time when stress is building in certain pockets of credit. History suggests that central bank rate hikes in response to an energy price shock are classic precursors to recession.[44]

44 Wataru Miyamoto, Thuy Lan Nguyen and Dmitriy Sergeyev, "How Oil Shocks Propagate: Evidence on the Monetary Policy Channel," Federal Reserve Bank of San Francisco, March 8, 2024.

What could go right?

1.

Labor market slack counters rising prices

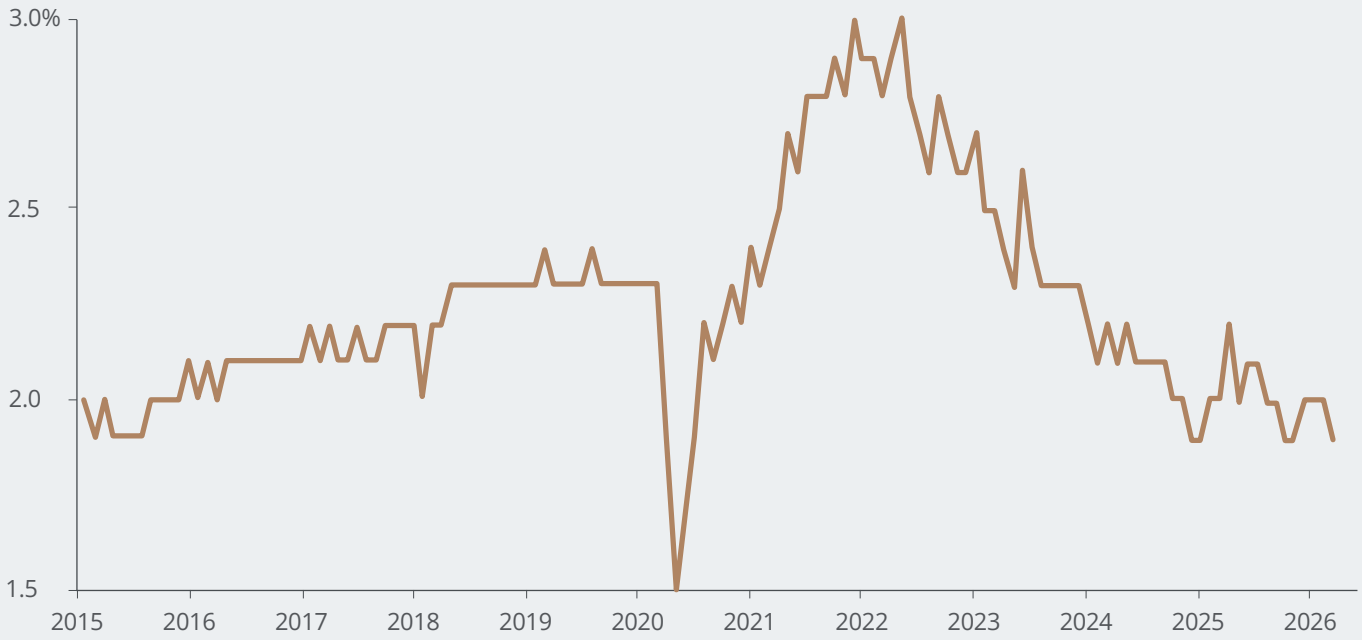
We see signs that the labor market still contains a fair degree of slack. A more balanced labor market would typically produce high job switching rates and outsized wage gains for workers who change employers. Recently, both the quits rate and the wage premium for job switchers have continued to signal a low-hiring, low-firing labor market.[45]

There is no evidence that the inflationary wage-price spiral that characterized 2022 exists today. And AI's perceived threat, although it isn't broadly impacting jobs yet, will likely dampen wage expectations. Reduced immigration could theoretically push up wages, but there is little evidence so far that it has.[46]

The number of part-time employees unable to find full-time work is up, layoffs and job cuts have risen, and a declining rate of voluntary quits indicates that workers have less confidence about switching jobs for better pay or conditions.[47] These labor market dynamics tend to restrain wage growth and, by extension, limit services inflation. Labor demand is perhaps the best evidence that inflation, though sticky, will likely be contained.

A MORE BALANCED LABOR MARKET PUTS DOWNWARD PRESSURE ON INFLATION

U.S. JOLTS quit rate, seasonally adjusted, %



Sources: Bureau of Labor Statistics, Bloomberg Finance L.P. Data as of February 27, 2026.

45 JOLTS report, March 31, 2026.

46 Simon Mongey, "Immigration can't explain declining employment growth," Federal Reserve Bank of Minneapolis, October 1, 2025.

47 U.S. Bureau of Labor Statistics, "Employment Situation Summary (Household Survey)," March 2026.

What could go right?

2.

Tariffs and energy shocks could prove temporary; housing disinflation is durable

While higher prices have undoubtedly hit U.S. households in food, electricity and core consumer goods, a reasonable argument could be made that tariffs and energy – idiosyncratic factors – are driving most inflation.

From June 2025 to August 2025, tariffs accounted for roughly 0.5 ppt of headline PCE annualized inflation.[48] Without tariffs, headline PCE would have been 2.35%, not 2.85%. As the tariffs' pass-through effect rolls off, or if tariff policy moderates (through judicial action, trade negotiations or at the administration's discretion), this source of price pressure could dissipate, providing meaningful relief.

Housing inflation has declined. Comprising 17.7% of core PCE, it has declined to just over 3% y/y at the beginning of 2026, from 5% y/y at the end of 2024. Home prices remain elevated and affordability is strained, but the rise in housing costs (including rents) is currently more subdued. The supply of single-family homes for sale has normalized, slowing price growth.[49]

Depressed affordability, due in part to elevated mortgage rates, will likely also contain homebuyer demand and home price inflation. Apartment markets are even less inflationary: Vacancy rates topped 2019 levels and are still rising in the wake of a recently ended construction boom.[50] This slack should continue to suppress housing-related inflation through 2026.

48 About 0.4 ppt of core PCE annualized inflation. Federal Reserve Bank of St. Louis, October 22, 2025.

49 U.S. Bureau of Labor Statistics, "Consumer Price Index," February 2026; National Association of Realtors "Existing Single-Family Home Inventory," February 2026.

50 U.S. Census Bureau, "Housing Vacancies and Homeownership Survey," Q4 2025.

What could go right?

3.

Global competition could cap inflation

Even if domestic inflation proves sticky at the margin, global competition could help anchor it. Intense competition from China and other low-cost producers can be powerfully disinflationary.

Production dynamics, especially in China, signal goods prices under continuing pressure. China's postpandemic investment mix has shifted toward industrial capacity, contributing to overcapacity, race-to-the-bottom price competition and producer-price deflation.[51]

Until March, Chinese producer prices had been deflating since the end of 2022.[52] China's goods exports have crested well above prepandemic trend while imports have stagnated. Competitive pressures have intensified domestically and for China's trade partners and in third-country markets, too.[53] In their latest five-year plan, policymakers reiterated their commitment to this export-led strategy.

The phenomenon extends beyond China. The price of apparel imported into the United States from China and Latin America, for example, fell in 2025.[54] Global competitive dynamics can outweigh tariff pressures.

51 J. Scott Davis and Brendan Kelly, "China manufacturing overcapacity boosts output, stagnation fears," Federal Reserve Bank of Dallas, December 30, 2025.

52 National Bureau of Statistics of China, "Producer Price Index," February 28, 2026.

53 European Central Bank, "ECB Economic Bulletin," July 2025.

54 U.S. Bureau of Labor Statistics, Import Price Index by Origin," December 2025.

Investment implications

Maintaining purchasing power is a core goal for many investors and families. Higher inflation makes achieving that goal more difficult. It erodes real wealth faster, and higher inflation is associated with higher correlations between stocks and bonds, which increases the fragility of a traditional portfolio.

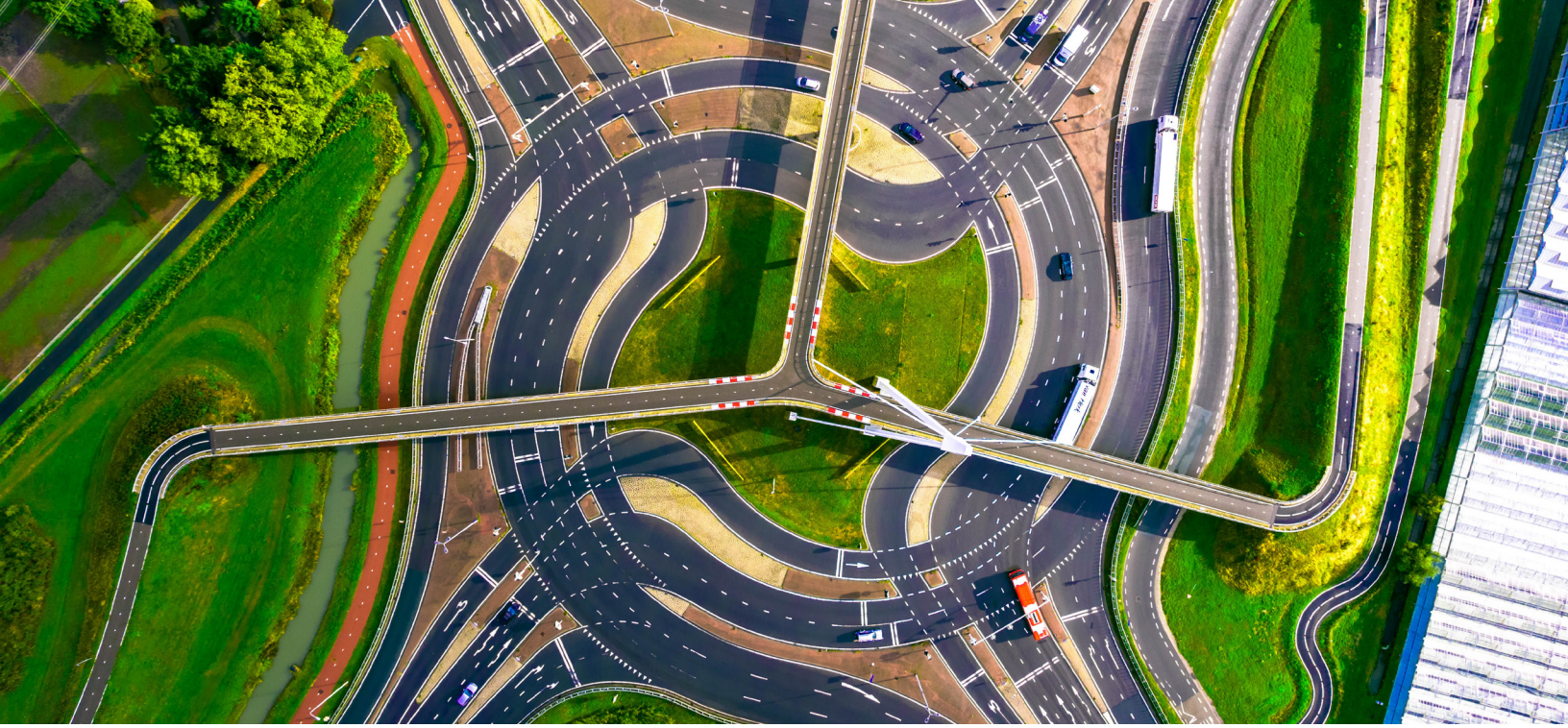
A 1970s-style inflationary episode is possible, but not likely. There is very little evidence in the labor market of a wage-price spiral. However, as noted, higher inflation could become entrenched. Rates on cash and short-term securities can barely compensate – and that's before taxes.

To manage this persistent and often silent risk to wealth, we suggest four actions:

- **Plan with intent**

  A higher inflation environment necessitates clearly articulating goals and intentionally designing an asset allocation to achieve them that takes cash flows and taxes into consideration.

  The first step: Understand how various inflation and market scenarios could impact future portfolio values. Every family's situation is unique, which is why it's crucial to stress-test your goals against a range of market outcomes. From there, mapping decision points and sequencing possible actions can help ensure that wealth is not only preserved in real terms, but also deployed effectively toward the goals it was built to achieve.



- ## Consider commodity-linked equity, infrastructure and real estate

Commodity prices are input prices, and they tend to deliver strong returns when inflation is rising.[55] By extension, the stocks of commodity producers and transporters tend to outperform when inflation is rising, as well.

Today, the natural resources sector is especially interesting, in part because capital expenditures have barely outpaced inflation for a decade. Future supply is likely to be limited. A basket of natural resource–related equities that we track currently offers a total shareholder yield of nearly 5.5%. Its P/E ratio is well below the broad market's.

Global infrastructure has been an underappreciated asset class, although it has delivered 8%–12% annualized returns historically under various inflation regimes.[56] A key factor: long-term contractual, inflation-resilient cash flows. Power now accounts for nearly 60% of the benchmark index,[57] up from 20% 10 years ago. Although flows into infrastructure funds have recently risen, infrastructure remains underinvested. Nearly 80% of family offices we surveyed recently said they don't have any exposure,[58] and neither do 86% of our U.S. Private Bank clients.[59]

Global real estate can serve as another inflation hedge, through rent escalators and frequent lease resets. Those built-in repricings help preserve income as property values rise along with the cost of land, labor and materials.[60] We see early signs of recovery in core real estate after a multiyear slump.

We believe together these real assets can comprise up to 5% of an overall portfolio.

55 Ari Levine, Yao Hua Ooi and Matthew Richardson, "Commodities for the Long Run," National Bureau of Economic Research, November 2016.

56 MSCI, Bloomberg, data based on availability as of June 2025.

57 The MSCI Global Private Quarterly Infrastructure Asset Index.

58 J.P. Morgan Private Bank, "2026 Global Family Office Report," February 2026.

59 For client portfolios with a minimum value of $5 million.

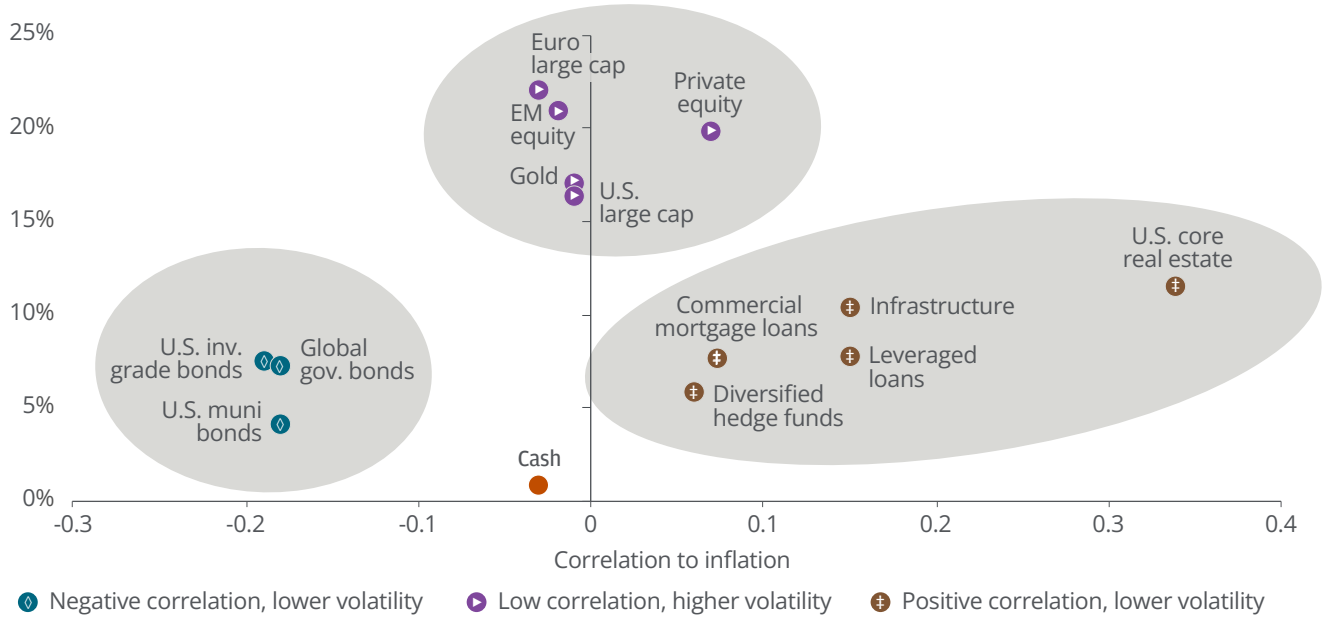
60 Martin Hoesli, Jan Muckenhaupt and Bing Zhu, "Listed Real Estate as an Inflation Hedge Across Regimes," *Journal of Real Estate Finance and Economics*, October 2023.

- **Focus on less-correlated hedge fund and liquid alternatives strategies**

  We believe that hedge fund strategies, such as relative value and macro, can help reduce overall portfolio risk due to their limited correlations to both stocks and bonds. Certain liquid alternatives deliver similar active strategies. Macro hedge funds proved resilient in 2022 when stocks and bonds both took significant losses. According to our data, U.S. Private Bank clients are typically under-allocated to the asset: 94% of clients do not own hedge funds in their portfolios.[61]

TO MITIGATE INFLATION RISK, INVESTORS SHOULD CONSIDER FOCUSING ON COMMODITIES, REAL ASSETS AND CERTAIN ALTERNATIVE STRATEGIES

Volatility, %

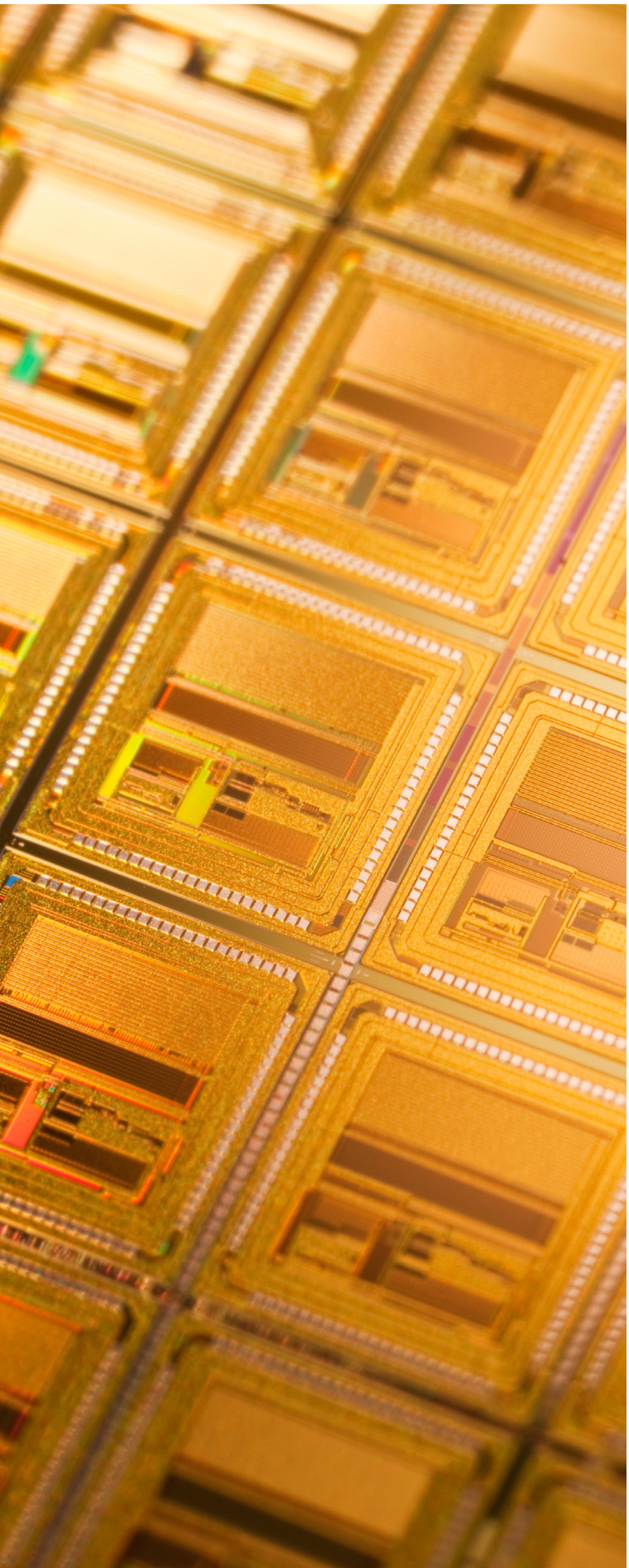


Source: J.P. Morgan Asset Management Long-Term Capital Market Assumptions. Data as of September 30, 2025.

61 For client portfolios with a minimum value of $5 million.

Part 3

Artificial intelligence: Opportunity and disruption



Artificial intelligence could prove to be a powerful disinflationary force because it lowers the cost of expertise and offers the potential to increase economic output without additional human labor.

But AI's potential to lead to such a disinflationary boom is currently overshadowed by more discouraging narratives.

AI models continue to progress, companies' capital expenditure guidance for data centers soars and private company valuations expand. But the most often heard discourse among market participants is focused on two potential downsides to AI's progress we call "AI maximalist scenarios": It could hurt the economy by displacing labor rapidly, leading to rising unemployment; and it could drag down the stock market by disrupting established companies' business models.

The people who expect AI maximalist scenarios envision clearly what could go wrong: nothing less than economic hardship on par with the global financial crisis and the Great Depression.

Investors will also likely have to contend in the coming quarters with what may be three of the largest initial public offerings (IPOs) in history, all in the AI ecosystem.

Most observers have been focused on what could go wrong with AI so far in 2026. We believe long-term investors will be rewarded for positioning for what could go right.

Economic and market history is replete with examples of business and labor tasks displaced by technology. Through it all, innovation increased the economy's potential, households' standards of living, corporate earning power and equity valuations. Investors underappreciate the most positive case for risk assets, in which markets identify and reward the beneficiaries of AI-induced productivity while the economy transitions at a rate that allows for an orderly redistribution of jobs across the labor market.

What could go wrong?

1.

AI could shatter the labor market

One of the biggest claims by influential voices in the market is that AI is set to displace labor. The CEO of Anthropic, for example, has warned that AI could eliminate half of entry-level white-collar jobs in the United States over the next one to five years, and could raise the unemployment rate to 10%–20%[62] – 10 million to 25 million job losses without any offsetting job gains.[63]

Labor obsolescence at this scale would be an economic catastrophe. The U.S. unemployment rate peaked at 25% during the Great Depression and has only topped 10% twice in the postwar era.[64]

We see growing evidence that as model performance continues to improve rapidly, AI models can displace many tasks. The agentic age, when AI tools can complete tasks unilaterally, seems to be arriving. One of Anthropic's latest models, Opus 4.6, can complete complex, iterative tasks that would take a human expert over 12 hours. Just a few months ago, in December 2025, the top AI model could not complete six-hour tasks.[65]

Claude Code generated a staggering $6 billion of annualized revenue for Anthropic in February 2026 alone.[66] C.H. Robinson's (a trucking logistics company) AI agents can deliver the same price quotes in 30 seconds that took human workers 15 minutes. A recent poll found 88% of executives surveyed said their companies were piloting or scaling autonomous AI agents.[67]

Microsoft's headcount peaked in 2022 and has declined by 6% since. Surveys from Challenger, Grey & Christmas suggest that AI was responsible for nearly 55,000 layoffs in the United States in 2025.[68] Amazon, UPS, Salesforce, Workday, IBM and PayPal have all cited artificial intelligence as a key reason for layoffs over the last year.

The scope of the potential disruption is clear. Economic studies and industry surveys have found that office and administrative support staff (numbering over 21 million workers), salespeople (over 13 million workers), those in business and financial operations (8 million to 9 million workers) and customer service/call center personnel (3 million workers) perform tasks most at risk of automation by AI.[69]

Just like many other technological and economic transitions, the adoption of AI could impose serious hardship on the people whose jobs are automated.

62 Mike Allen and Jim VandeHei, "Behind the Curtain: A white-collar bloodbath," Axios, May 28, 2025.

63 Assuming the size of the labor force remained constant.

64 U.S. Bureau of Labor Statistics, March 2026.

65 METR, "Task-Completion Time Horizons of Frontier AI Models," March 31, 2026. When attempting a task that would take a human expert two hours, Claude can complete it 80% of the time. That success rate falls to 50% when Claude attempts more complex tasks that would take a human expert 12 hours. In other words, if you need AI to complete a task 99% of the time, that task will have to be quite simple as measured by human expert time.

66 Shirin Ghaffary, "Anthropic Nears $20 Billion Revenue Run Rate Amid Pentagon Feud," Bloomberg Finance L.P., March 3, 2026. Claude Code lets users write code with natural language.

67 PwC, "AI Agent Survey," May 2025.

68 Challenger, Grey & Christmas, December 2025.

69 International Labour Organization, "Research Brief," February 2026.

What could go wrong?

2.

AI could disrupt existing business models faster than anticipated

Labor markets could also experience second-order impacts from AI disrupting corporate business models. Market participants believe they have identified the most vulnerable sector: legacy software as a service (SaaS). Many SaaS companies are tracked by the S&P Expanded Technology Software Index (IGV).

Remarkably, about half of the stocks in the index are down more than 50% from their all-time highs. So far this year, J.P. Morgan Securities' basket of stocks that are seen as vulnerable to AI disruption have declined in value by nearly 20%.

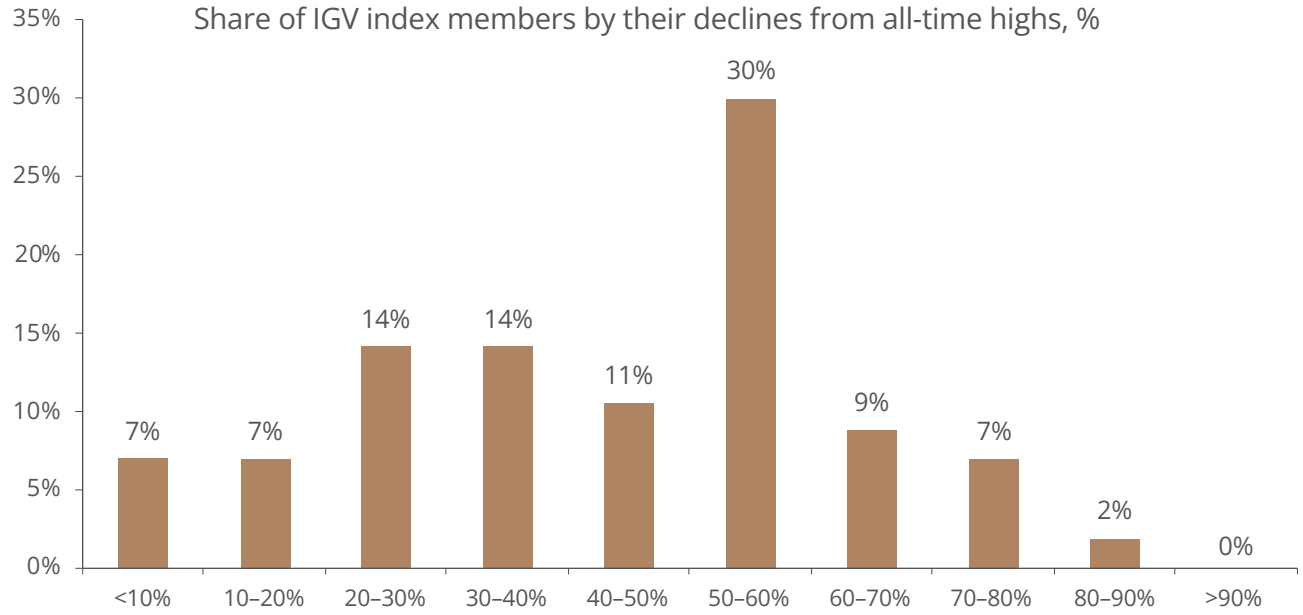
The legacy software sector is struggling from the aftershocks of over-hiring during the COVID-19 boom, from higher interest rates and from AI's ongoing disruption of the subscription model (payment on a by-the-user basis). The median company in the IGV Index has a Generally Accepted Accounting Principles (GAAP) operating margin of just 4%.

Nearly 4.5 million people work in software engineering and nearly 50 million in software development worldwide.[70] They could be the first to feel the consequences of AI breakthroughs.

As we've mentioned, AI tools threaten the subscription-based model that once made SaaS companies such attractive investments. First, AI could potentially whittle down the number of employees needed to accomplish the tasks requiring a software subscription license. Second, AI tools could conceivably handle those tasks.[71] Some software companies may well rebound. But for now, the sector stands as another sobering reminder of the risks and rewards of concentrated stock positions.

SOFTWARE: THERE ARE CATASTROPHIC LOSSES BENEATH THE SURFACE

Share of IGV index members by their declines from all-time highs, %



Source: Bloomberg Finance L.P. Data as of April 20, 2026.

70 Bureau of Labor Statistics and SlashData, December 31, 2025.

71 For instance, the legacy SaaS company ServiceNow provides a clearinghouse for an organization's IT-related workflows: password resets, remote laptop login, new hire onboarding. An AI tool could charge per outcome, not (as is currently the case) per user.

AI-driven impact on private equity and private credit

Private credit and equity markets also appear vulnerable. The direct lending market has about a 21% exposure to software, which rises to around 40% when tech and business services borrowers are included.[72] Technology comprises roughly 30% of global private equity buyout portfolios and almost half of venture capital portfolios.[73]

Observed defaults haven't yet picked up, but markets are showing signs of stress. Publicly traded business development companies (BDCs) have declined to near the lows of the prior cycle,[74] leveraged loan spreads in software have widened and publicly traded alternative asset managers had lost over 20% year-to-date at the time of writing. Deteriorating sentiment and normalizing direct lending yields have led to an above-average pace of redemptions in nontraded private credit BDCs.

How bad could it get for software and private credit? Leveraged loan defaults (at the index level) peaked at around 13% during the global financial crisis. If software default rates hit 15%, and recovery values are only 40%, private credit losses could reach around 2% (unlevered).[75] Including portfolio leverage, losses could total 4%, with a starting yield of about 9%.[76]

If software-backed private credit were to face stress of this magnitude, the equity value of privately held software companies would be even more impaired.

Some market participants are concerned that credit stresses could widen beyond software. For now, the stress in private credit looks to be concentrated among smaller borrowers ($25 million to $50 million earnings before interest, taxes, depreciation and amortization, or EBITDA) and select industries (retail, autos).[77]

In software, defaults could rise over a three- to five-year horizon as AI disruption spreads, but the impact will be uneven – mission-critical, embedded usage-based platforms should be more resilient than generic, easily replaced tools or subscription models (payment on by-the-user basis). Critically, we don't believe these areas of stress pose a systemic risk: Private credit accounts for only about 9% of total corporate borrowing, and bank interlinkages remain modest. Still, it seems reasonable to expect some contagion in debt markets more broadly.

72 J.P. Morgan Global Alternative Investment Solutions; Goldman Sachs; J.P. Morgan Securities Credit Research, February 2026.

73 MSCI Global, September 30, 2025.

74 In the market's commonly applied metric for BDCs, the price-to-NAV discount was 17%. This valuation metric measures the difference between market share price and price per share (NAV), suggesting investors are buying fund assets for less than their reported value.

75 J.P. Morgan Investment Bank North America Credit Research, "Default Monitor," April 2026.

76 Assumes simplified assumption of one-turn of leverage at the portfolio level. Federal Reserve Board; Preqin; PitchBook; Empirical Research Partners Analysis, March 2026.

77 Proskauer; J.P. Morgan Global Alternative Investment Solutions, February 2026.

Mega-cap tech faces a new era of skepticism

At the same time, many investors worry that mega-cap tech companies' profiles are changing permanently. The hyperscalers[78] currently have the cash flow to finance their capital-intensive data center build-out. But that, too, is changing quickly.[79]

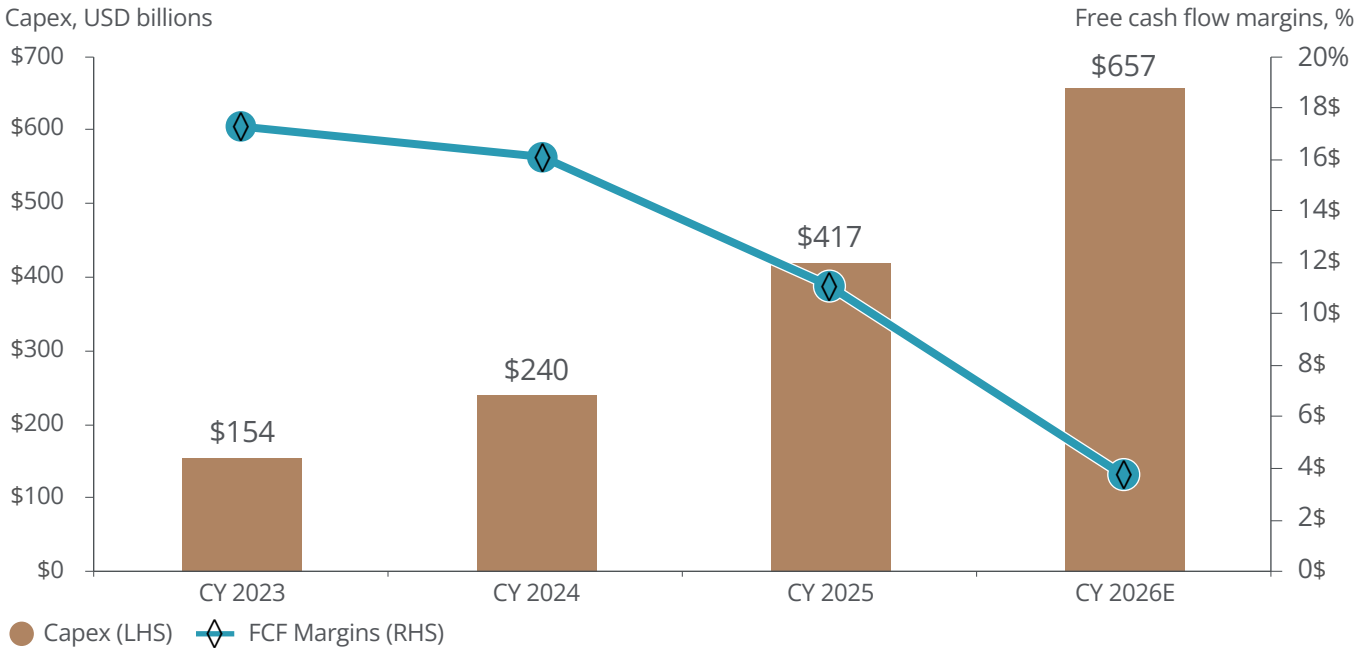
Some investors are concerned that the hyperscalers' investments in heavy assets are permanently altering the characteristics that made them such attractive businesses in the first place. Leaders at the hyperscalers clearly believe that today's AI – including agentic workflow tools for enterprises and consumer productivity tools supported by ads – offer revenue opportunities that justify the costs.

The market is discounting that future more heavily.

The hyperscalers' free cash flow peaked in 2024, at nearly $240 billion, and is expected to dwindle to $73 billion by the end of 2026. Microsoft's forward P/E ratio has declined from an AI-era high of 35x to 22.5x today. Further, the compression of multiples for mega-cap leaders (not only the hyperscalers) has been associated with increasing debt loads and potentially curtailed stock buyback and dividend payment programs. The hyperscalers' aggregate free cash flow yield seems set to fall below 4% – from a 2023 level of 18%.

For years, investors have justified the mega-cap leaders' elevated valuations, pointing to low leverage, high payout ratios (dividend and buyback), asset-light operating models and wide margins. The AI investment supercycle challenges those assumptions.

HYPERSCALERS ARE SPENDING DOWN THEIR CASH FLOW



Source: FactSet. Data as of April 20, 2026.

78 Hyperscalers are cloud service providers capable of delivering computing resources at a scale and speed that supports the largest enterprises and internet services globally. The five major hyperscalers are Microsoft, Meta, Oracle, Google and Amazon. Others include Alibaba, Apple, IBM, ByteDance and CoreWeave.

79 For example, Microsoft is scheduled to complete the world's most powerful data center by September 2027. The site, in Mount Pleasant, Wisconsin, is expected to cost a little over $100 billion in 2025 dollars, will draw more power than the entire city of Los Angeles, and will house 5.2 million H100 equivalent graphics processing units (GPUs).

What could go wrong?

3.

IPOs could mark the top of the cycle

Perhaps the most strenuous test so far of AI's future as an investment theme will be the coming IPO calendar. Sometime this summer, SpaceX, known for its ambitions to put data centers in space, will almost certainly come to market with the largest public share offering in history. Prediction markets also assign a 1-in-2 chance to Anthropic going public before 2027 and a 1-in-3 chance to an OpenAI IPO.[80] If public markets validate private market valuations, and even build on them, it would likely bolster confidence in AI infrastructure spending. However, the recent history of high-profile IPOs sends some concerning signals.[81]

Historically, increased deal activity has been associated with peak stock prices. In 2007, IPOs, secondary offerings, and private equity and venture capital deals' value equaled 4.5% of U.S. equity market cap, the largest percentage on record. A year later, investors had to endure the 2008 global financial crisis – stocks' worst year since the 1930s.

Similarly, in 2021, issuance and deals again totaled over 4% of total U.S. equity market cap. Then, through 2022, the market had to grapple with a Fed hiking shock and an energy price shock due to Russia's invasion of Ukraine. Calendar year stock returns declined 20%.

DO LARGE IPOs COINCIDE WITH MARKET PEAKS?

The S&P 500 with the 25 largest IPOs, log scale

Sources: Renaissance Capital, Bloomberg Finance L.P. Data as of April 20, 2026.

80 Prediction markets are exchange platforms where participants buy and sell contracts based on the outcome of future events, such as elections, economic data and sports, reflecting collective expectations about likelihoods.

81 This section relies on research from Michael Goldstein and the team at Empirical Research Partners.

First-day returns of IPOs by year also offer a view into potential froth. Counterintuitively, strong first-day performance from large IPOs could be an ominous sign for the broad market. When retail investors' demand for newly public stocks becomes insatiable, it may signal a euphoria that fundamentals will fail to match.

During the late 1990s dot-com bubble and again in 2021, first-day IPO returns averaged about 50%. In 2025, markets had a minor renaissance in capital market activity: Day one IPO returns reached 35%.

History has shown that when large companies go public, it can signal a stock market nearing its peak. Those newly listed stocks have tended to perform poorly afterward. Considering 18 of the 25 largest U.S. IPOs in history (for which we have complete price data), the median IPO stock underperformed the S&P 500 by 30% during its first year as a public company. Twelve of the 18 declined outright in their first year on an exchange. The median one-year return for the S&P 500 in each of those years that followed mega-sized IPOs was only 3% – much worse than the index's average (nearly 10%).

In short: 36% of those 25 largest IPOs signaled a negative forward one-year return for the index.

We will be closely watching the demand for and market reaction to the IPOs of SpaceX and others for a reading on current risk sentiment and the valuation environment.

What could go right?

1.

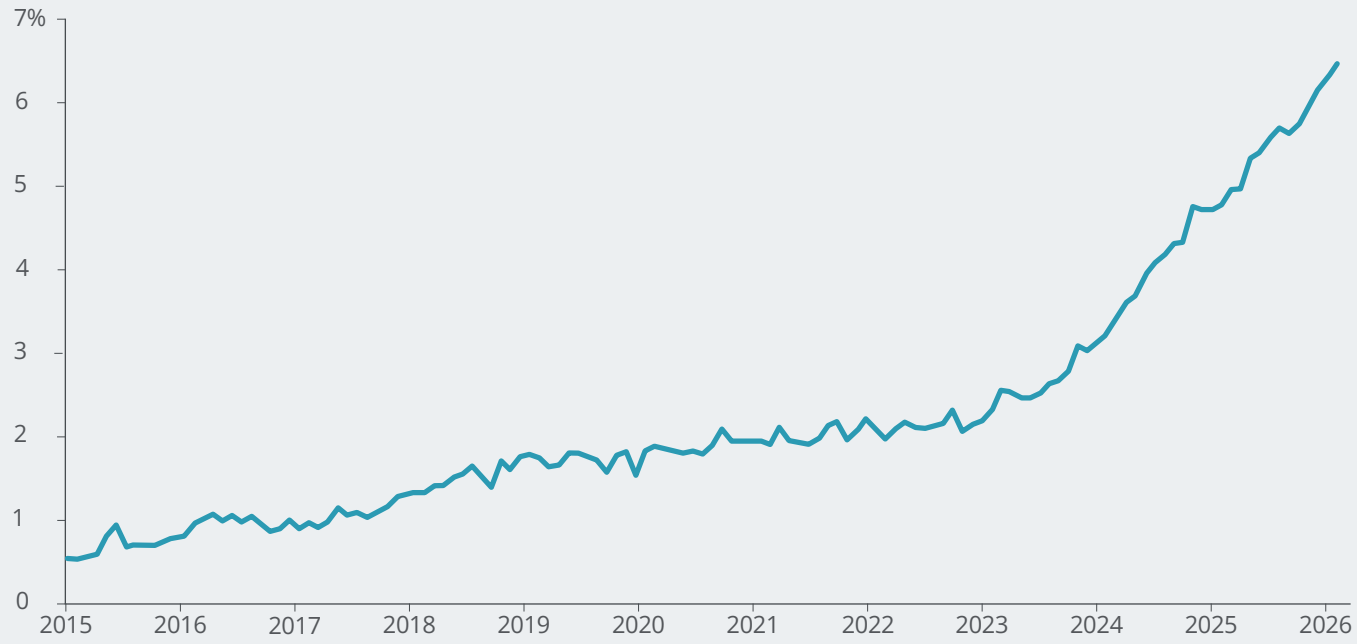
The AI investment cycle could continue to drive the expansion

In 2025, AI investment fueled global economic growth. Taiwan's GDP grew more than 7%, the fastest since 2010 (in the fourth quarter, the run rate exceeded 12.5%), and its exports hit a record $640 billion.[82] TSMC alone, the foundry that produces the vast majority of Nvidia Corp. chips, contributed 5%–6% to Taiwan's GDP in 2025.[83] Korean exports surpassed $700 billion for the first time in 2025, and one-quarter of the total was attributable to semiconductor shipments.[84]

After accounting for imports, AI investments added 25 basis points to U.S. real GDP growth in the first half of last year.[85] In Q4 of 2025, privately held companies' investment in computer and personal equipment makers grew 75% year-over-year. Data center construction has nearly quadrupled as a share of overall nonresidential construction activity since 2022.[86]

DATA CENTER CONSTRUCTION CONTINUES TO BOOM

Data center construction spending as a share of total nonresidential construction spending, %



Sources: U.S. Census Bureau, Haver Analytics. Data as of January 31, 2026.

82 Taiwan Directorate-General of Budget, "Accounting and Statistics," December 2025.

83 Gary Chen, "Silicon shield to 'global TSMC,'" *Taipei Times*, March 10, 2026.

84 Bank of Korea, December 2025.

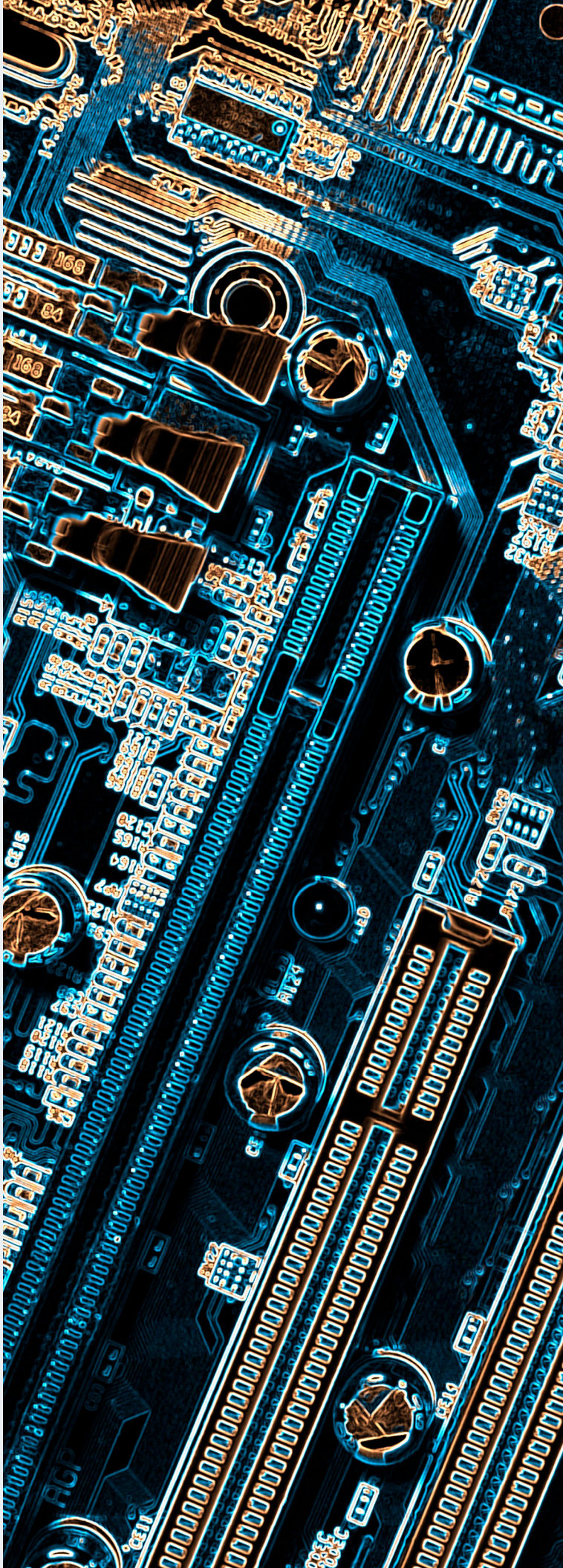
85 Natixis Investment Managers, "Why AI spend isn't really the sole growth driver," November 5, 2025.

86 U.S. Census Bureau, January 2026.

There is every indication that the AI investment cycle can continue through the rest of 2026. After the fourth-quarter earnings reporting season (January and February 2026), the five major hyperscalers (Microsoft, Meta, Oracle, Google and Amazon) lifted their capex expectations for 2026 by $130 billion. Wall Street analysts now expect they will spend more than $650 billion together through the end of 2026, the majority of that to expand their cloud-based AI capacity.

Even Oracle – which has been scrutinized by market analysts for pursuing a debt- and equity-financed capital investment strategy – recently reported $30 billion of growth in its order book, entirely from customers that are paying for their own GPUs.[87] Oracle may not have to raise new capital to fulfill customer contracts.

Hyperscalers' free cash flow may be declining. But top-line revenue in their cloud businesses is accelerating, giving their C-suites the green light to continue their aggressive AI build-outs.



87 GPUs are graphic processing units, specialized high-performance computer chips that power AI model training. Ben Thomson, "Oracle Earnings, Oracle's Cloud Growth, Oracle's Software Defense," *Stratechery*, March 11, 2026.

Limited evidence of labor market damage

While tech capex drives GDP growth, there is very limited evidence that AI is damaging labor markets.

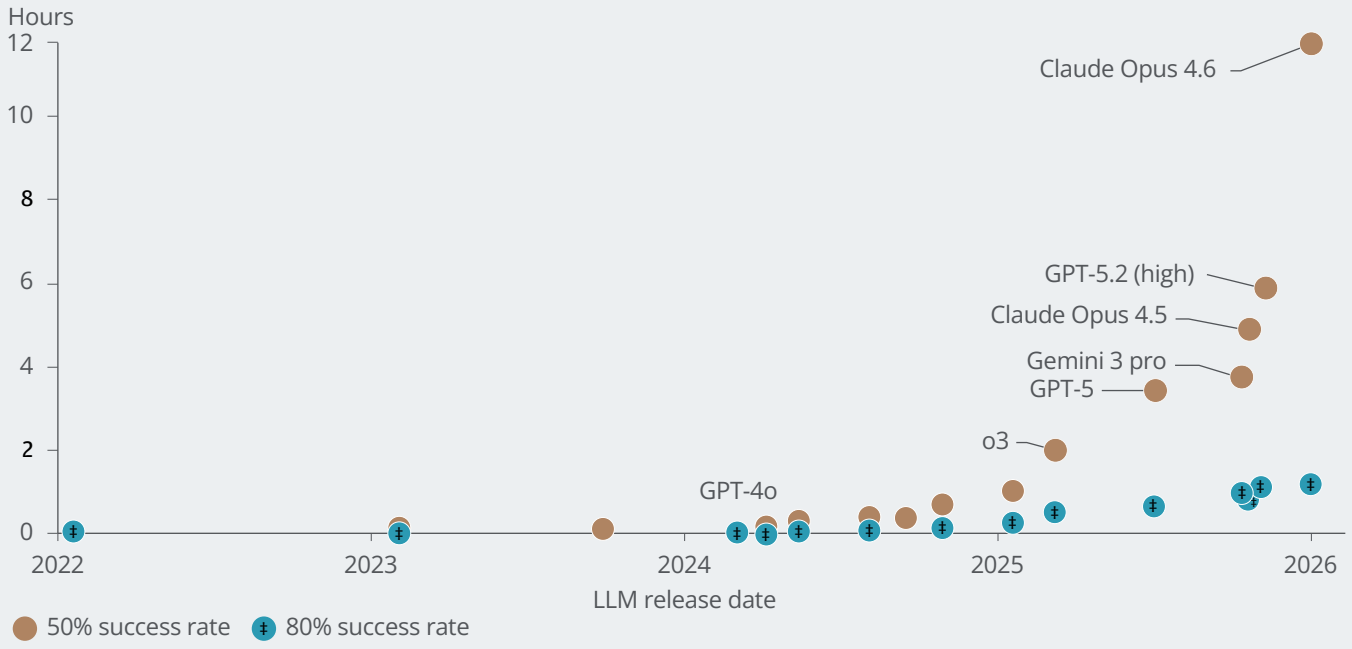
AI is effective, relative to human labor, at tasks such as generating freight quotes, auto-filling forms from source documents, prioritizing incoming emails, answering common customer questions and translating documents. But a job is a portfolio of tasks. Market pricing for both human labor and GPUs, and empirical evidence from the labor markets, suggest that agentic AI models still can't outperform knowledge workers.

A white-collar worker costs roughly $50/hour. An Nvidia H100 GPU rents for around $2.50 per hour.[88] That means that a GPU reaches cost parity with that person even if it takes it more than 20 hours to replicate one hour of human output – an enormous economic incentive to switch from human to AI labor, even accounting for the model companies' margins.[89]

The absence of mass worker displacement today provides strong evidence that AI tools still cannot replicate the full portfolio of tasks that make up a job and that enterprises haven't yet figured out how to best implement today's hit-or-miss AI models. Anthropic's Claude Opus 4.6's success rate is only 50% when attempting complex tasks that would take a human expert 12 hours.

AI MODEL IMPROVEMENT HAS BEEN RAPID, THOUGH RELIABILITY QUESTIONS LINGER

Time humans take to complete tasks AI can complete at 50% vs. 80% success rate



Sources: Michael Cembalest, J.P. Morgan Asset & Wealth Management, METR. Data as of March 2026.

88 SemiAnalysis GPU Rental Price Index, April 2026.

89 Model companies' applications run on the GPU hardware.

Three pieces of labor market data support the view that AI tools have so far had a limited impact on labor markets. First, a recent Dallas Fed analysis found no correlation between recent wage growth and occupational AI vulnerability.[90] Second, job openings for software engineers have accelerated recently, despite the evidence that coding is an area where AI is most on par with human labor.[91] Third, only a quarter of one percent of 2025 private sector layoffs have been attributed to AI.[92]

Automating white-collar work will take years. Knowledge workers can reason. They decide what to do with vague or incomplete instructions. They use years or decades of training, social intuition, emotional quotient, pattern recognition and institutional knowledge to decide whether to apologize, troubleshoot or escalate an issue. Full AI integration into the economy will also require years to build the necessary infrastructure and the reduction of institutional and regulatory frictions.

This evidence supports the idea that AI is more likely, on net, to be a productivity enhancer than a job destroyer.

DEMAND FOR SOFTWARE-RELATED JOBS IS RISING WHILE THE BROAD LABOR MARKET IS SOFT

Indeed job postings, January 1, 2024 = 100

Sources: Indeed, Bloomberg Finance L.P. Data as of March 27, 2026.

90 Scott Davis, "AI Is Simultaneously Aiding and Replacing Workers, Wage Data Suggest," Federal Reserve Bank of Dallas, February 24, 2026.

91 Indeed, March 27, 2026.

92 JOLTS report; Challenger, Grey & Christmas, December 2025.

What could go right?

2.

AI could lead to productivity gains and margin expansion, supporting valuations

AI tools excel at automating tasks that allow knowledge workers and companies to be more productive.

The margins of S&P 500 companies reached an all-time high of 13.3% in the fourth quarter of 2025, and analysts expect them to move even higher, to 15.5%, by 2027. AI adoption will likely be a large part of the story. Companies that use AI have had wider average margins (17%) than those that don't use it (13%) and are seeing faster margin improvement.[93] Sustaining those margins will likely depend on more than adoption alone.

Those companies that can go beyond AI implementation to achieve genuine employee acceptance – through upskilling and a transparent workforce transition – will be better positioned to deliver durable gains.

Fully incorporating AI technology seems to improve a business's fundamental profile. This ought to support corporate earnings power and valuations.

93 J.P. Morgan Wealth Management Solutions and 22V, April 1, 2026.

The agony and the ecstasy: Catastrophic cycles of destruction are not new in tech

The disruption inherent in technological transitions is both expected and insufficient to concern long-term, diversified investors.

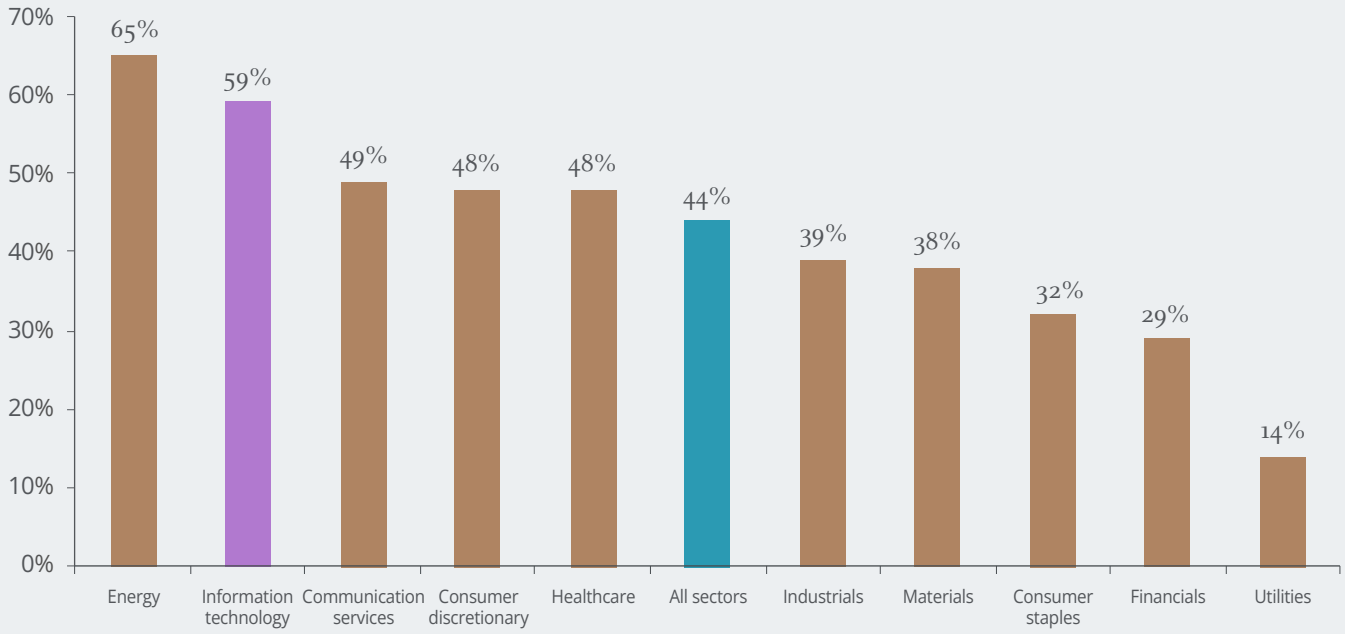
Nearly 45% of all constituent stocks in the Russell 3000 since 1980 have lost 70% or more of their peak value and never recovered (what we define as a catastrophic loss). The technology sector is indeed defined by this sort of cycle: The share of tech stocks that have suffered catastrophic losses historically is 59%, using data dating to 1980.

If SaaS joins the ranks of industries whose business models have been disrupted – like first-generation mobile/telecom, brick-and-mortar retail or newspapers – the economic gains that arise as other companies benefit from technological change are likely to be so large they would more than compensate economically for the losses.

Since 1980, the stocks in the top decile of performance have contributed almost all of the Russell 3000's total return.

CREATIVE DESTRUCTION IS A FEATURE OF INDEX-BASED EQUITY INVESTING

Total % of companies experiencing "catastrophic loss" 1980–2020 by S&P 500 sector



Sources: Michael Cembalest, *The Agony & The Ecstasy* report, FactSet, Bloomberg Finance L.P., J.P. Morgan Wealth Management. Data as of September 2020.
Note: "Catastrophic loss" refers to a 70% decline in price from peak levels which is not recovered.

What could go right?

3.

AI could boost productivity, allowing lower interest rates, debt-to-GDP

In the best case, AI does not just drive innovation but catalyzes a disinflationary boom driven by increased economy-wide productivity. If AI continues to diffuse through the economy, it could lift trend productivity, slow the growth of unit costs and contain underlying inflation pressures.

While we wouldn't expect a definitive productivity pickup from AI adoption until the end of the decade, U.S. productivity growth may already be firming. After the latest revisions, U.S. nonfarm labor productivity is growing at around 3% y/y.[94] That strength has brought the five-year average productivity growth rate to 2%. That's marked improvement from the 1.5% pace of the post-GFC period.

Inflation, then, wouldn't need to fall dramatically to allow the Fed to lower interest rates – inflation would just need to be less volatile and less vulnerable to upside surprises. Then Fed policymakers could keep policy rates at lower levels, reducing uncertainty and risk premiums.

94 U.S. Bureau of Labor Statistics, December 2025.

The first and main channel through which AI could restrain inflation is by potentially allowing labor output to rise faster than workers' hourly compensation – more output per hour – even as wage growth remained positive. Across large portions of the economy, that would let firms meet demand without having to raise prices to protect their margins.

Fed policymakers are increasingly and explicitly focused on the links between innovation, productivity and their dual mandate (to achieve maximum employment and stable prices). Further, AI agents adding potential output would combat the risk posed to developed market economies by aging populations and more restrictive immigration policies.

The second-order benefit of AI-enhanced productivity, and the second channel through which AI could restrain inflation, is fiscal. The debt-to-GDP ratio is largely governed by the gap between the economy's nominal growth rate and the government's effective interest cost, plus the primary deficit. Faster productivity lifts real growth (and nominal GDP), while lower inflation volatility can support a lower monetary policy path over time.[95]

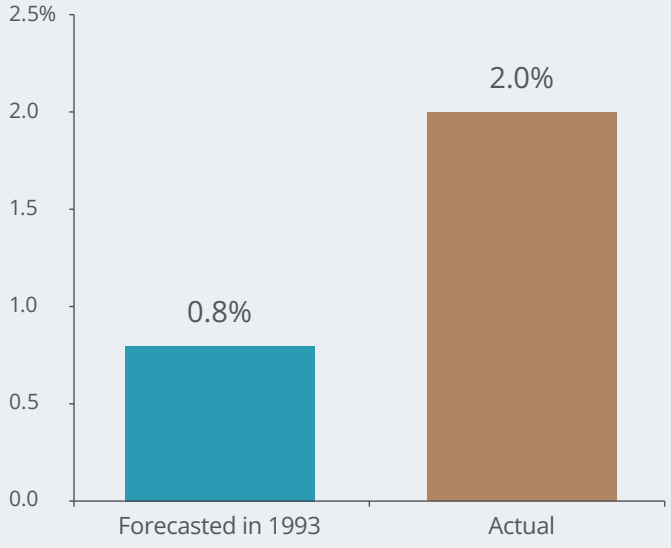
That matters because the United States is starting from a high base of debt: The Congressional Budget Office projects that debt held by the public, equal to roughly 100% of GDP in 2025, will rise to the equivalent of 118% of GDP by 2035 under current law.[96] Even modest sustained improvements in trend productivity could change that trajectory.[97]

Higher nominal GDP growth also yields higher tax receipts for the federal government, improving its interest coverage.

The best historical analog may be the 1990s productivity boom. In 1993, forecasters predicted 0.8% productivity growth, and a U.S. debt-to-GDP ratio of 61%, in the year 2000. Instead, instigated by the personal computer and the internet, the actual results at the turn of the millennium were 2.0% productivity growth and a 34% debt-to-GDP ratio.

THE TECH-DRIVEN PRODUCTIVITY BOOM OF THE 1990S SURPASSED EXPECTATIONS

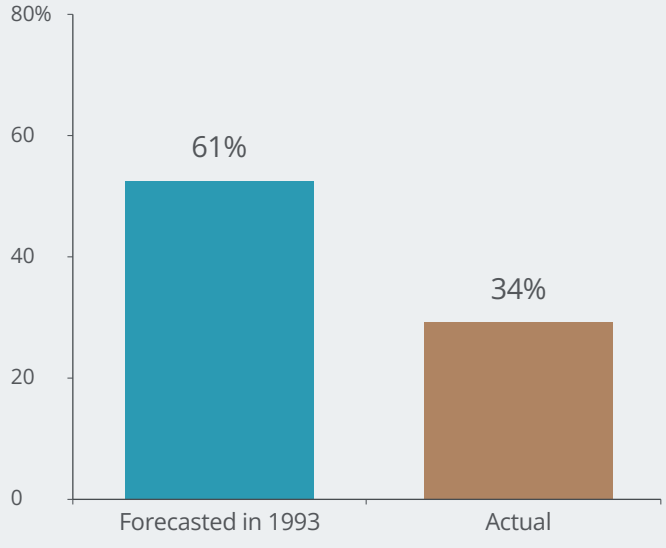
Productivity growth in 2000, %



Source: U.S. Congressional Budget Office.

HIGHER PRODUCTIVITY DROVE DOWN THE DEBT-TO-GDP RATIO

U.S. debt-to-GDP in 2000, %



Source: U.S. Congressional Budget Office.

95 By improving the (r - g) arithmetic that determines whether debt stabilizes or compounds. R is the real interest rate; g is the real growth rate. When r < g, the economy's debt-to-GDP can stabilize or fall.

96 Congressional Budget Office, "The Budget and Economic Outlook: 2025 to 2035," January 2025.

97 By raising the GDP denominator and easing interest-cost pressure at the margin.

Investment implications

We believe the prevailing narrative around the AI supercycle has become too pessimistic.

That Wall Street can be bearish – on a technology that is driving record household and corporate adoption, unprecedented investment in power and infrastructure, and observable productivity gains, while potentially reshaping healthcare, education, demographic challenges and debt sustainability – says less about the technology and more about how markets process structural change.

It is often easier to identify what technology will disrupt and replace than to envision the future it makes possible. The industrial use of electricity eased the constraint of limited power, unlocking levels of output an economist in 1886 could scarcely imagine. The computer eased the constraint of limited information, enabling forms of scale and coordination an economist in 1966 could never have modeled.

Likewise, AI is now easing the constraint of finite expertise. Market participants in 2026 are struggling because the potential scope of its impact is difficult to price.

In our view, the evidence suggests investing for a continuing AI supercycle, while acknowledging that disruption has consequences for both labor and business models. This is especially pertinent given that roughly 50% of the S&P 500 is in the technology sector, including the "Magnificent Seven." [98]

98 Apple, Microsoft, Alphabet, Amazon, Meta Platforms, Nvidia and Tesla.

We propose a diversified approach to capturing the potential:

- **Continue to invest in the companies that benefit from the data center build-out**

  The industries that control the physical bottlenecks constraining the building of AI infrastructure should continue to perform well. Companies in the semiconductor supply chain, manufacturers of networking and optical equipment, and power generation and transmission assets all benefit from increased capital expenditures. Crucially, this is a global theme. These companies stand out for having some of the most fundamentally attractive stocks. They not only fulfill the Rule of 40 benchmark popular in private technology investing,[99] they redefine it.

  Nvidia, the AI cycle's biggest winner so far, is a Rule of 140 company. Yet investors may already be pricing in a peak in sales. At the time of writing, Nvidia's stock traded at a tremendous 40% discount to its 10-year average forward P/E multiple.

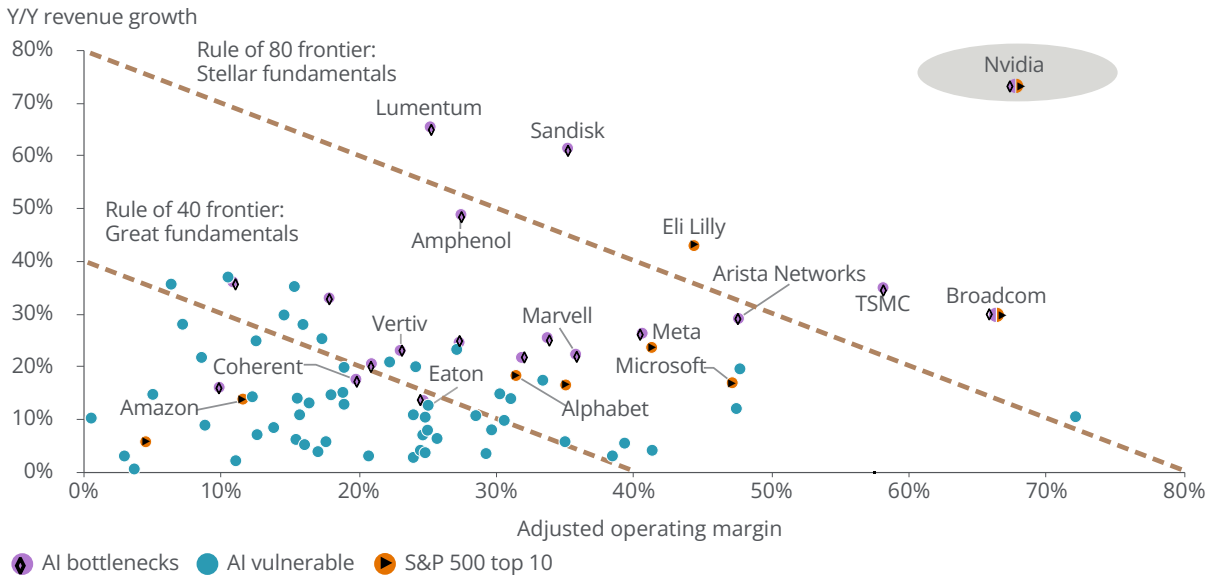
- **Focus on opportunities in energy generation, transmission and storage**

  The time manufacturers must wait to be connected to the grid is three to five years. The backlog for "behind-the-meter"[100] generation technology, from manufacturers including GE Vernova and Caterpillar, stretches through the end of the decade.

  Those companies will likely be hesitant to scale up their capacity, given the fallout from the power industry's exuberance during the late-'90s tech bubble.[101] AI is electricity-intensive, and power-related assets seem set to benefit. We prefer to implement this idea through private infrastructure investment funds, given their direct ownership of power generation, transmission and storage assets. Publicly traded utilities and structured notes linked to select companies should also be considered.

AI BENEFICIARIES TEND TO HAVE STRONG FUNDAMENTALS

Year-over-year revenue growth vs. adjusted operating margin

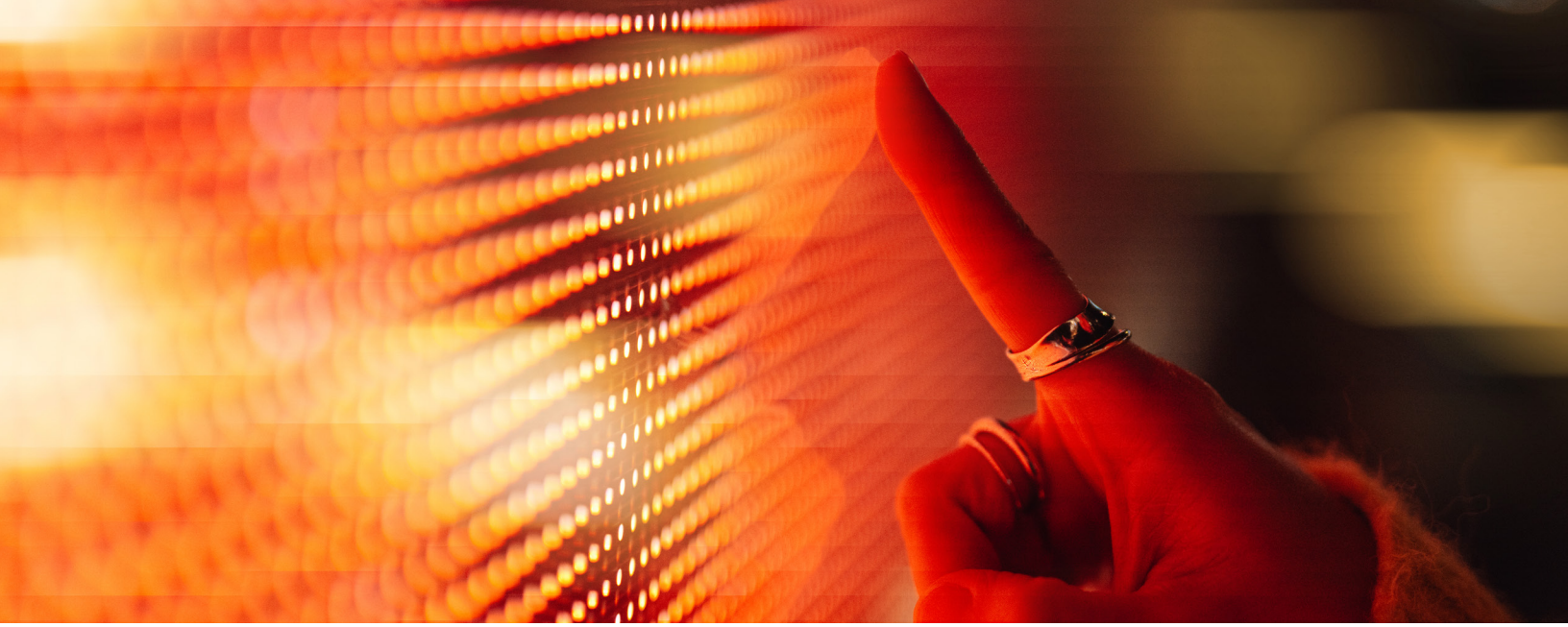


Source: Bloomberg Finance L.P. FactSet. Data as of April 20, 2026. Note: For companies that don't report adjusted operating margin, operating margin was used. Data used was from most recently available quarter.

99 The Rule of 40 holds that when the sum of a company's operating margin and its revenue growth rate exceeds 40, its stock should trade at premium prices and deliver excess returns.

100 Behind-the-meter generation means power generation capability is installed, produced and used onsite by a business, factory or residential customer, rather than being sent out to the wider electricity grid, so the energy is generated and consumed before it ever reaches a utility's billing meter.

101 There was a similar power thesis during the internet boom. Then, companies that produced natural gas turbines responded by increasing capacity and ended up suffering as a bust unfolded.



- **Consider the hyperscalers, some trading at a discount to the market**

  We also believe that the hyperscalers are well positioned to benefit from continued AI adoption, even as market participants have grown more skeptical of the companies' expanding capex plans. Corporate executives continue to say the demand for cloud capacity by AI applications, projects and companies exceeds available supply.

  The cost of on-demand access to AI computing power (GPU rental) is up 40% since October 2025.[102] The rise of agentic and reasoning AI models should further raise demand, benefiting token providers[103] (e.g., Microsoft Azure, Google Cloud).[104]

- **Examine private market opportunities**

  We continue to find some of the most compelling examples of companies developing consumer and enterprise applications in the private markets. In a few years, we wouldn't be surprised if some of these startups represent the next era of public market mega-cap tech leaders. We are especially interested in emerging themes within "physical AI," including robotics.

- **If we are wrong, ex-U.S. equities and core fixed income could help cushion portfolios with heavy U.S. exposures**

  Non-U.S. equities have broadly lower exposure to the technology sector and AI. The resilience of equities outside the United States during the tech bust of the early 2000s suggests they could perform relatively well in an AI downturn.[105]

  An AI bust scenario would also likely benefit core fixed income. It is hard to envision the economic expansion withstanding a collapse in the AI investment cycle, and bonds could outperform during a growth contraction. In the five years after the dot-com bubble's 2000 peak, core fixed income returned 5.9% annually, while global equities returned 2.7% per year.

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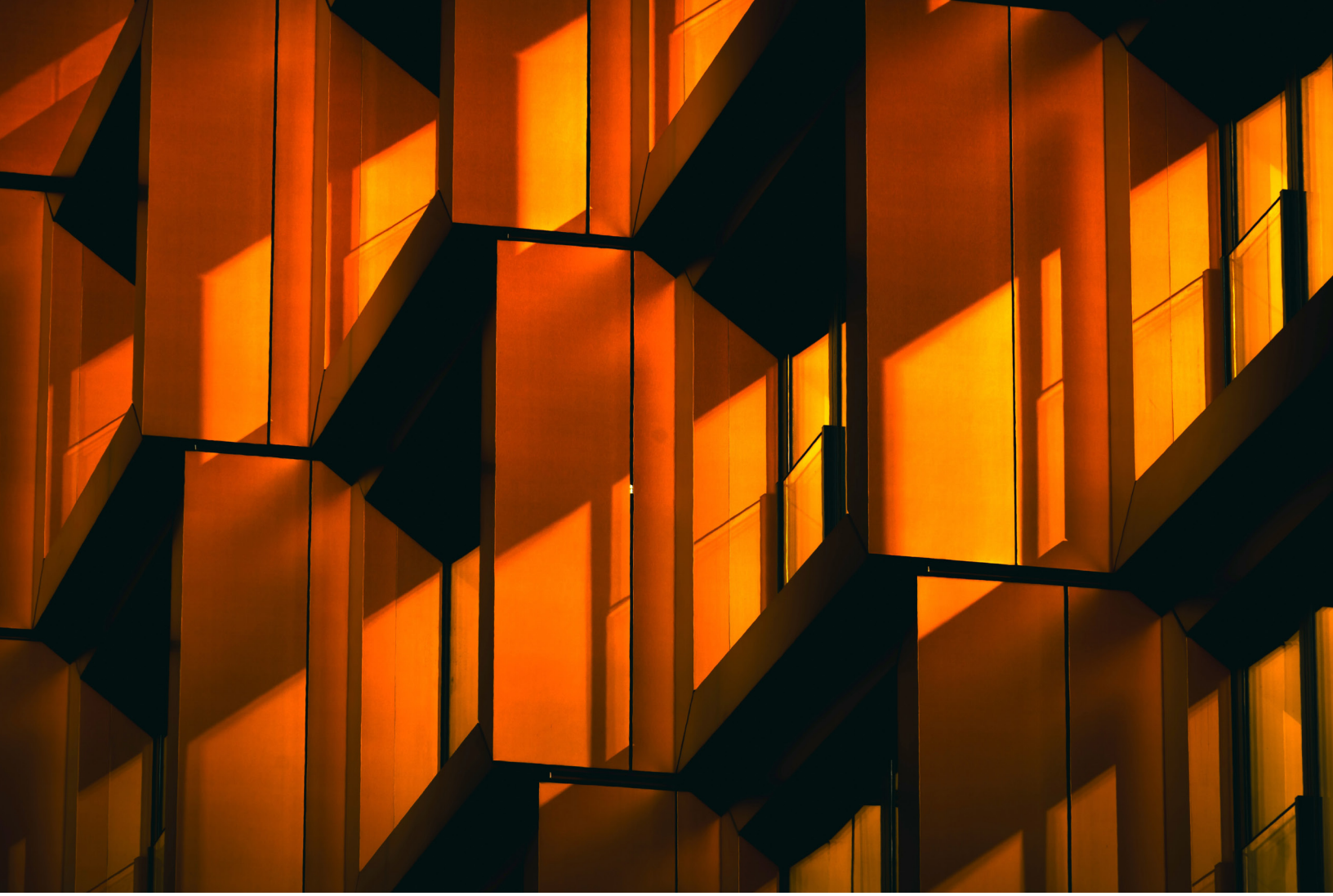
102 SemiAnalysis, April 2026.

103 Token providers are hyperscale cloud platforms that sell access to large language models and reasoning systems on a usage basis, priced per token processed (input, output and reasoning tokens), and that supply the underlying computing, networking and orchestration required to run these models at scale.

104 To illustrate, Microsoft's enterprise value to EBITDA ratio has dropped to 12x for the first time since 2018, even as EBITDA has increased by 3.7x over that period.

105 From the end of 2000 to the end of 2005, DM stocks excluding the United States outperformed U.S. stocks by 25 ppt.



Conclusion

Shocks and dislocations create entry points for patient investors

We entered 2026 tracking three themes – fragmentation, inflation and AI – because we believed they would be the primary drivers of portfolio returns, not only this year but beyond it. We still believe it.

Several shocks have repriced risk across all three themes, and that dislocation is creating entry points for patient investors.

Our *Mid-Year Outlook* frames what could go right and wrong, and where market participants may be misreading the balance. But our objective is not to forecast the shocks. It is to build portfolios that help you stay invested with intention: to align your portfolio to your plan, rebalance into dislocations and maintain a disciplined approach to reassessment when conditions shift.

Your J.P. Morgan team is here to help you and your family.

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DEFINITIONS OF INDICES AND TERMS

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Alternative assets: Investment categories outside traditional equities and fixed income, including private equity, private credit, hedge funds, real assets and other strategies that often exhibit different risk, return and liquidity characteristics than public markets.

Belt and Road Initiative: A global infrastructure and investment strategy launched by China to enhance trade, transportation and economic connectivity across Asia, Europe, Africa and other regions through large-scale development projects.

Buyout portfolios: Private equity investment portfolios that focus on acquiring controlling stakes in established companies, typically using leverage, with the goal of improving operations, profitability and long-term value before exiting.

Cliffwater Direct Lending Index: An index that measures the performance of direct lending funds, which provide loans to middle-market companies. It offers insights into the risk and return characteristics of this asset class, reflecting the private debt market's trends and performance.

Cloud service providers: Companies that deliver computing resources such as data storage, processing power, networking and software services over the internet, enabling users to access scalable technology infrastructure on demand.

Consumer Price Index (CPI): A measure of inflation that tracks the average change over time in the prices paid by consumers for a representative basket of goods and services, commonly used to assess changes in the cost of living.

Core fixed income: A category of fixed income investments typically composed of high-quality, investment-grade bonds such as government securities and high-grade corporate bonds, often used as a foundational allocation in diversified portfolios.

Credit spreads: The difference in yield between a bond and a comparable maturity government security, reflecting the additional compensation investors require for credit risk.

Debt-to-GDP ratio: A measure of a country's public debt relative to its gross domestic product, commonly used to assess fiscal sustainability and a government's ability to service its obligations.

Developed markets (DM) equities: Equity securities from countries with advanced economies, well-established financial markets and relatively high standards of living, such as the United States, Western Europe and Japan.

Direct lending: A form of private credit in which nonbank lenders provide loans directly to companies, often middle-market firms, outside of traditional public bond or syndicated loan markets.

Emerging markets (EM) equities: Equity securities from countries with developing economies that are transitioning toward greater industrialization and market integration, often characterized by higher growth potential and higher volatility.

Employment Cost Index: A measure published by the U.S. Bureau of Labor Statistics that tracks changes in the cost of labor, including wages, salaries and employer-paid benefits, providing insight into wage inflation trends.

Foreign direct investment (FDI): Investment by a company or individual in one country into business operations or assets in another country, typically involving a lasting management interest and long-term economic relationship.

Free cash flow: The cash a company generates from its operations after accounting for capital expenditures, often used as an indicator of financial flexibility and the ability to fund dividends, debt repayment or reinvestment.

FTSE EPRA NAREIT Global REITs Index: An index that tracks the performance of publicly traded real estate investment trusts (REITs) worldwide, providing a comprehensive view of the global real estate market across various sectors and regions.

Group of Seven (G-7): An informal forum of seven major advanced economies – Canada, France, Germany, Italy, Japan, the United Kingdom and the United States – that meets to discuss economic policy, global issues and international cooperation.

Graphics processing units (GPUs): Specialized computer chips designed to handle parallel processing tasks efficiently, widely used in data centers and artificial intelligence applications to accelerate complex computations.

Hedge funds: Pooled investment vehicles that employ a wide range of strategies, including long/short positions, leverage and derivatives, with the objective of generating returns that are less correlated to traditional asset classes.

Hedge Fund Research, Inc. Indices (HFRI): A set of indices that track the performance of various hedge fund strategies, providing benchmarks for hedge fund performance across styles such as equity hedge, event-driven, macro and relative value.

Initial public offerings (IPOs): The process by which a private company offers its shares to the public for the first time, becoming a publicly traded company on a stock exchange.

Legacy software-as-a-service (SaaS): Established software companies that deliver applications through subscription-based, cloud-hosted models, often priced on a per-user or seat-based basis.

Leveraged loan spreads: The yield difference between leveraged loans and benchmark interest rates, reflecting the compensation investors demand for lending to lower-rated corporate borrowers.

Liquefied natural gas (LNG): Natural gas that has been cooled to a liquid state for ease of storage and transport, commonly used in global energy markets to facilitate international trade.

Macro hedge funds: Hedge funds that seek to profit from broad economic trends by investing across asset classes such as equities, fixed income, currencies and commodities based on macroeconomic views.

Magnificent Seven: The Magnificent Seven stocks are a group of influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla.

MSCI All-Country World Index (ACWI): A free float-adjusted, market capitalization-weighted index that measures equity market performance across both developed and emerging markets globally.

MSCI Asia ex-China Index: An index that measures the performance of equity markets in Asian countries excluding China, providing exposure to the region while isolating China-specific market dynamics.

MSCI China Index: An index that provides comprehensive coverage of large- and mid-cap stocks across various Chinese share classes, including A shares, H shares, B shares, Red chips, P chips and foreign listings, representing approximately 85% of the Chinese equity market.

MSCI USA Index: An index that measures the performance of the large- and mid-cap segments of the U.S. equity market, offering a broad representation of U.S. stock market trends.

National champions: Companies that play strategically important roles within their domestic economies, often benefiting from scale, policy support or strategic positioning within key industries.

NCREIF Property Index – ODCE: A benchmark that tracks the performance of open-end core real estate funds in the United States, focusing on diversified, income-producing commercial properties.

Nominal GDP: The total value of goods and services produced by an economy measured at current market prices, without adjusting for inflation.

OECD (Organisation for Economic Co-operation and Development): An international organization of mostly developed countries that promotes policies aimed at improving economic and social well-being through research, analysis and international cooperation.

Operating margins: A measure of profitability calculated as operating income divided by revenue, indicating how efficiently a company manages its core business operations.

Personal Consumption Expenditures (PCE) Index: A comprehensive measure of the prices paid for goods and services by U.S. residents, widely used by the Federal Reserve as a gauge of inflation.

Price-to-earnings (P/E) multiple: A valuation metric calculated by dividing a company's share price by its earnings per share, commonly used to assess how much investors are willing to pay for earnings.

Price-to-NAV discount (BDCs): The percentage difference between a business development company's market share price and its reported net asset value per share, often used to assess valuation relative to underlying assets.

Price-to-sales ratio: A valuation measure that compares a company's market value to its revenue, often used when earnings are volatile or negative.

Private credit: Nonbank lending to companies through privately negotiated loans, offering exposure to floating-rate income and typically less liquidity than public debt markets.

Private equity: Investments in privately held companies or buyouts of public companies, typically aimed at long-term value creation through operational improvements and strategic growth.

Producer Price Index (PPI): A measure of inflation that tracks changes in prices received by producers for goods and services, often viewed as an early indicator of consumer price pressures.

Russell 3000: A broad equity index that measures the performance of approximately 3,000 U.S. stocks, representing the majority of the investable U.S. equity market.

S&P 500®: Widely regarded as the premier gauge of the U.S. equities market, this index includes 500 leading companies across major industries, focusing on the large-cap segment and representing approximately 80% of total market capitalization.

S&P Expanded Technology Software Index (IGV): An index that tracks the performance of U.S.-listed software companies within the technology sector, commonly used as a benchmark for software industry equities.

Token providers: Hyperscale cloud platforms that sell access to large language models and other AI systems on a usage basis, typically priced per token processed, while supplying the underlying compute and infrastructure.

U.S. 10-Year Treasury Yield: The interest rate paid by the U.S. government on its 10-year Treasury note, serving as a key benchmark for interest rates and investor expectations.

USMCA: The United States–Mexico–Canada Agreement, a trade agreement that governs economic relations among the three countries, replacing the North American Free Trade Agreement (NAFTA).

Venture capital: A form of private equity that invests in early-stage and high-growth companies, typically in exchange for equity ownership and with higher risk and return potential.

VIX Volatility Index: A measure of expected stock market volatility derived from S&P 500 option prices, often referred to as a gauge of market uncertainty.

IMPORTANT INFORMATION

Key Risks

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Investments in **commodities** may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.

Diversification and asset allocation does not ensure a profit or protect against loss.

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Investing in **fixed income** products (such as bonds) is subject to certain risks, including, but not limited to, interest rate, credit, inflation, call, default, prepayment and reinvestment risk. Any fixed income security sold or redeemed prior to maturity may be subject to substantial gain or loss.

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