Find an appropriate mix for your fixed income portfolio

Bond investors need to ensure that they're appropriately diversified to manage risks and capture opportunities. But when considering the right mix of investments, the future direction of the economy, potential changes in interest rates and other factors should influence your allocation decisions.

Three possible economic environments

- **“Trend Growth” = GDP >3%**
- **“Muddle Through” = GDP 1-3%**
- **“Recession” = GDP <1%**

Graphics shown for illustrative purposes only. Asset allocation/diversification does not guarantee investment returns and does not eliminate the risk of loss.
Securities rated below investment grade are called “high-yield bonds,” “non-investment grade bonds,” “below investment-grade bonds” or “junk bonds.” They generally are rated in the fifth or lower rating categories of Standard & Poor’s and Moody’s Investors Service. Although these securities tend to provide higher yields than higher rated securities, there is a greater risk that the Fund’s share price will decline.

Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise.

International investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Also, some overseas markets may not be as politically and economically stable as the United States and other nations. The risks associated with foreign securities are magnified in countries in “emerging markets.” These countries may have relatively unstable governments and less-established market economies than developed countries. Emerging markets may face greater social, economic, regulatory and political uncertainties. These risks make emerging market securities more volatile and less liquid than securities issued in more developed countries.

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Play defense
- Interest rates trend downward, therefore rate risk lessens
- Portfolio duration should be extended
- Defaults are likely to rise
- Quality vs. risk: More risk-averse environment
  - Seek higher quality and government bonds
  - Favor absolute return and security selection-driven strategies
- Dollar weakens so favor increased foreign exposure
- Inflation likely has less impact

Balance your risks
- Interest rates are likely range bound and volatile so rate risk moderates
- Portfolio duration should favor a core neutral posture
- Defaults are likely to remain at relatively low levels
- Quality vs. risk: Moderate risk environment
  - Relative-value environment so increase spread and credit exposure
  - Diversify across absolute and total return strategies
- Dollar stance is neutral so favor growing economies
- Inflation is moderate so add opportunistically to inflation-protected strategies

Think opportunistically
- Interest rates trend upward so rate risk increases
- Portfolio duration should be decreased by favoring short and floating-rate strategies
- Defaults are likely to decline
- Quality vs. risk: Less risk-averse environment
  - Increase exposure favoring credits and mortgage securities
  - Favor total return and macro-driven strategies
- Dollar strengthens so favor increased foreign exposure
- Inflation is likely to rise

The above allocations are for illustrative purposes only.