2020 Vision

Ten Striking Facts for a New Decade | January 2020

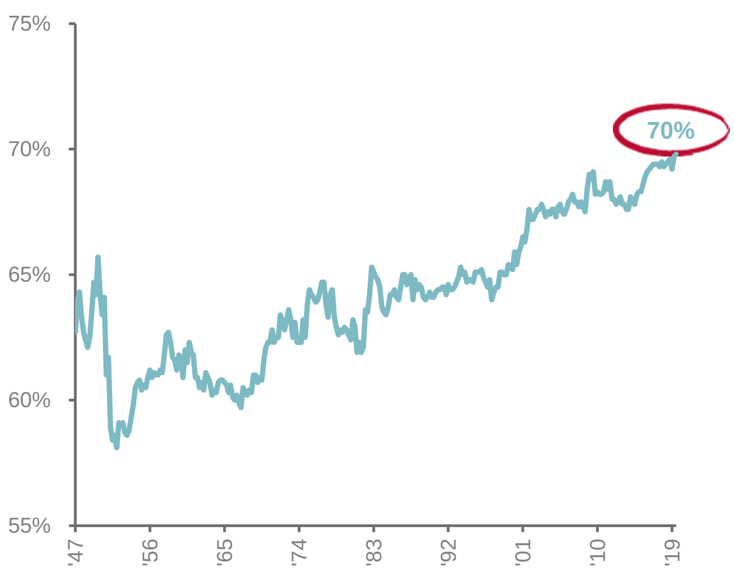
Corporate Finance Advisory

J.P.Morgan

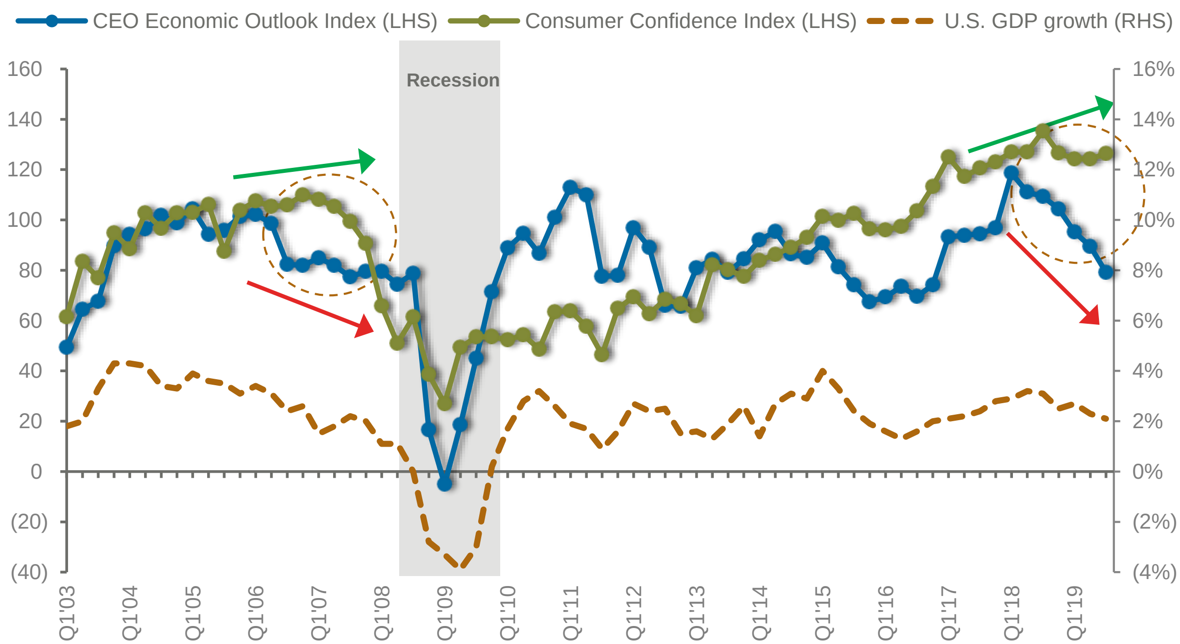
Consumer spending is the cornerstone of U.S. GDP, making consumer confidence crucial to continued economic strength even as businesses are increasingly cautious

1

Personal Consumption Expenditure as a % of GDP



CEO Economic Outlook vs. Consumer Confidence



U.S. personal consumption expenditures represent 70% of GDP, the highest level on record

Why it matters

- Consumer confidence has remained at or close to record highs in recent quarters, supporting continued U.S. economic growth
- In contrast, CEO and business confidence levels have been falling for more than a year
- With consumer spending more critical to U.S. GDP than at any time in history, will consumer confidence follow business confidence lower – taking with it economic growth – or will business confidence rebound?

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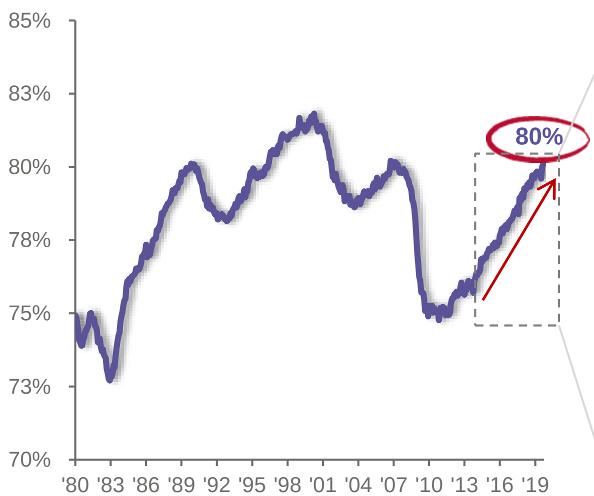
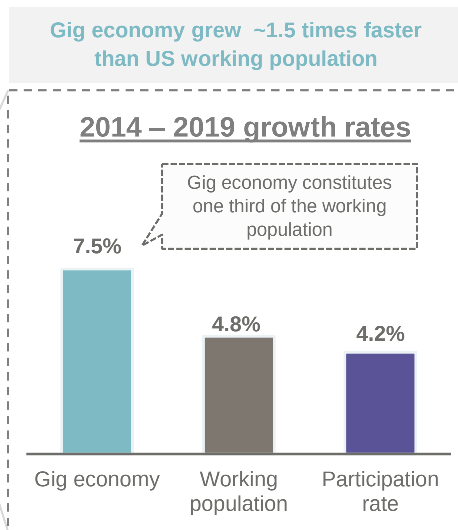
Source: Data for CEO Economic Outlook sourced from the Business Roundtable; Data for Consumer Confidence sourced form The Conference Board; Data for GDP and PCE from U.S. Bureau of Economic Analysis; Q-o-Q GDP growth from U.S. Bureau of Economic analysis

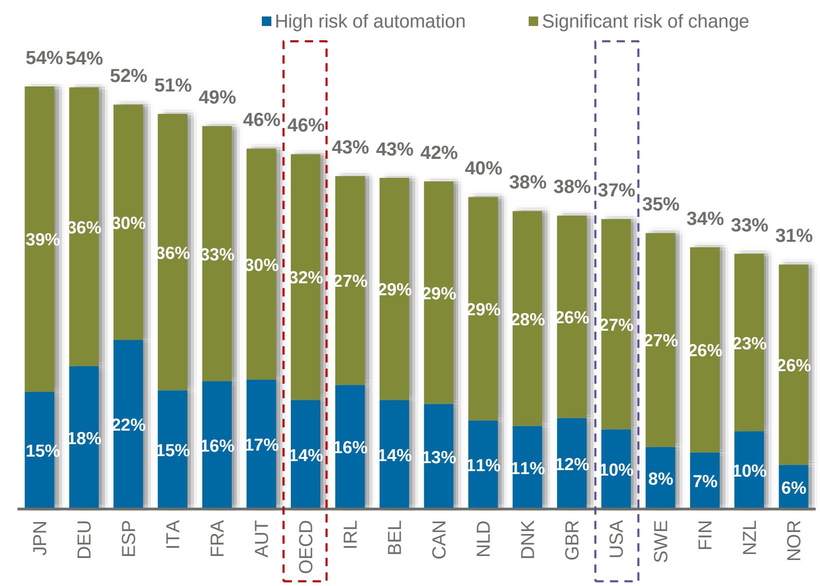
2 U.S. employment remains strong but automation poses a significant risk

U.S. employment participation – Aged 25-54[1]





Jobs at risk of automation



Almost 50% of all jobs in developed countries are at risk of automation or of significant change

Why it matters

- Employment participation has continued to rebound strongly, supporting the low unemployment rate and improving wage trends
- Risk of disruption to the workforce may alter the way future economic recoveries occur, particularly if a recession catalyzes automation
- New opportunities may come in the form of 'gig economy' jobs that have been growing at ~1.5x the pace of broader employment
- These 'gig' jobs are likely to be less certain, offer less financial security, and come with fewer benefits

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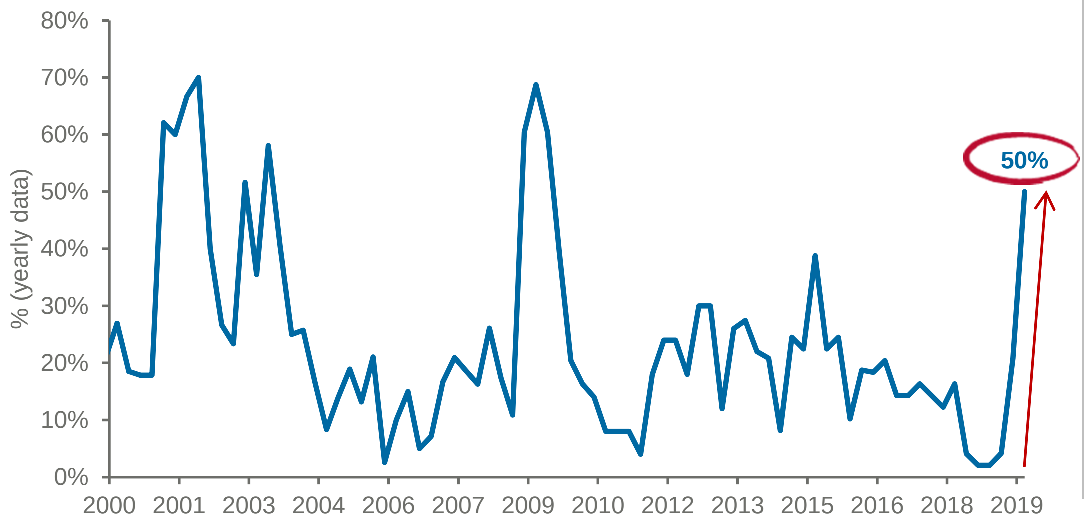
Source: Data for U.S. employment stats from U.S. Bureau of Labor Statistics, gig economy data from "Freelancing In America 2019" report published by Upwork, Jobs at the risk of automation from OECD; [1] Civilian Labor Force Participation Rate: 25 to 54 years

3 Central bank easing has taken the world into a negative rates environment

Share of central banks cutting rates (%)



Countries with negative interest rates by tenor[1]

	1-3 Yrs.	3-5 Yrs.	5-7 Yrs.	7-10 Yrs.	10-15 Yrs.	15+ Yrs.
Germany	Negative	Negative	Negative	Negative	Negative	Positive
Denmark	Negative	Negative	Negative	Negative	Positive	Positive
Japan	Negative	Negative	Negative	Negative	Positive	Positive
Netherlands	Negative	Negative	Negative	Negative	Positive	Positive
Belgium	Negative	Negative	Negative	Negative	Positive	Positive
France	Negative	Negative	Negative	Negative	Positive	Positive
Finland	Negative	Negative	Negative	Negative	Positive	Positive
Austria	Negative	Negative	Negative	Negative	Positive	Positive
Ireland	Negative	Negative	Negative	Positive	Positive	Positive
Sweden	Negative	Negative	Negative	Positive	Positive	Positive
Spain	Negative	Negative	Positive	Positive	Positive	Positive
Italy	Negative	Positive	Positive	Positive	Positive	Positive
US	Positive	Positive	Positive	Positive	Positive	Positive

Negative yielding debt
Positive yielding debt

Half the world's central banks are cutting rates

Why it matters

- Monetary policy is a crucial tool in the central bank toolbox and the trend of how central banks have used their power to cut rates around the world is indicative of the broad economic concerns of 2019
- No fewer than a dozen countries now have negative interest rates, which is likely to test the limits of policymakers should additional economic stimulus be necessary
- Interestingly, despite the global policy easing witnessed in 2019, rates in many countries ended the year higher, possibly suggesting optimism that a global economic slowdown has been averted – at least for the moment

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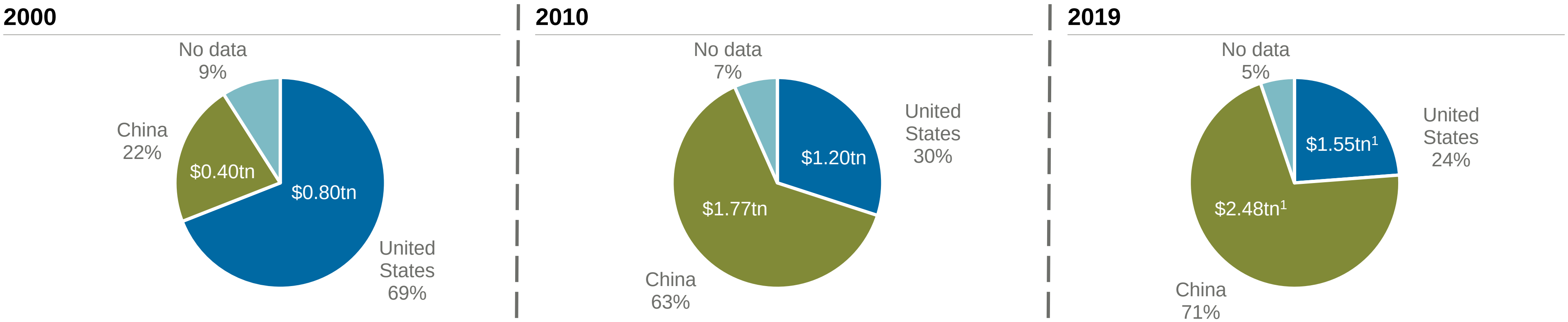
Source: Bloomberg; [1] Market date as of 12/27/2019

China's global influence continues to grow

Percentage of countries whose larger share of imports comes from the U.S. versus from China

Dollar values represent total exports from the U.S. and from China



	2000	2010	2019
Share of RMB as global payments currency[2]		#35	#6
Percentage of total global payments value[2]		0.31%	1.65%

The portion of global payments transacting in Renminbi has increased more than five-fold in the last decade

Why it matters

- China has transformed itself into a global trade powerhouse, supplanting the U.S. as the larger import source for most countries
- The dominance of USD and EUR has overshadowed the growth of the RMB's role in global trade
- China's stated intent to develop a state-backed cryptocurrency may also have global trade and currency ramifications
- With substantial investment around the world – particularly in parts of the developing world, such as Africa – China is well-positioned to see its global economic influence continue to increase regardless of how trade tensions with the U.S. play out

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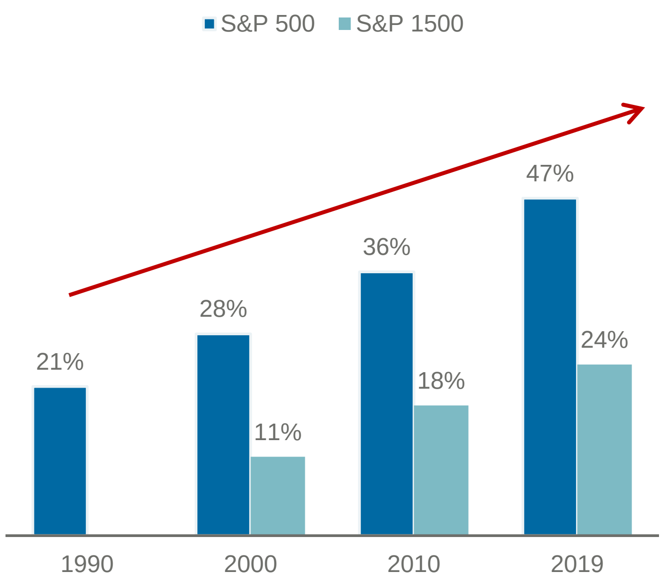
Source: Department of Trade Statistics – International Monetary Fund, SWIFT RMB Tracker
[1] Full-year 2019 estimates calculated based on YTD August 2019 data; [2] 2010 and 2019 figures as of October 2010 and October 2019 respectively

5 Even as more firms target "BBB" ratings, credit markets maintain an appetite for risk

% of "BBB" firms in S&P 500 and 1500



Credit spread differentiation by rating over time[1]

The spread between BBB and BB credit costs is the lowest on record

Why it matters

- Firms across industries have migrated to "BBB" investment grade ratings over the last several decades
- Credit markets appear relatively unfazed, with the spread between BBB and A credits at typical levels for the last several decades
- With the incremental cost of debt for lower BB ratings at historic lows, the trend of taking on higher leverage and lower ratings may continue, albeit with heightened risk in a late-cycle environment

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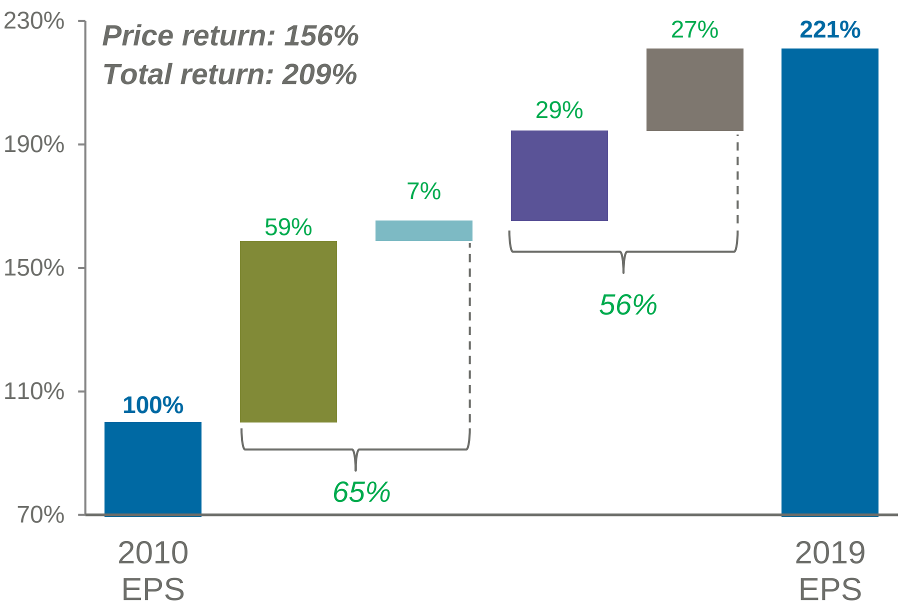
Source: J P Morgan, Capital IQ and Bloomberg. [1] Bloomberg Barclays U.S. Aggregate for A, Baa and Ba

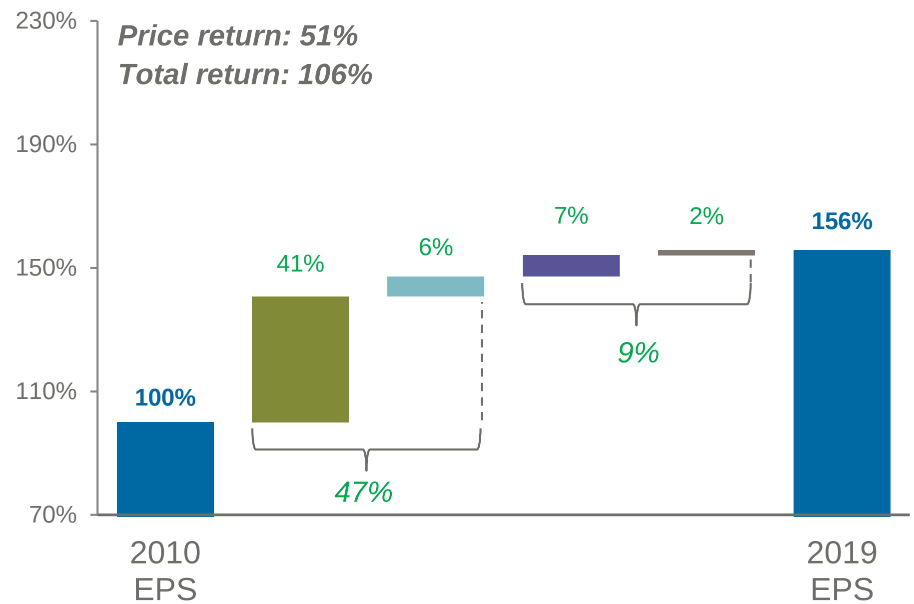
U.S. corporate EPS growth has been supported by tax reform, low interest rates, and share repurchases

Sales growth | Operating margin expansion (contraction) | Tax and interest impact | Share count decrease (increase)

S&P 500 EPS growth contributors (YE 2010 – Q3 2019)



STOXX 600 EPS growth contributors (YE 2010 – Q3 2019)



Just over half of U.S. corporate earnings per share growth over the last decade has been "fundamental"

Why it matters

- Only a little more than half (54%) of S&P 500 EPS growth over the last decade came from top-line growth and margin improvements
- The remaining growth (46%) was driven by the stimulus of low rates (monetary policy), tax reform (fiscal policy), and share repurchases
- In contrast, European firms have not benefitted from these factors to the same extent
- U.S. firms may find themselves challenged to maintain this pace of growth even if their underlying businesses continue to perform

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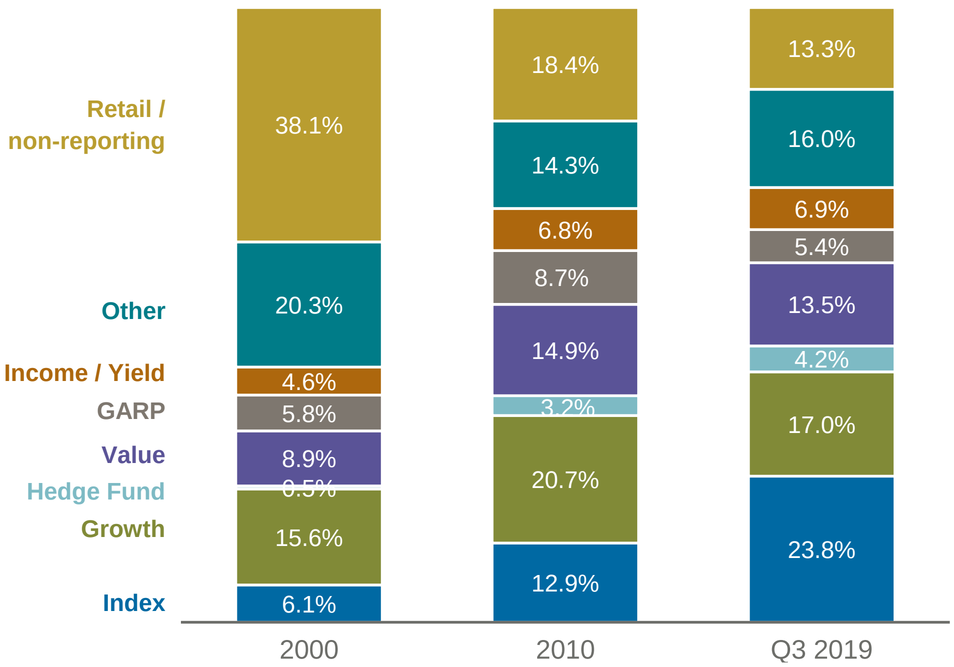
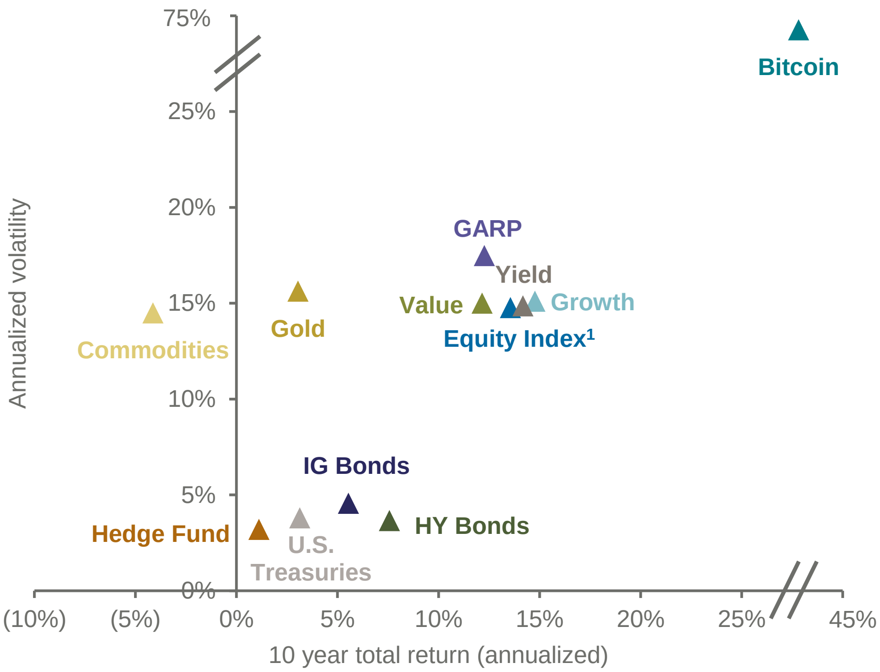
Source: Bloomberg; Note: Calculated on a company-by-company basis, with the median of each growth category displayed; Excludes Real Estate GICS sector; Price return and total return figures represent 12/31/2010 to 12/31/2019; Figures shown might not tie precisely due to rounding

7 Index funds dominate as other strategies fail to differentiate themselves

S&P 500 shareholder style over time



Investor style performance vs. risk



About one-in-four U.S. large-cap shares is held by an index fund

Why it matters

- The makeup of equity investor bases continues to evolve, with passive index funds representing a greater portion of shareholders
- This trend is less surprising when considering that few strategies have substantially outperformed index strategies when taking into account risk incurred (i.e., volatility), and the difference is even more substantial when incorporating fees
- The trend towards passive investing is expected to continue; thus, management teams should be prepared for fewer name- or sector-specific investors, greater investor concentration, and the possibility of increasing volatility, particularly around corporate events[2]

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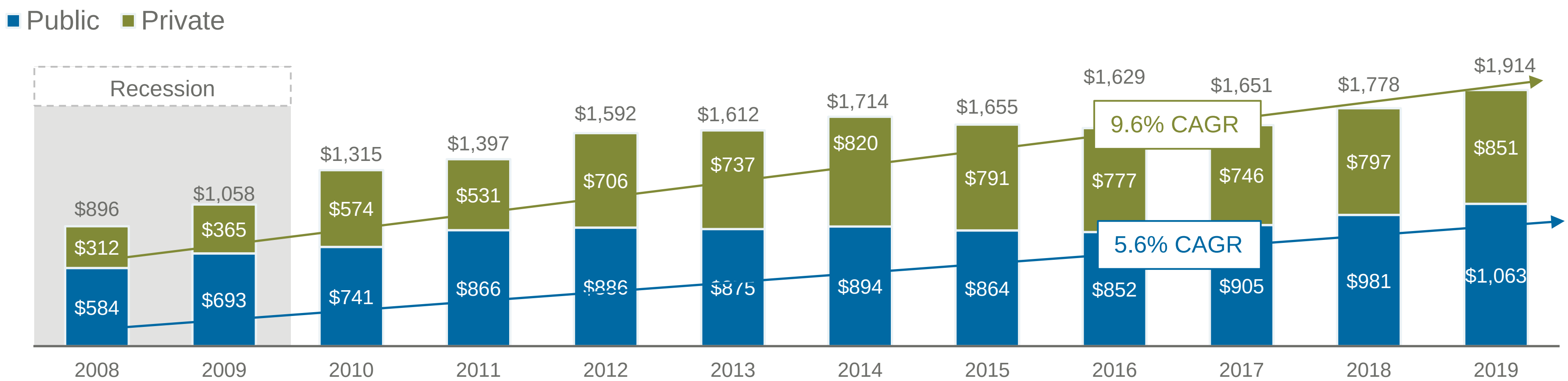
Source: Bloomberg, Thomson Reuters Eikon as of 12/31/19

Note: Indices used to track performance include: S&P 500 Total Returns Index, S&P 500 Value Total Returns Index, S&P 500 Growth Total Returns Index, S&P 500 GARP Total Returns Index, S&P 500 Dividend & Free Cash Flow Yield Index, Hedge Fund Research HFRX Global Hedge Fund Index, NYSE Bitcoin Index, , Bloomberg Barclays U.S. Corporate Investment Grade Total Return Index (Unhedged), Bloomberg Barclays U.S. Corporate High Yield Total Return Index (Unhedged), Bloomberg Barclays U.S. Treasury Total Return Index (Unhedged), LBMA Gold Price PM USD Index, Thomson Reuters CoreCommodity CRB Commodity Index; [1] Tracks the S&P 500 Total Return Index; [2] 'The great shareholder shift: Developing financial policies for an evolving shareholder base': https://www.jpmorgan.com/jpmpdf/1320746569306.pdf

8 Private company profits have grown faster than public company profits

Aggregate U.S. pre-tax profits ($bn)



Public acquisition multiples

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Median	11.6x	11.9x	11.1x	12.3x	11.2x	10.3x	13.6x	15.8x	14.2x	14.6x	14.6x	12.9x
Count	161	58	123	150	120	131	129	172	181	185	183	165

Private acquisition multiples

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Median	9.4x	8.1x	10.1x	12.1x	10.4x	11.9x	13.5x	12.8x	12.2x	11.5x	10.8x	11.3x
Count	23	18	15	21	31	22	38	85	71	23	51	57

Private company profits have grown at nearly twice the pace of public company profits since the Great Financial Crisis

Why it matters

- The last decade saw the emergence of private “unicorns” that garnered significant attention for their ultimate successes (and sometimes failures) in the public markets
- More generally, there has been a dramatic expansion of U.S. private company profits, suggesting that substantial investment and growth is coming from outside the public capital markets
- With private capital ‘dry powder’ also at record highs, the trend of private company investment (and growth) is likely to continue well into the next decade

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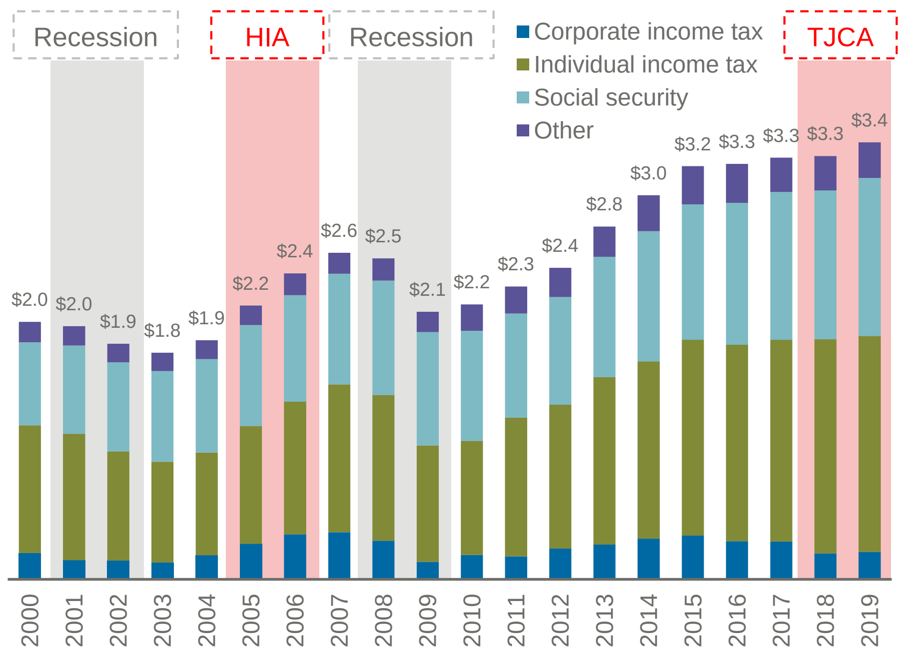
Source: Bloomberg, U.S. Bureau of Economic Analysis; Note: Profit figures represent all U.S. corporations; Private profit calculated as aggregate U.S. corporate profits (per St. Louis Fed) less aggregate of all U.S. public company profits, for each year; Acquisition multiples represent public and private acquisitions of U.S. companies >$100mm since January 2008

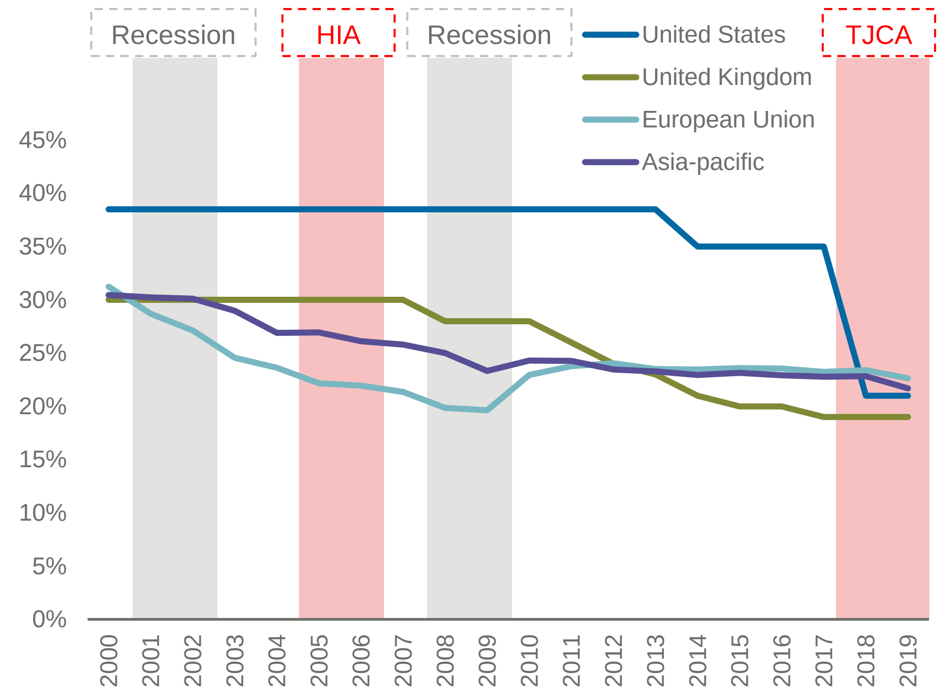
9 U.S. corporate tax reform makes a small dent on total receipts but levels the playing field

U.S. federal tax revenue ($tn)



Corp. % total	10%	8%	8%	7%	10%	13%	15%	14%	12%	7%	9%	8%	10%	10%	11%	11%	9%	9%	6%	6%

Average corporate tax rates (%)



Prior to tax reform, corporate taxes accounted for ~9% of total U.S. tax receipts; in 2019 that number is expected to be ~6%

Why it matters

- Despite the substantial amount of time and attention given the U.S. tax reform, corporate tax receipts have historically only accounted for a small portion of overall government revenue
- For a relatively modest overall impact to U.S. revenues, U.S. tax reform was crucial in re-aligning the U.S.'s competitiveness on the global stage

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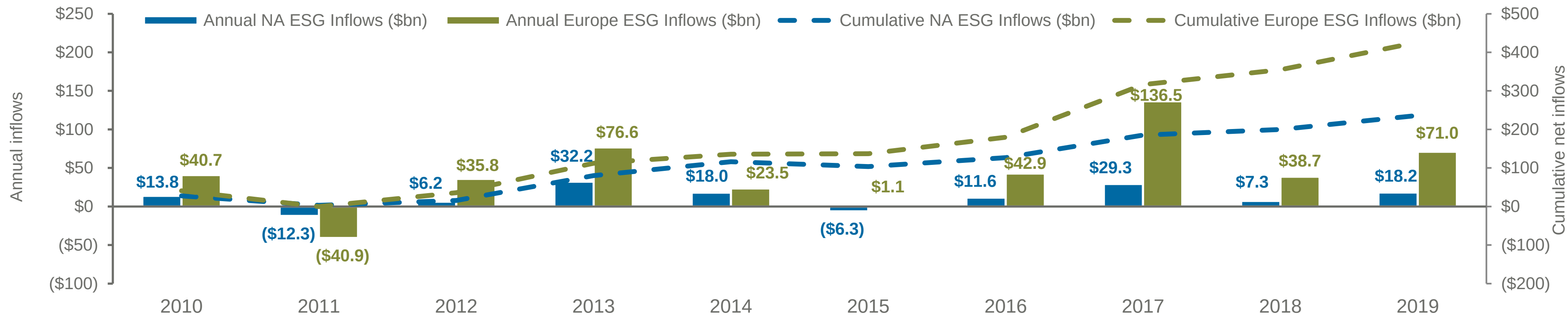
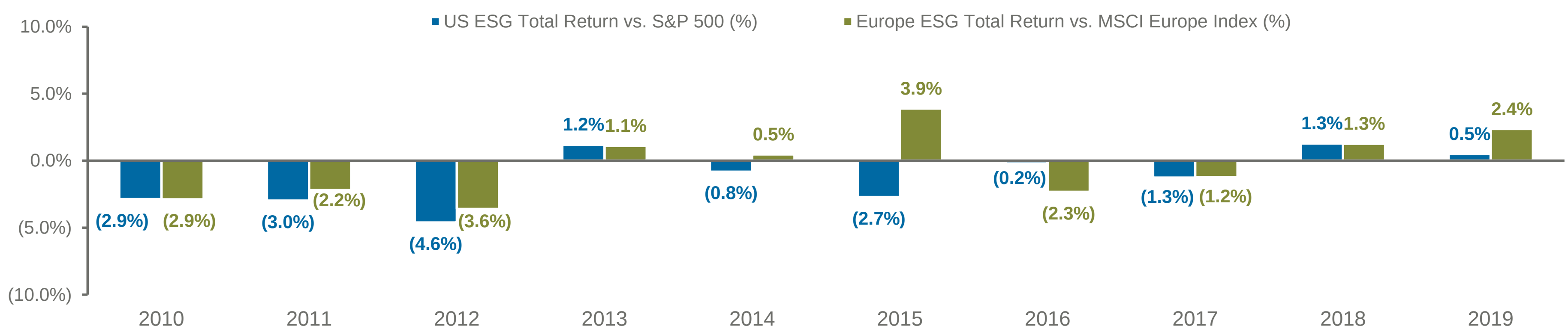
Source: St. Louis Federal Reserve Bank, U.S. Bureau of Economic Analysis; The Tax Foundation; Note: HIA stands for Homeland Investment Act, TJCA stands for Tax Cuts and Jobs Act; 2019 figures represent YTD

10 ESG strategies are attracting capital, but excess returns have been elusive





U.S. ESG equity strategies have underperformed the broader market in seven of the last ten years

Why it matters

- While Environmental, Social, and Governance (ESG) investment strategies have attracted capital, particularly in Europe, these strategies are yet to deliver consistent market outperformance
- ESG considerations should be important aspect of Board and senior management decision-making, as more consistent outperformance of ESG investment strategies are likely to further increase investor attention on these issues

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Source: Bloomberg as of 12/31/19, Lipper
Note: Inflows correspond to equities and bonds; Europe ESG returns based on MSCI Europe ESG Leaders Index; US ESG returns based on MSCI USA ESG Leaders Index

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