

---

# 2020 Vision

Ten Striking Facts for a New Decade | January 2020

Corporate Finance Advisory

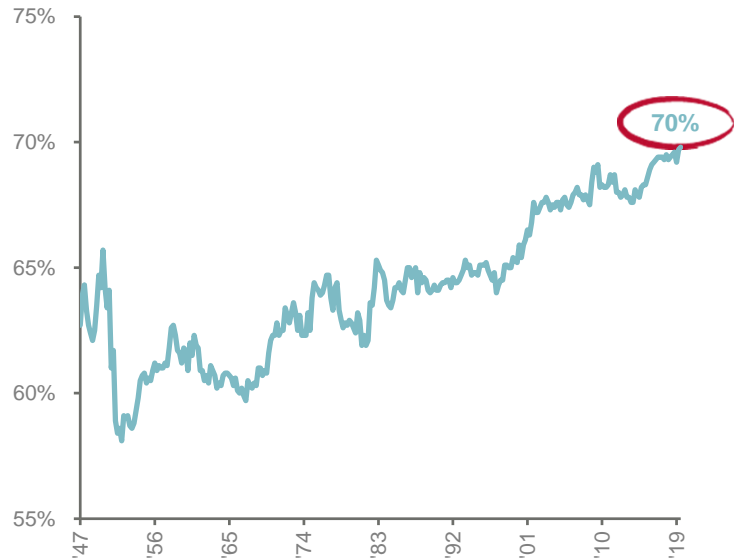
---

J.P.Morgan

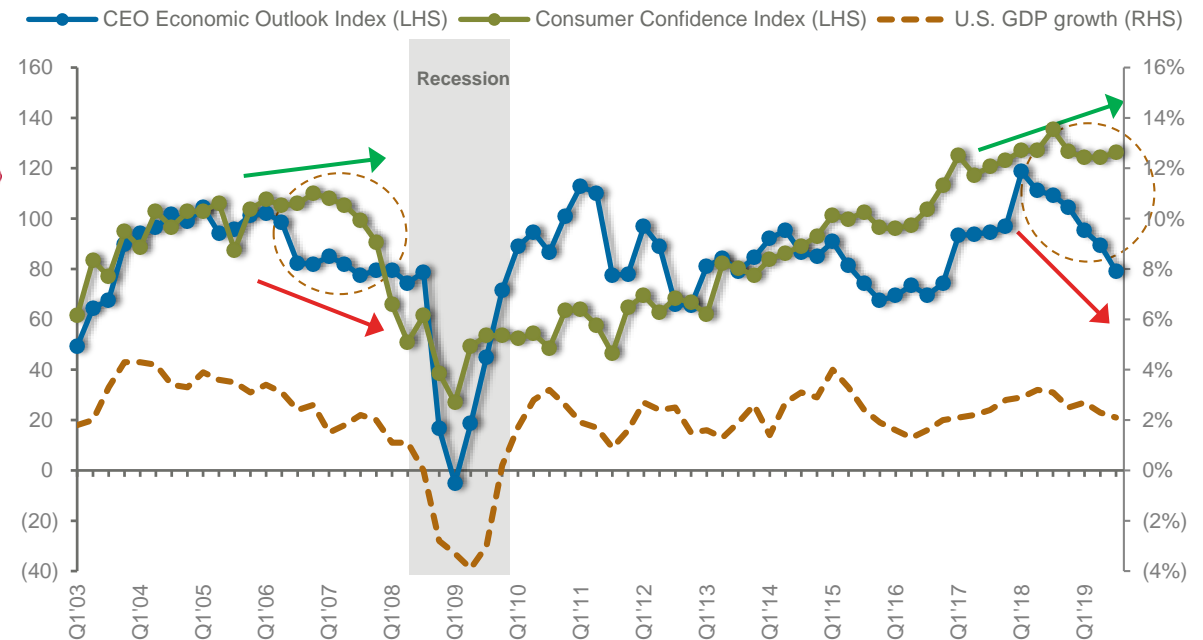
1

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

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**

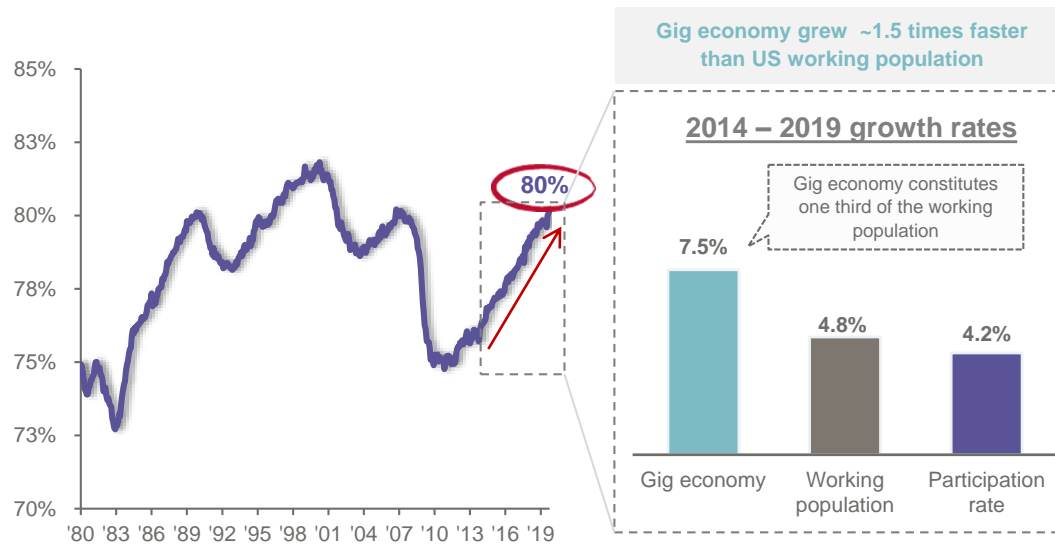
**Why it matters**

- 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?

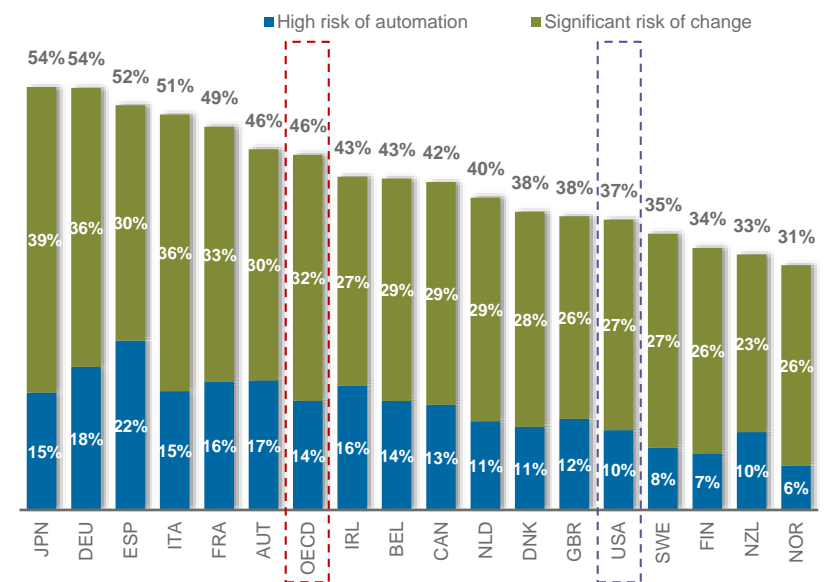
Source: Data for CEO Economic Outlook sourced from the Business Roundtable; Data for Consumer Confidence sourced from The Conference Board; Data for GDP and PCE from U.S. Bureau of Economic Analysis; Q-o-Q GDP growth from U.S. Bureau of Economic analysis

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

### U.S. employment participation – Aged 25-54<sup>1</sup>



### Jobs at risk of automation



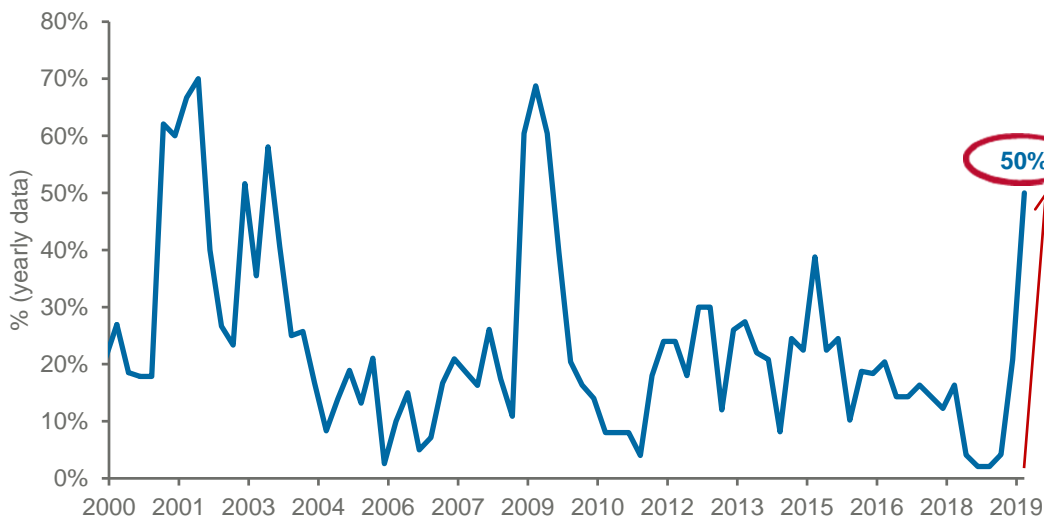
**Almost 50% of all jobs in developed countries are at risk of automation or of significant change**

#### 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

### 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<sup>1</sup>

	1-3 Yrs.	3-5 Yrs.	5-7 Yrs.	7-10 Yrs.	10-15 Yrs.	15+ Yrs.
Germany	Negative	Negative	Negative	Negative	Positive	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	Positive	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

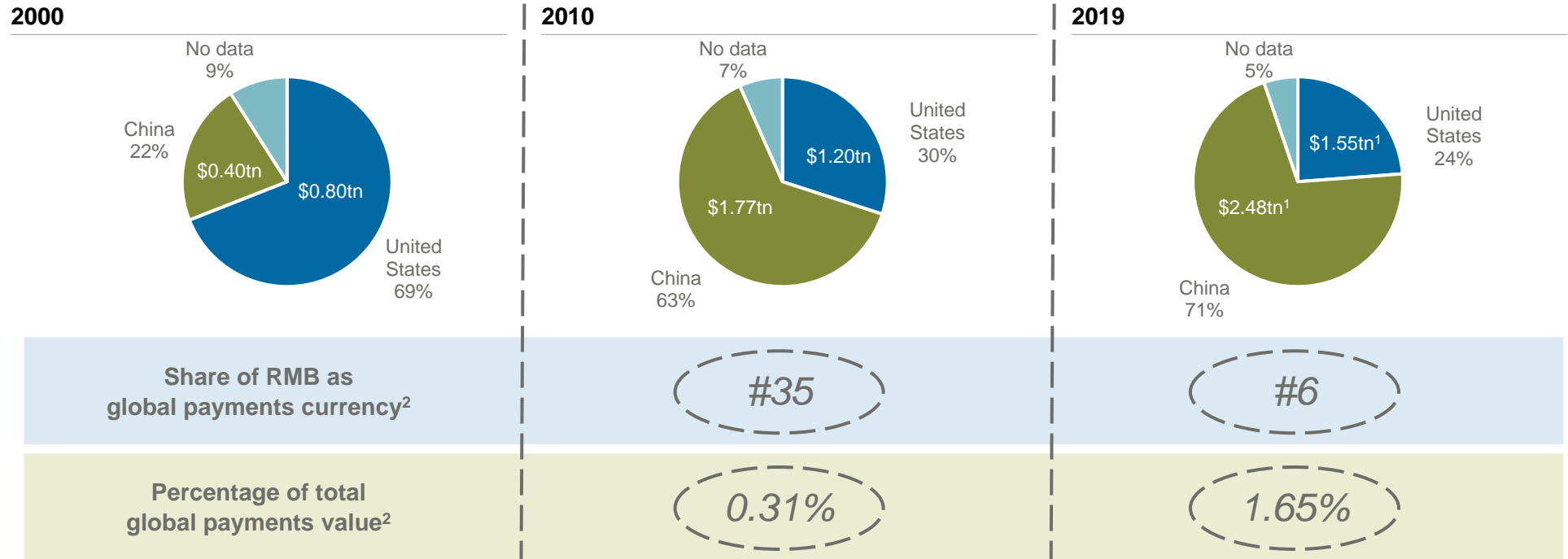
##### Why it matters

- 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

## 4 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



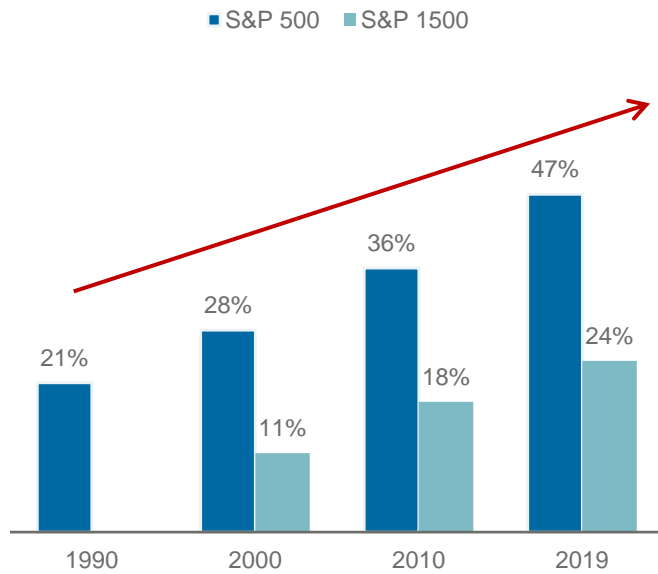
**The portion of global payments transacting in Renminbi has increased more than five-fold in the last decade**

#### 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

# 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<sup>1</sup>



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

### Why it matters

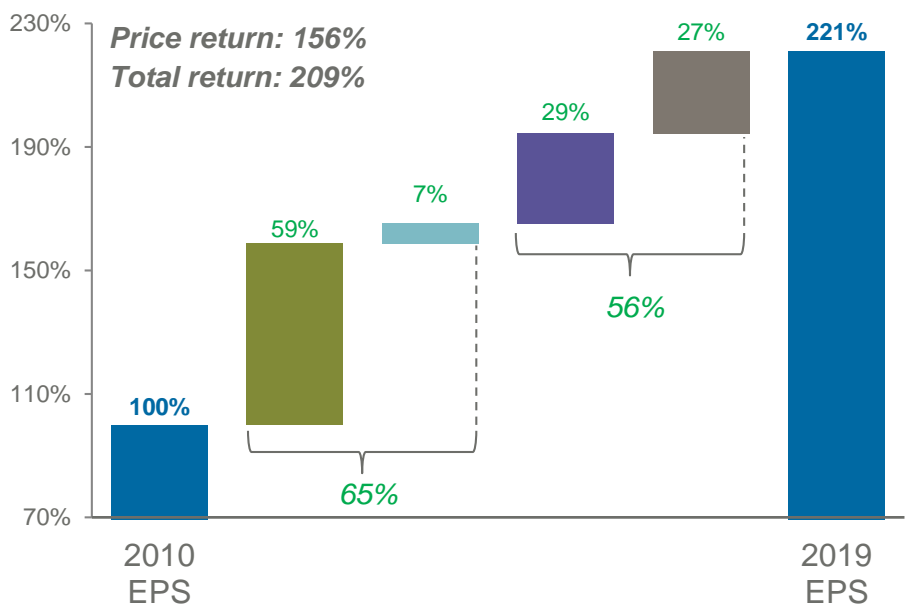
- Firms across industries have migrated to “BBB” investment grade ratings over the last several decades
- Credit markets appear relatively unfazed, with the spread between BBB and A credits at typical levels for the last several decades
- With the incremental cost of debt for lower BB ratings at historic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

6

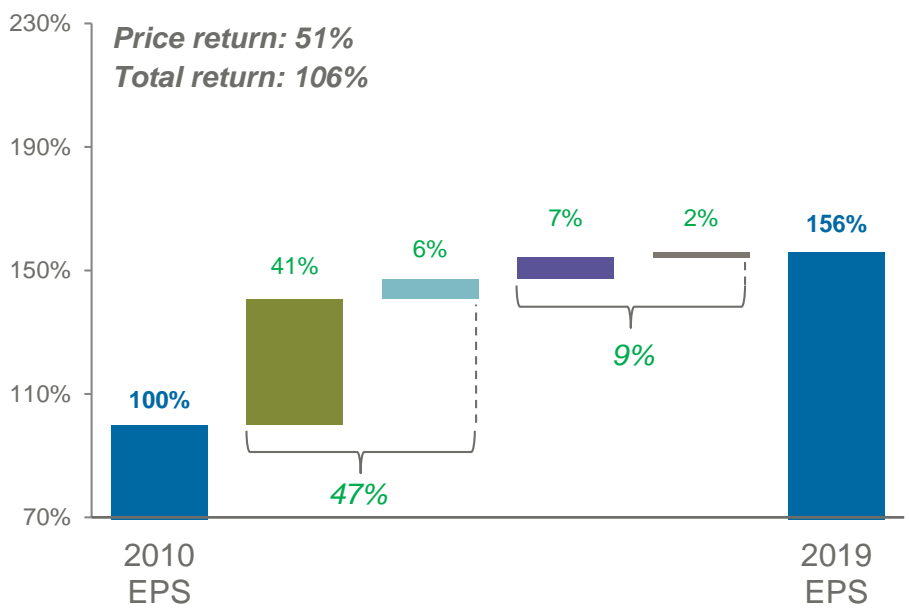
# U.S. corporate EPS growth has been supported by tax reform, low interest rates, and share repurchases

■ 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”**

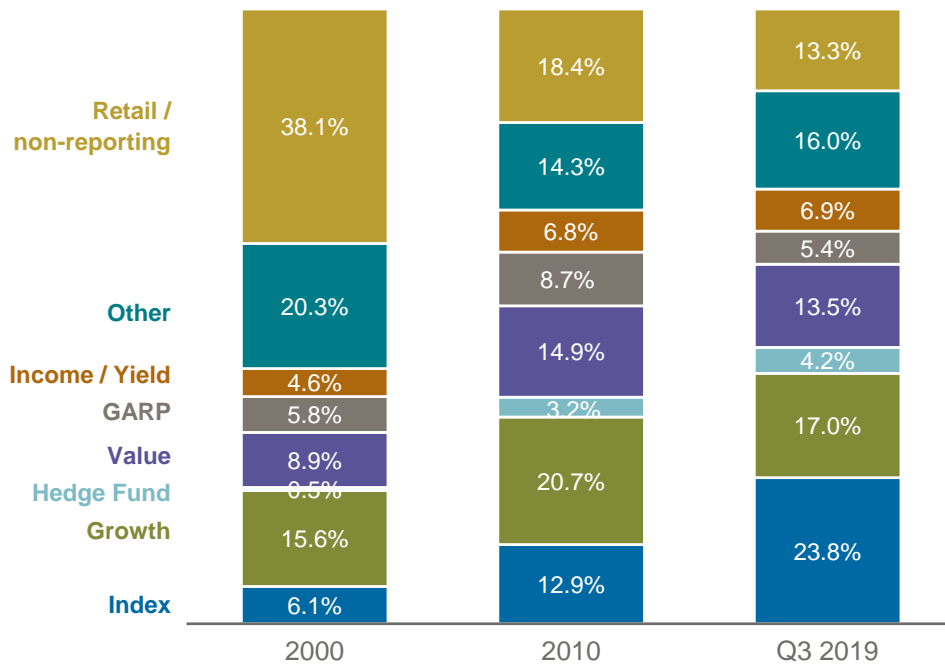
**Why it matters**

- 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

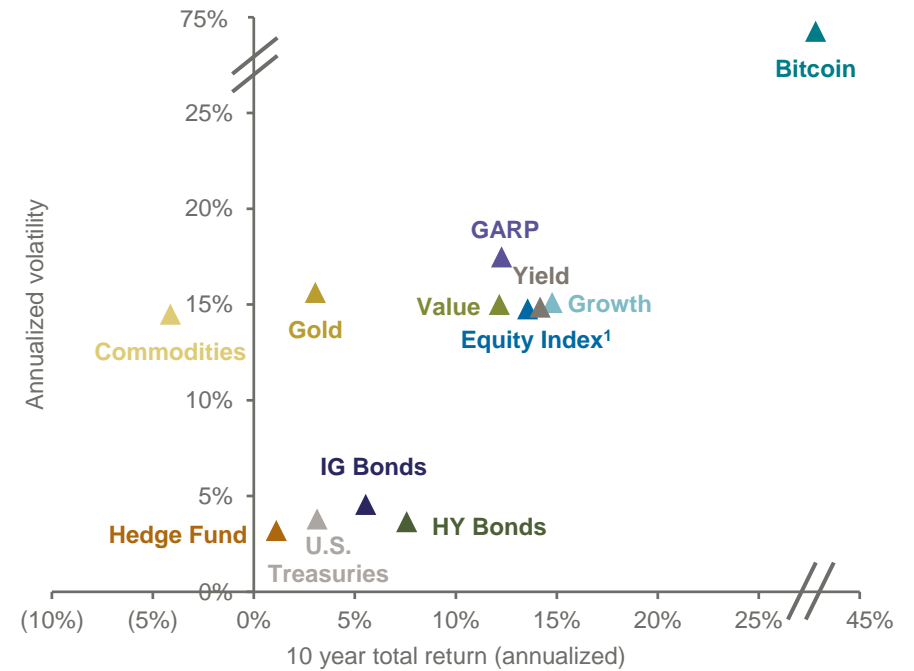
Source: Bloomberg; Note: Calculated on a company-by-company basis, with the median of each growth category displayed; Excludes Real Estate GICS sector; Price return and total return figures represent 12/31/2010 to 12/31/2019; Figures shown might not tie precisely due to rounding

# 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<sup>2</sup>

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

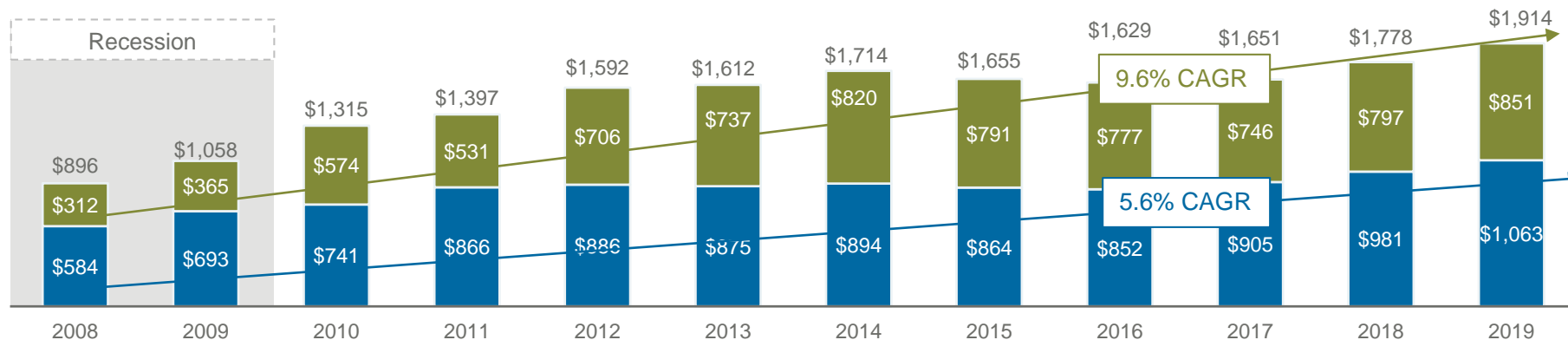
Note: Indices used to track performance include: S&P 500 Total Returns Index, S&P 500 Value Total Returns Index, S&P 500 Growth Total Returns Index, S&P 500 GARP Total Returns Index, S&P 500 Dividend & Free Cash Flow Yield Index, Hedge Fund Research HFRX Global Hedge Fund Index, NYSE Bitcoin Index, Bloomberg 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; <sup>1</sup> Tracks the S&P 500 Total Return Index; <sup>2</sup> 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 ■ Private



#### Public acquisition multiples

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

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

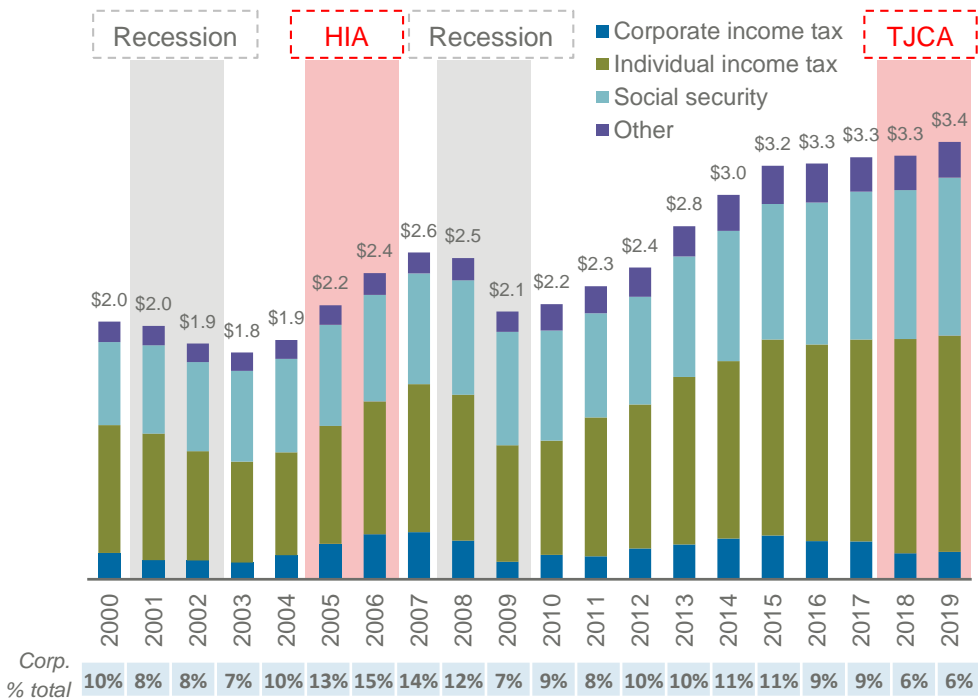
### Private company profits have grown at nearly twice the pace of public company profits since the Great Financial Crisis

#### Why it matters

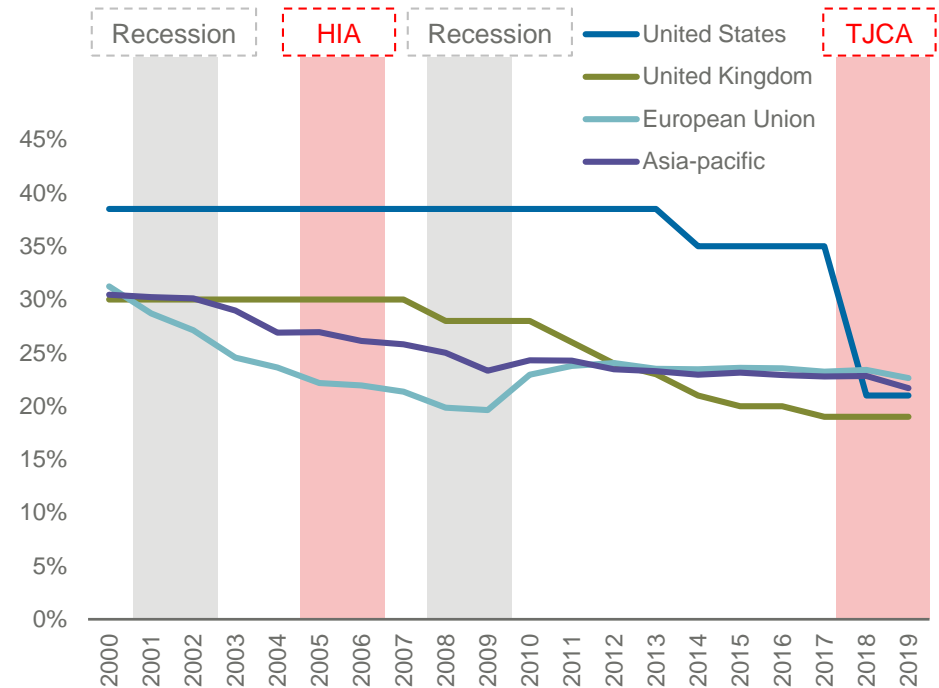
- The last decade saw the emergence of private “unicorns” that garnered significant attention for their ultimate successes (and sometimes failures) in the public markets
- More generally, there has been a dramatic expansion of U.S. private company profits, suggesting that substantial investment and growth 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

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

U.S. federal tax revenue (\$tn)



Average corporate tax rates (%)

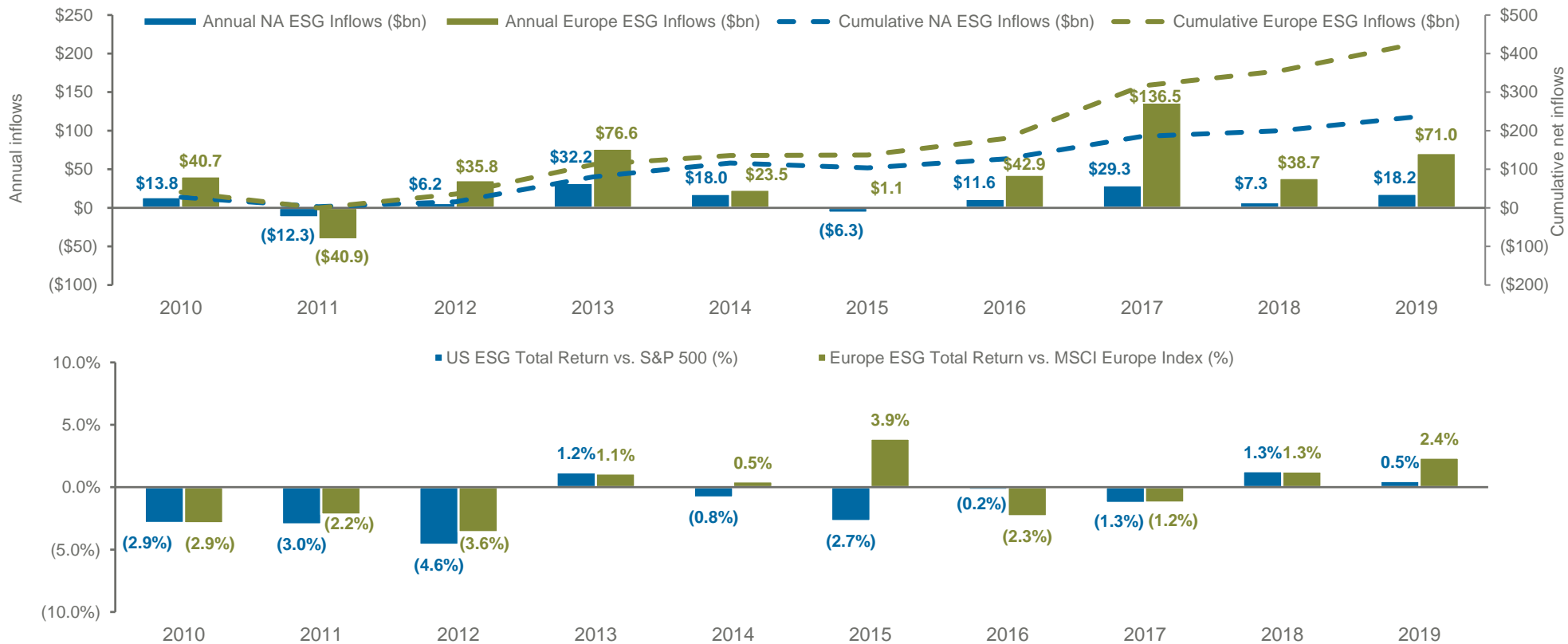


**Prior to tax reform, corporate taxes accounted for ~9% of total U.S. tax receipts; in 2019 that number is expected to be ~6%**

**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

# 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

---

This presentation was prepared exclusively for the benefit and internal use of the J.P. Morgan client to whom it is directly addressed and delivered (including such client's subsidiaries, the "Company") in order to assist the Company in evaluating, on a preliminary basis, the feasibility of a possible transaction or transactions and does not carry any right of publication or disclosure, in whole or in part, to any other party. This presentation is for discussion purposes only and is incomplete without reference to, and should be viewed solely in conjunction with, the oral briefing provided by J.P. Morgan. Neither this presentation nor any of its contents may be disclosed or used for any other purpose without the prior written consent of J.P. Morgan.

The information in this presentation is based upon any management forecasts supplied to us and reflects prevailing conditions and our views as of this date, all of which are accordingly subject to change. J.P. Morgan's opinions and estimates constitute J.P. Morgan's judgment and should be regarded as indicative, preliminary and for illustrative purposes only. In preparing this presentation, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which was provided to us by or on behalf of the Company or which was otherwise reviewed by us. In addition, our analyses are not and do not purport to be appraisals of the assets, stock, or business of the Company or any other entity. J.P. Morgan makes no representations as to the actual value which may be received in connection with a transaction nor the legal, tax or accounting effects of consummating a transaction. Unless expressly contemplated hereby, the information in this presentation does not take into account the effects of a possible transaction or transactions involving an actual or potential change of control, which may have significant valuation and other effects.

Notwithstanding anything herein to the contrary, the Company and each of its employees, representatives or other agents may disclose to any and all persons, without limitation of any kind, the U.S. federal and state income tax treatment and the U.S. federal and state income tax structure of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to the Company relating to such tax treatment and tax structure insofar as such treatment and/or structure relates to a U.S. federal or state income tax strategy provided to the Company by J.P. Morgan. J.P. Morgan's policies on data privacy can be found at <http://www.jpmorgan.com/pages/privacy>.

J.P. Morgan is a party to the SEC Research Settlement and as such, is generally not permitted to utilize the firm's research capabilities in pitching for investment banking business. All views contained in this presentation are the views of J.P. Morgan's Investment Bank, not the Research Department. J.P. Morgan's policies prohibit employees from offering, directly or indirectly, a favorable research rating or specific price target, or offering to change a rating or price target, to a subject company as consideration or inducement for the receipt of business or for compensation. J.P. Morgan also prohibits its research analysts from being compensated for involvement in investment banking transactions except to the extent that such participation is intended to benefit investors.

**Changes to Interbank Offered Rates (IBORs) and other benchmark rates:** Certain interest rate benchmarks are, or may in the future become, subject to ongoing international, national and other regulatory guidance, reform and proposals for reform. For more information, please consult: [https://www.jpmorgan.com/global/disclosures/interbank\\_offered\\_rates](https://www.jpmorgan.com/global/disclosures/interbank_offered_rates)

**JPMorgan Chase & Co. and its affiliates do not provide tax advice. Accordingly, any discussion of U.S. tax matters included herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone not affiliated with JPMorgan Chase & Co. of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.**

J.P. Morgan is a marketing name for investment businesses of JPMorgan Chase & Co. and its subsidiaries and affiliates worldwide. Securities, syndicated loan arranging, financial advisory, lending, derivatives and other investment banking and commercial banking activities are performed by a combination of J.P. Morgan Securities LLC, J.P. Morgan Securities plc, J.P. Morgan AG, JPMorgan Chase Bank, N.A. and the appropriately licensed subsidiaries and affiliates of JPMorgan Chase & Co. worldwide. J.P. Morgan deal team members may be employees of any of the foregoing entities. J.P. Morgan Securities plc is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. J.P. Morgan AG is authorized by the German Federal Financial Supervisory Authority (*BaFin*) and regulated by BaFin and the German Central Bank (*Deutsche Bundesbank*).

For information on any J.P. Morgan German legal entity see: <https://www.jpmorgan.com/country/US/en/disclosures/legal-entity-information#germany>.

For information on any other J.P. Morgan legal entity see: <https://www.jpmorgan.com/country/GB/EN/disclosures/investment-bank-legal-entity-disclosures>.

This presentation does not constitute a commitment by any J.P. Morgan entity to underwrite, subscribe for or place any securities or to extend or arrange credit or to provide any other services.

Copyright 2020 JPMorgan Chase & Co. All rights reserved. JPMorgan Chase Bank, N.A., organized under the laws of U.S.A. with limited liability.