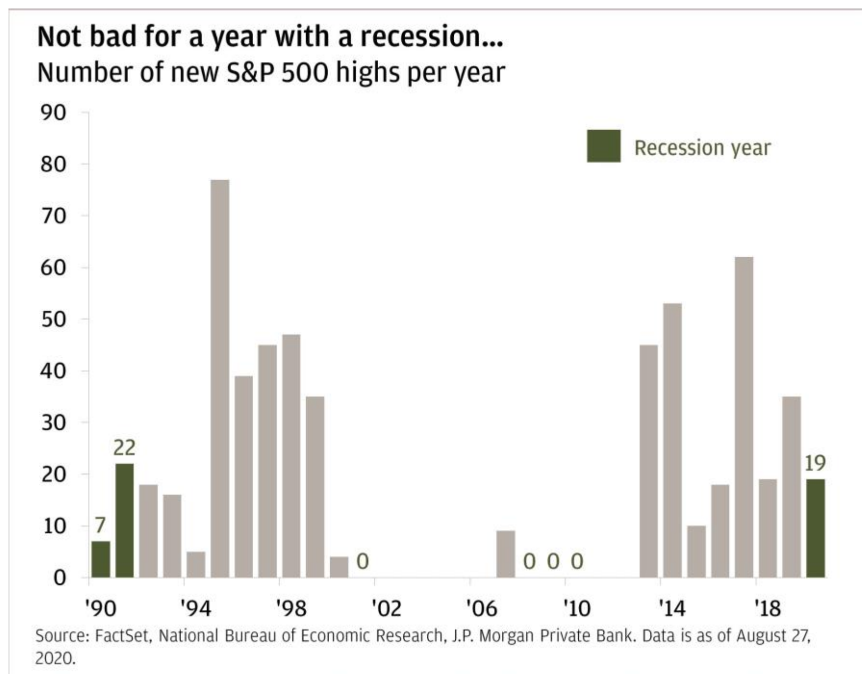
Is it worth considering investing at all-time highs?

Before we begin, we wanted to express that our thoughts are with all those impacted by Hurricane Laura, which made landfall on the Gulf coast. Affecting parts of Louisiana and Texas, it's the most powerful storm to hit the area since the 1850s. The storm has weakened slightly, but remains dangerous. We encourage all our readers to heed officials' warnings and stay safe.

Markets in review

Record highs and a Fed shakeup

The S&P 500 has climbed another +2.6% so far this week, clocking several new all-time highs—there have now been 6 new highs since the start of the crisis and 19 since the start of the year. Sure, we've seen other years with more all-time highs, but that's not usually the case for years that see a recession:



On a sector level, we saw more #gains for tech. Salesforce experienced its largest single day gain *ever* following its blowout Q2 earnings results (+26% on Wednesday) , Netflix saw its biggest single day gain in 3 years and rose to new highs (+11.6% on Wednesday), and Facebook popped as it announced its new Shop feature (an e-commerce platform for small and mid-sized businesses, +8.2% on Wednesday). Microsoft (+6.4% on the week), Amazon (+3.5% on the week), and Apple (+0.5% on the week) all played their part in helping lift the broad index higher this week, too. Outside the U.S., Chinese onshore and European stocks continued their rally. However, Japan's TOPIX wavered, as word came that PM Shinzo Abe will resign due to health reasons.

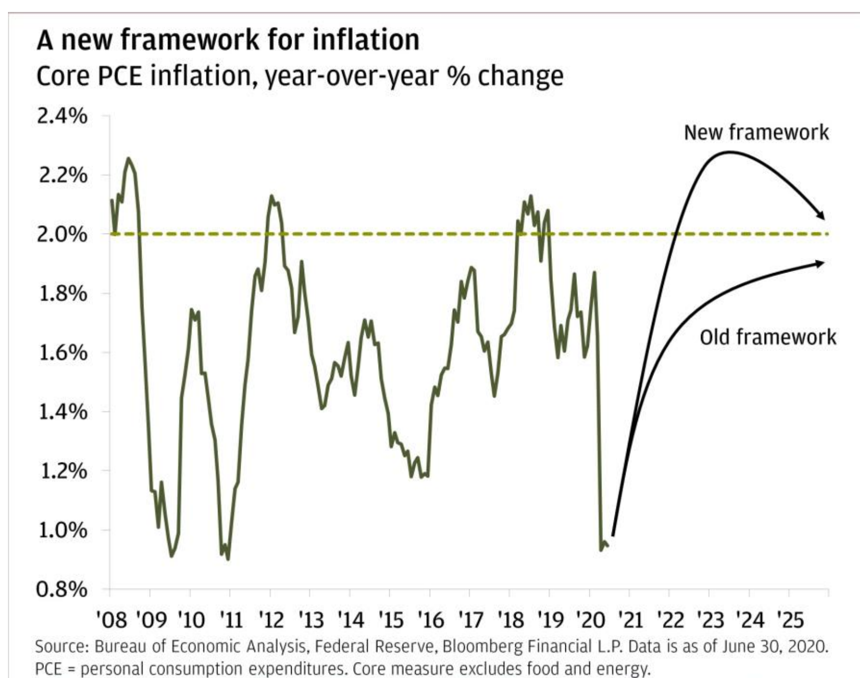
INVESTMENT AND INSURANCE PRODUCTS ARE:
• NOT FDIC INSURED • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NOT A DEPOSIT OR OTHER OBLIGATION OF, OR GUARANTEED BY, JPMORGAN CHASE BANK, N.A. OR ANY OF ITS AFFILIATES
• SUBJECT TO INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED

The U.S. dollar continued its decline, and bond markets made major moves. The yield curve steepened, with 10-year Treasury yields rising over 10bps to 0.76% and 30-year yields rising close to 20bps to 1.53%—both the highest since June. Why the big move? Well…

The biggest news of the week came with Fed Chairman Powell's address at the (virtual) Jackson Hole Symposium—an annual meeting where central bankers, finance ministers, market participants, and the like get together to talk about policy (sounds fun, right?). This year's conference was about eventful as they get, as Powell announced the Fed's shaking up how it views its policy mandate. Here's what you need to know:

- First, the background: The Fed has long since had a dual mandate, striving to achieve 1) "maximum employment" (all Americans that want to work are gainfully employed) and 2) "price stability" (which up until now, meant a target inflation rate of 2%). Now for the changes:

- Inflation will be allowed to heat up (but in a good way): The central bank is officially moving to a mandate that will seek inflation that *averages 2% over time*. The move is in response to inflation that's been persistently reaaallly low and below 2% (averaging about 1.4% since the policy was enacted in 2012), and the new approach will allow price pressures to overshoot after periods of weakness. But, if inflation runs too hot, the Fed stands ready to act. Why the change? Some inflation is good for the economy: more raises, more consumption, more profits. Also, low inflation puts downward pressure on rates, and when rates are too low, the Fed has less policy room to stave off an economic downturn.



Source: Bureau of Economic Analysis, Federal Reserve, Bloomberg Financial L.P. Data is as of June 30, 2020.
PCE = personal consumption expenditures. Core measure excludes food and energy.

- **The employment mandate will take a backseat:** The Fed is going to focus on "shortfalls" rather than "deviations" from maximum employment. Human speak: the economic theory that higher employment generates higher inflation has broken down. In action, this means that policymakers will step in to lend support to the economy if unemployment is too high, but they won't try to pump the breaks and hike rates if unemployment is too low. After all, a tight and robust labor market has failed to get inflation up and dancing—before the crisis, the unemployment rate was at a *50-year low* at 3.5%...yet inflation remained well below target. As long as inflation is under control, the Fed is likely to push the limits on full employment (again, the central bank will be less inclined to hike rates when the unemployment rate falls), which has the added benefit of helping to close inequality gaps.

- **What it all means for you:** This is an evolution, not a revolution, of Fed policy ——the new approach and further commitment to 2% inflation has long been expected. However, it does confirm our view that low Fed policy rates are here to stay: even with the new policy, it's unlikely inflation moves above 2% anytime soon. In broad strokes, this should be cheered by long-term investors.

  And, let's remember what monetary policy is all about in the first place: incentivizing people to borrow money. Now is a great time to consider borrowing if you're looking to purchase a big ticket item (like a new house or a boat). At the same time, the yield on cash is also likely to remain near zero; it's all the more important to be thoughtful about how much you're holding onto—and the opportunity cost of doing so. Bottom line: monetary policy is one of the most important things for investors to consider, and right now, the Fed is your friend.

It seems more and more good news is being priced into markets. But all the euphoria has investors wondering if now is a good time to put money to work. Should you still invest at all-time highs?

Spotlight

Is it worth investing at all-time highs?

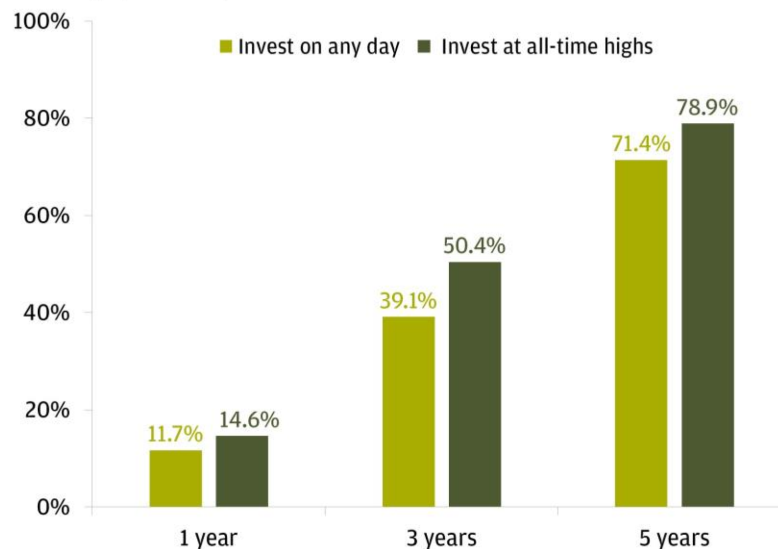
The market has run hard and fast over the past five months, rising +56% since the March lows. For investors sitting on cash, that may produce nervousness about getting invested today ("All the gains have been gotten, and I missed the opportunity."). If you fall in that camp, we have good news: **past performance is no guarantee of future results, but history suggests that now may be just as good of a time as any to put cash to work in the market** – especially if you're investing for the long run.

Don't believe us? Consider the facts gathered over the past 30+ years.

If you invested in the S&P 500 on any random day since the start of 1988 and reinvested all dividends, your investment made money over the course of the next year 83% of the time. On average, your one year total return was +11.7%.

Now, what do those figures look like if we only consider investments on days when the S&P 500 closed at an all-time high? **They're actually better!** Your investment made money over the course of the next year 88% of the time, and your average total return was +14.6%.

And if we look at cumulative total returns three or five years after the original investment, the takeaway is the same.



But what about the current risks? We're still dealing with the COVID-19 crisis, the election poses uncertainty, and so on…

There are (and always will be) reasons to feel anxious about the outlook for markets. But we continue to emphasize the importance of looking at the bigger and longer-term picture.

The U.S. economy is currently in recovery mode, which historically bodes well for risk asset returns. Furthermore, don't underestimate the power of Fed policy to support financial markets – as we mentioned above, we expect them to remain accommodative for the foreseeable future. And in terms of the election uncertainty, we discussed last week why we see potential for markets to continue to grind higher regardless of the outcome.

Markets can have bad weeks, months, and years, but the value of investments in the S&P 500 has risen over time. It may be prudent to adjust portfolio allocations to lean more heavily into areas of the market that stand to benefit in certain environments, or pare back positions that have exposure to negative dynamics. **Regardless, getting invested and staying invested is a simple step an individual can take towards growing their capital over time.**

Culture

The bears are at it again

And, actually no, we aren't talking about the stock market. **It's almost Fat Bear Week!** Every year, Katmai National Park and Preserve in Alaska livestreams its wild bears, who've grown rather rotund ahead of their winter snooze. Soon, thousands of folks like you and me will vote on our favorite plump grizzlies, who've gotten primed for the season by eating as much salmon as they can. While voting hasn't yet begun, fat bear enthusiasts are already teeming over a potential heavyweight champion—Katmai webcams just

caught an adult male bear (numbered 747, for your reference) that's grown *so hefty* he's having trouble walking up the river bank! And there's room to grow—the bears have about another month before the vote kicks off. Here's to the good kind of fat!

AUTHORS
ELYSE AUSENBAUGH | MADISON FALLER
MARKET STRATEGY & ADVICE, J.P. MORGAN PRIVATE BANK

The views, opinions, estimates and strategies expressed herein constitutes the author's judgment based on current market conditions and are subject to change without notice, and may differ from those expressed by other areas of J.P. Morgan. This information in no way constitute J.P. Morgan Research and should not be treated as such. You should carefully consider your needs and objectives before making any decisions. For additional guidance on how this information should be applied to your situation, you should consult your advisor.

In general, the bond market is volatile and bond prices rise when interest rates fall and vice versa. Longer term securities are more prone to price fluctuation than shorter term securities. Any fixed income security sold or redeemed prior to maturity may be subject to substantial gain or loss. Dependable income is subject to the credit risk of the issuer of the bond. If an issuer defaults no future income payments will be made.

The price of equity securities may rise or fall due to the changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Equity securities are subject to 'stock market risk' meaning that stock prices in general may decline over short or extended periods of time.

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. Investments in emerging markets can be more volatile.

Asset allocation and diversification do not guarantee investment returns and do not eliminate the risk of loss.
Past performance is not a guarantee of future results.

Not all investment ideas referenced are suitable for all investors. Investing involves market risk, including the possible loss of principal. There is no guarantee that investment objectives will be reached. Diversification does not guarantee a profit or protect against a loss.
Opinions and estimates offered constitute our judgment as of the date of this material and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described herein may not be suitable for all investors. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, accounting, legal or tax advice. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

Investment products and services are offered through J.P. Morgan Securities LLC (JPMS), a registered broker-dealer and investment advisor, member of FINRA and SIPC. Annuities are made available through Chase Insurance Agency, Inc. (CIA), a licensed insurance agency, doing business as Chase Insurance Agency Services, Inc. in Florida. JPMS, CIA and J.P. Morgan Chase Bank, N.A. are affiliated companies under the common control of JPMorgan Chase & Co. Products not available in all states.

Company names for illustrative purposes only

© 2020 JPMorgan Chase & Co.