Principles for successful long-term investing

Using Market Insights to achieve better outcomes

Max McKechnie, Global Market Strategist

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The key to successful investing isn't predicting the future, it's learning from the past and understanding the present. In "Principles for successful long-term investing", we present seven time-tested strategies for guiding portfolios through today's challenging markets and towards tomorrow's goals.

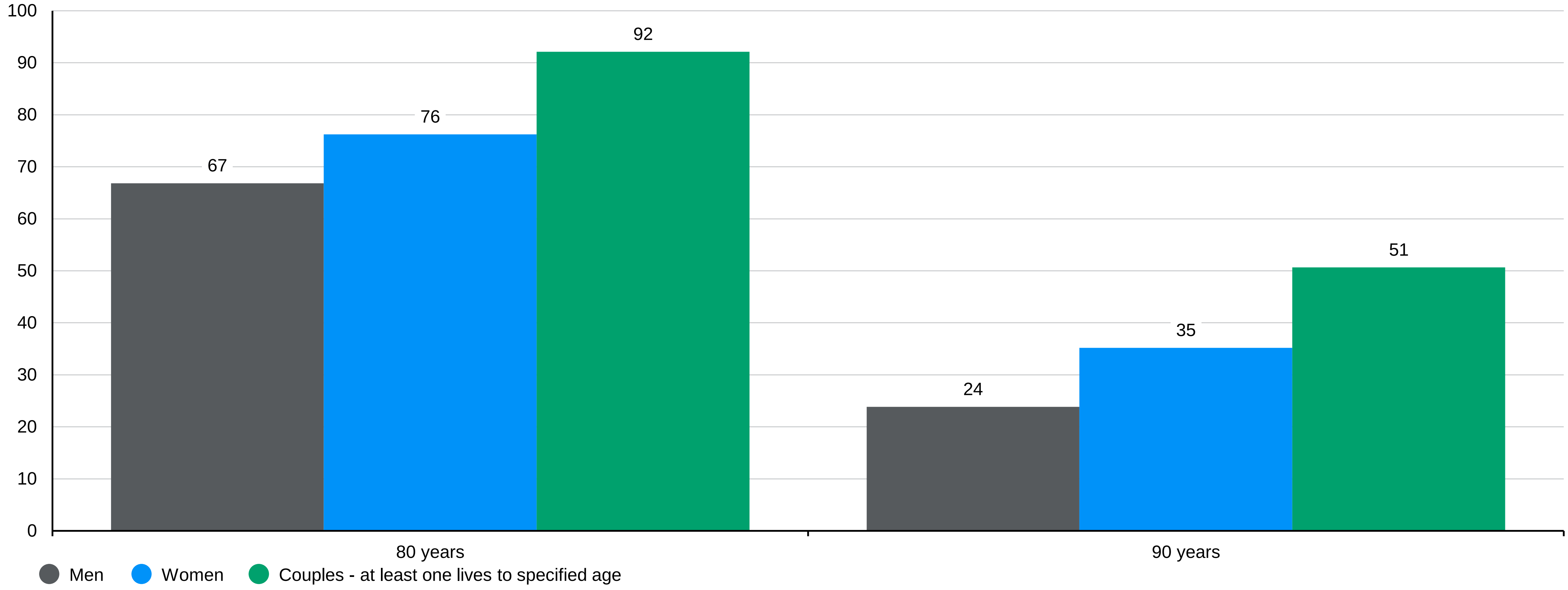
Principles for successful long-term investing

1. Plan on living a long time
2. Cash is rarely king
3. Start early and reinvest income
4. Returns and risks generally go hand in hand
5. Volatility is normal
6. Timing the market is difficult
7. Diversification works

1 Plan on living a long time

Probability of reaching ages 80 and 90

% probability, persons aged 65, by gender and combined couple

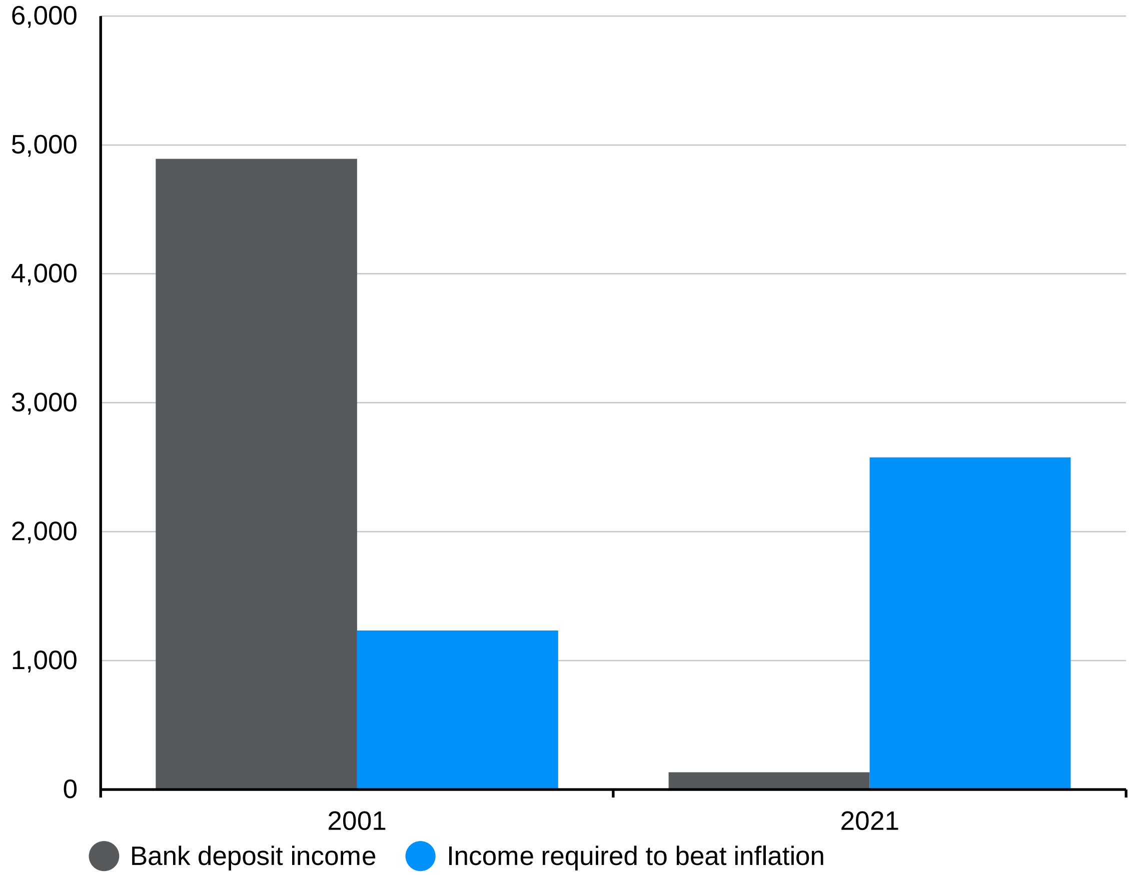


Investing principles

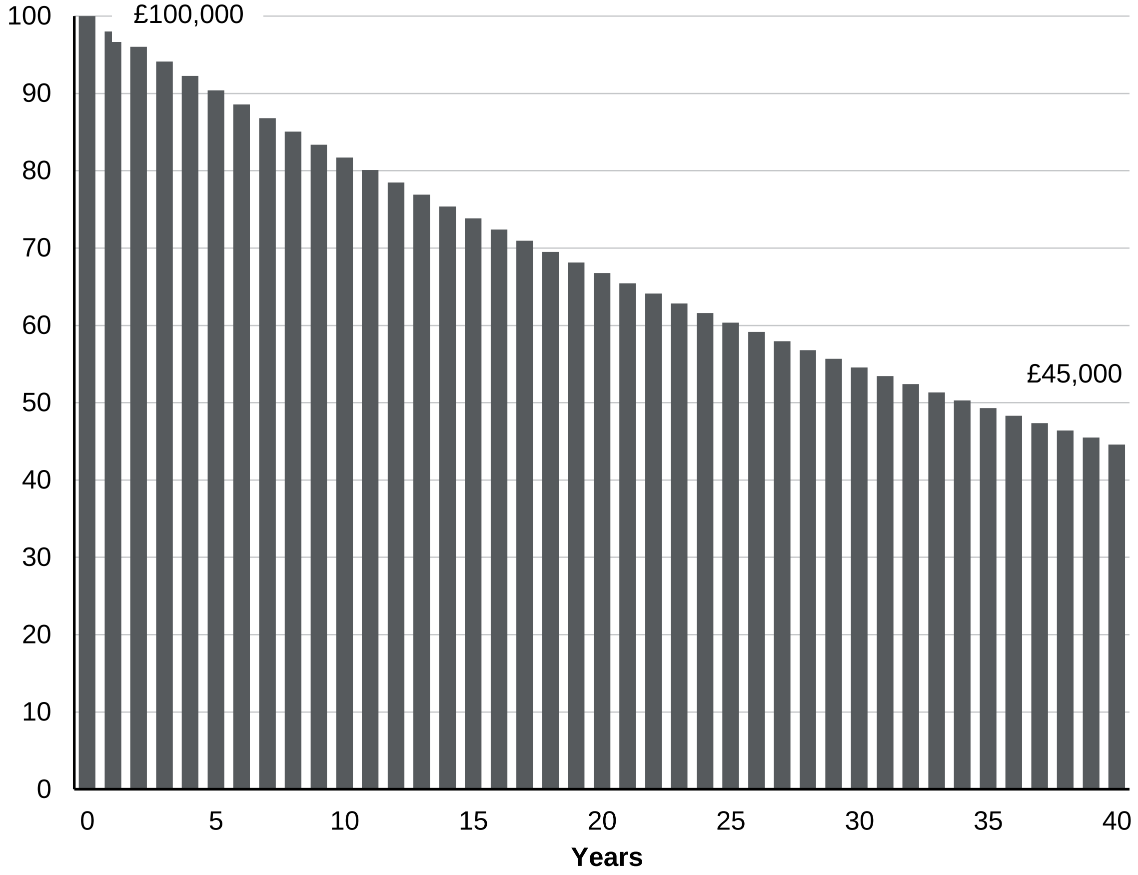
Source: ONS 2018-2020 Life Tables, J.P. Morgan Asset Management. *Guide to the Markets - UK*. Data as of 30 September 2022.

2 Cash is rarely king (part 1)

Income generated by £100,000 in a three-month bank deposit
GBP



Effect of 2% inflation on purchasing power of £100,000
GBP, thousands



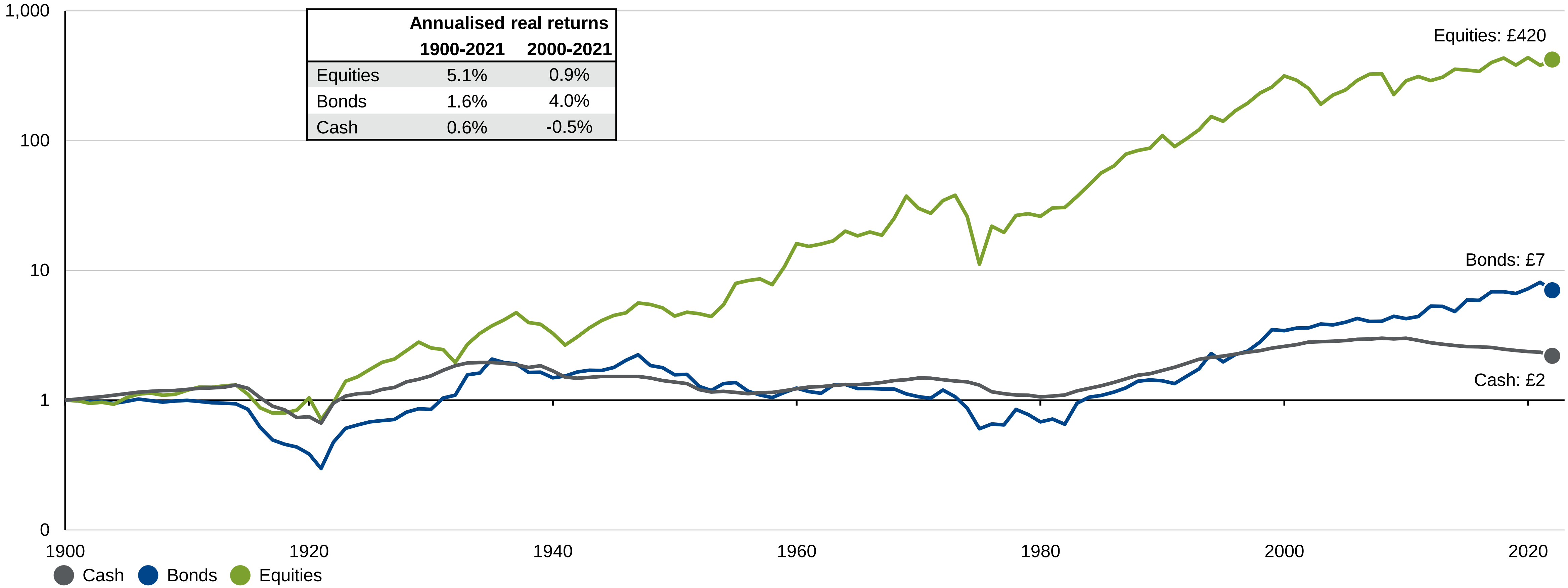
Source: (Left) ONS, Refinitiv Datastream, J.P. Morgan Asset Management. Data shown are averages over the course of the calendar year.
(Right) J.P. Morgan Asset Management. For illustrative purposes only, assumes no return on cash and an inflation rate of 2%. Past performance is not a reliable indicator of current and future results.
Guide to the Markets - UK. Data as of 30 September 2022.

2 Cash is rarely king (part 2)

Total return of £1 in real terms

GBP, log scale for total returns

	Annualised real returns	
	1900-2021	2000-2021
Equities	5.1%	0.9%
Bonds	1.6%	4.0%
Cash	0.6%	-0.5%



Source: Bloomberg, Bloomberg Barclays, Dimson, FactSet, FTSE, J.P. Morgan, Marsh and Staunton ABN AMRO/LBS Global Investment Returns calculated from the Yearbook 2008, J.P. Morgan Asset Management. Equities: FTSE 100; Bonds: JPMorgan GBP Government Bond Index; Cash: three-month GBP LIBOR (prior to 2008 cash is short-dated Treasury bills). Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.* Data as of 30 September 2022.

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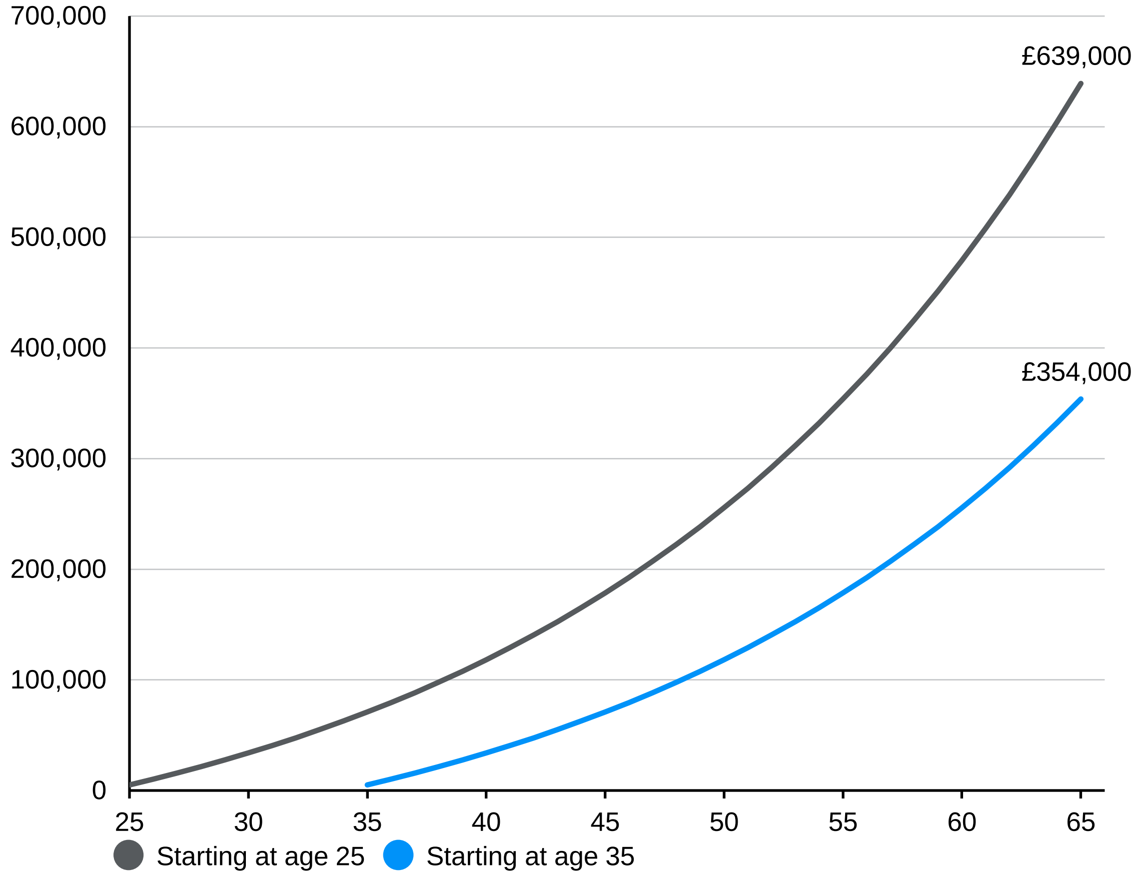
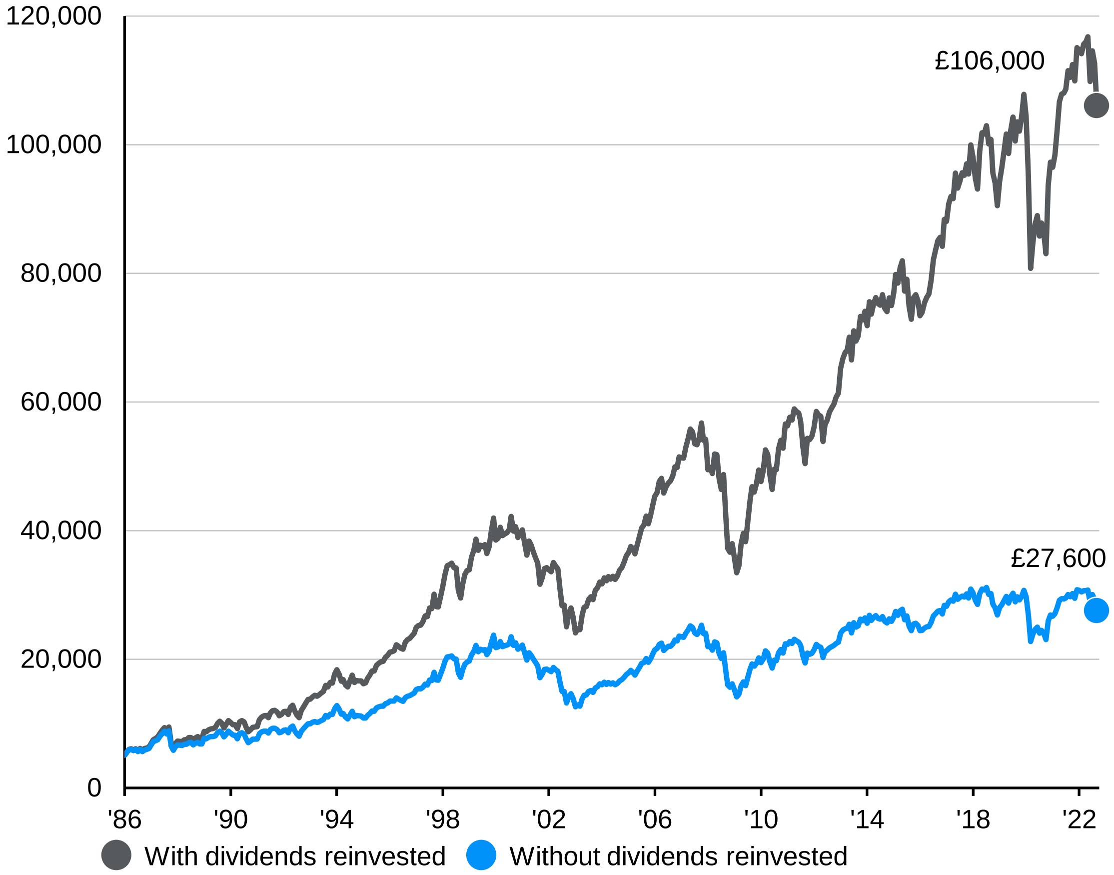
3 Start early and reinvest income

£5,000 invested annually with 5% growth per year
GBP



£5,000 investment with/without income reinvested
GBP, FTSE All-Share returns



Source: (Left) J.P. Morgan Asset Management. For illustrative purposes only, assumes all income reinvested, actual investments may incur higher or lower growth rates and charges. (Right) Bloomberg, FTSE, J.P. Morgan Asset Management. Based on FTSE All-Share Index and assumes no charges. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 30 September 2022.

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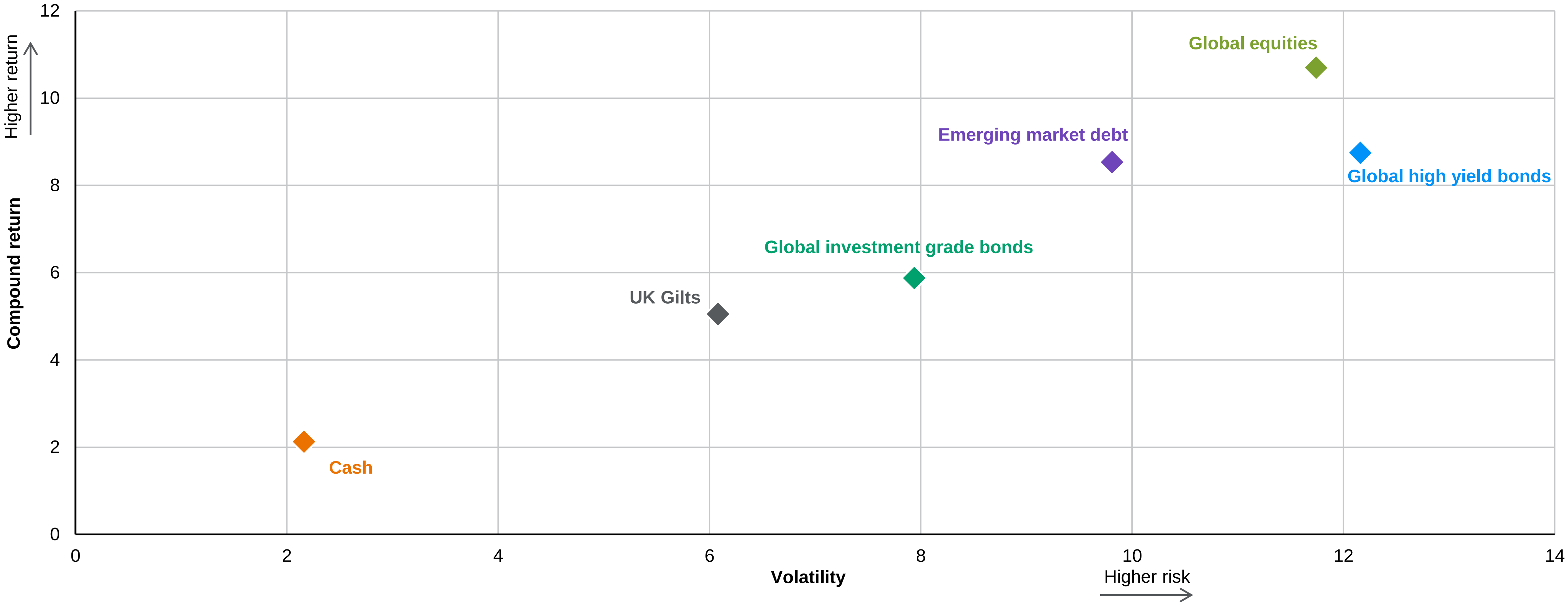
4 Returns and risk generally go hand in hand

Historic risk vs. return for selected asset classes
%, annualised return 2004 – 2021 in GBP



Source: Bloomberg Barclays, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Volatility is the standard deviation of annual returns since 2004. Cash: JP Morgan Cash United Kingdom (3M); UK Gilts: Bloomberg Barclays Sterling Gilts; Global investment-grade bonds: Bloomberg Barclays Global Aggregate – Corporate; Emerging market debt: J.P. Morgan EMBI Global Diversified; Global high yield bonds: ICE BofA Global High Yield; Global equities: MSCI All-Country World Index (includes developed and emerging markets). Past performance is not a reliable indicator of current and future results.
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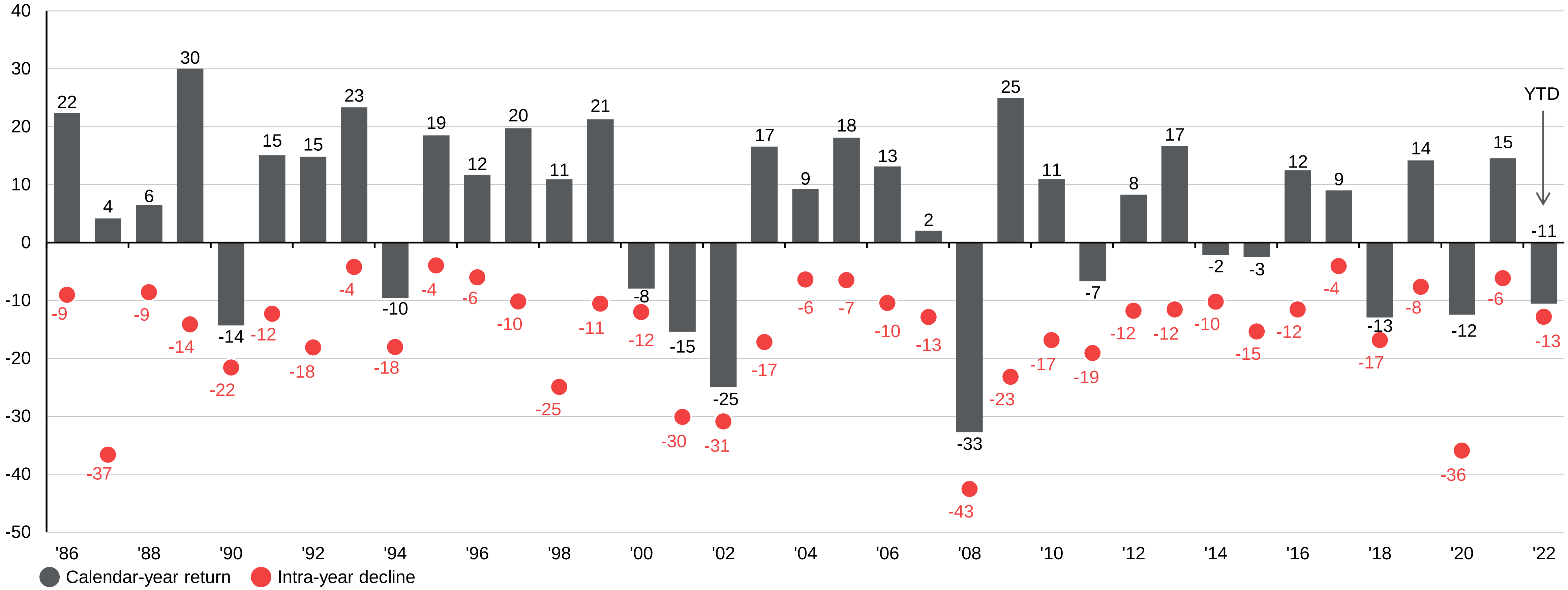
Volatility is normal

FTSE All-Share intra-year declines vs. calendar-year returns

%; despite average intra-year drops of 15.5% (median 12.2%), annual returns are positive in 25 of 36 years



Source: FTSE, Refinitiv Datastream, J.P Morgan Asset Management. Returns shown are price returns in GBP. Intra-year decline refers to the largest market fall from peak to trough within the calendar year. Returns shown are calendar years from 1986 to 2021. 2022 is year-to-date. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*.
Data as of 30 September 2022.

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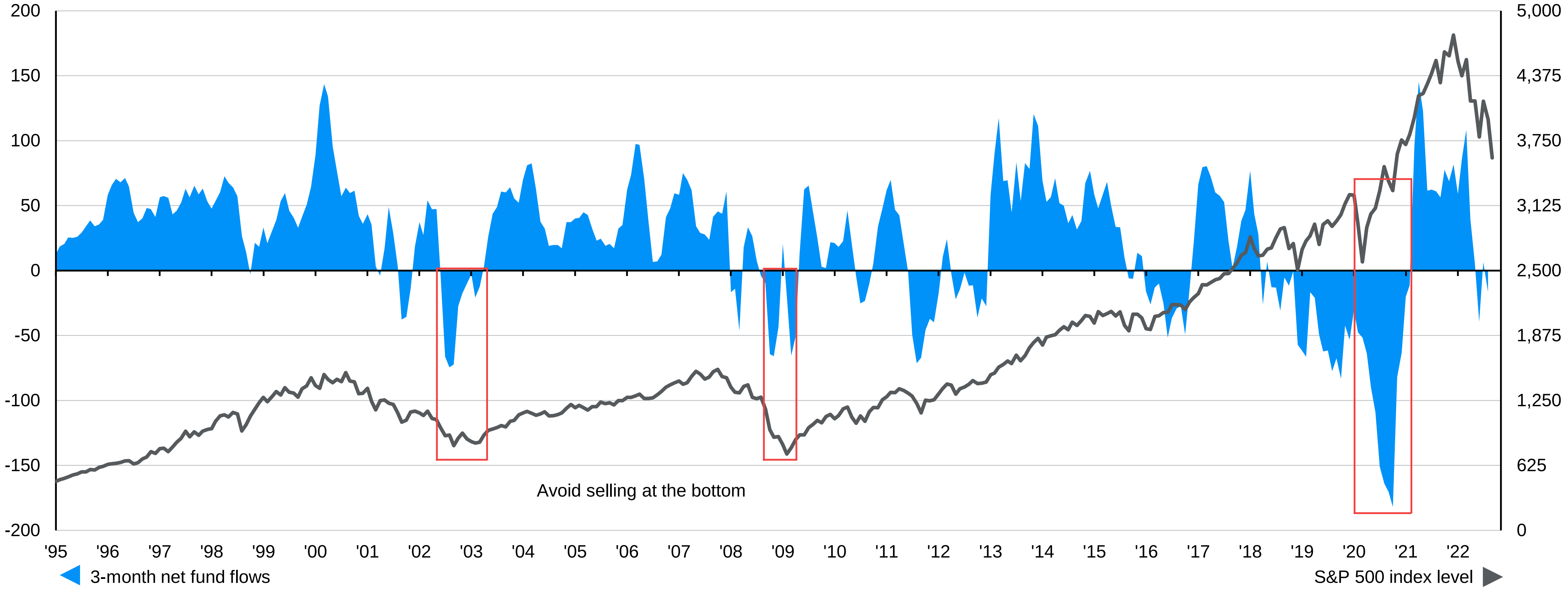
Timing the market is difficult (part 1)

US mutual fund and ETF flows and S&P 500

USD billions, three-month net flows (LHS); index level (RHS)



Investing principles

Source: Investment Company Institute, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management. Fund flows are US long-term equity fund flows with ETF flows included from 2006 onwards. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.* Data as of 30 September 2022.

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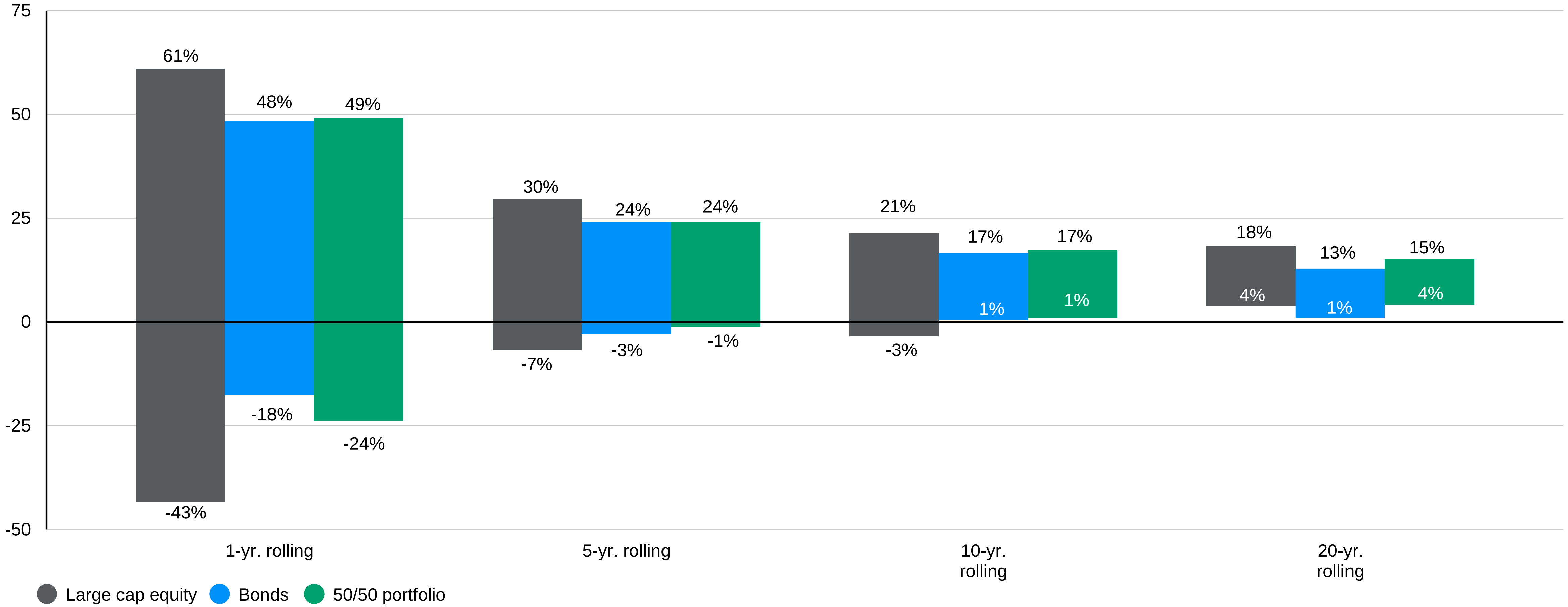
6 Timing the market is difficult (part 2)

Range of equity and bond total returns

%, annualised total returns, 1950-present



Investing principles

Source: Strategas/Ibbotson, J.P. Morgan Asset Management. Large cap equity represents the S&P 500 Composite and Bonds represents the Strategas/Ibbotson US Government Bond Index and US Long-term Corporate Bond Index. Returns shown are per annum and are calculated based on monthly returns from 1950 to latest available and include dividends. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.* Data as of 30 September 2022.

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7 Diversification works

2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	Q3 '22	10-year ann. return	Vol.
DM equities 25.0%	REITs 35.1%	REITs 8.2%	HY bonds 36.9%	EM equities 25.8%	Govt bonds 5.8%	DM equities 23.4%	EM equities 15.0%	REITs 41.2%	Cmdty 32.1%	Hedge funds 9.4%	DM equities 14.9%	Cmdty 16.6%
Portfolio 6.0%	EMD 14.1%	EMD 7.0%	Cmdty 33.3%	DM equities 12.4%	HY bonds 2.7%	REITs 23.1%	DM equities 12.9%	Cmdty 28.3%	Hedge funds 5.9%	HY bonds 6.0%	REITs 13.6%	REITs 16.1%
HY bonds 6.0%	DM equities 12.1%	DM equities 5.5%	EM equities 33.1%	Portfolio 5.6%	IG bonds 2.4%	EM equities 14.3%	Portfolio 7.1%	DM equities 23.5%	Cash -0.1%	Cmdty 4.3%	Portfolio 8.3%	EM equities 13.8%
Hedge funds 4.7%	IG bonds 9.6%	Govt bonds 2.3%	EMD 31.4%	EMD 0.7%	REITs 1.9%	Portfolio 12.6%	IG bonds 7.0%	Portfolio 9.7%	Govt bonds -5.0%	EMD 3.8%	HY bonds 8.0%	HY bonds 10.2%
REITs 1.3%	Portfolio 8.8%	IG bonds 2.0%	REITs 30.4%	HY bonds 0.6%	EMD 1.7%	EMD 10.6%	Govt bonds 6.1%	Hedge funds 4.6%	Portfolio -5.3%	DM equities 2.2%	EM equities 7.3%	EMD 10.2%
Cash 0.5%	HY bonds 6.1%	Hedge funds 1.9%	DM equities 29.0%	Cash 0.4%	Cash 0.9%	HY bonds 9.3%	HY bonds 4.7%	HY bonds 2.3%	IG bonds -5.8%	Portfolio 1.8%	EMD 6.7%	DM equities 9.3%
IG bonds -1.5%	Hedge funds 5.6%	HY bonds 1.4%	Portfolio 27.0%	REITs -0.2%	Portfolio -0.5%	IG bonds 7.2%	Hedge funds 3.5%	Cash 0.1%	HY bonds -7.1%	IG bonds 1.8%	IG bonds 5.3%	Govt bonds 7.6%
EM equities -4.1%	Govt bonds 5.4%	Portfolio 1.2%	IG bonds 24.4%	IG bonds -0.4%	Hedge funds -0.9%	Hedge funds 4.4%	EMD 2.0%	EMD -0.9%	EM equities -8.0%	Govt bonds 0.6%	Hedge funds 4.0%	IG bonds 7.3%
Govt bonds -6.1%	EM equities 4.3%	Cash 0.7%	Hedge funds 22.3%	Govt bonds -2.0%	DM equities -2.5%	Cmdty 3.5%	Cash 0.6%	EM equities -1.3%	REITs -10.0%	Cash 0.0%	Govt bonds 2.3%	Portfolio 7.1%
EMD -7.0%	Cash 0.6%	EM equities -9.7%	Govt bonds 21.3%	Hedge funds -3.2%	Cmdty -5.7%	Govt bonds 1.5%	Cmdty -6.1%	IG bonds -2.0%	DM equities -11.1%	REITs -3.4%	Cash 0.7%	Hedge funds 6.7%
Cmdty -11.2%	Cmdty -11.8%	Cmdty -20.3%	Cash 0.7%	Cmdty -7.1%	EM equities -8.9%	Cash 1.0%	REITs -8.8%	Govt bonds -5.7%	EMD -11.1%	EM equities -3.6%	Cmdty -1.5%	Cash 0.3%

Source: Bloomberg Barclays, FTSE, J.P. Morgan Economic Research, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Annualised return and volatility covers the period from 2012 to 2021. Vol. is the standard deviation of annual returns. Govt bonds: Bloomberg Barclays Global Aggregate Government Treasuries; HY bonds: ICE BofA Global High Yield; EMD: J.P. Morgan EMBI Global Diversified; IG bonds: Bloomberg Barclays Global Aggregate – Corporates; Cmdty: Bloomberg Commodity; REITs: FTSE NAREIT All REITS; DM equities: MSCI World; EM equities: MSCI EM; Hedge funds: HFRI Global Hedge Fund Index; Cash: JP Morgan Cash United Kingdom (3M). Hypothetical portfolio (for illustrative purposes only and should not be taken as a recommendation): 30% DM equities; 10% EM equities; 15% IG bonds; 12.5% government bonds; 7.5% HY bonds; 5% EMD; 5% commodities; 5% cash; 5% REITs and 5% hedge funds. All returns are total return, in GBP, and are unhedged. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.* Data as of 30 September 2022.

Market Insights

Guide to the Markets

Max McKechnie, Global Market Strategist

October 2022

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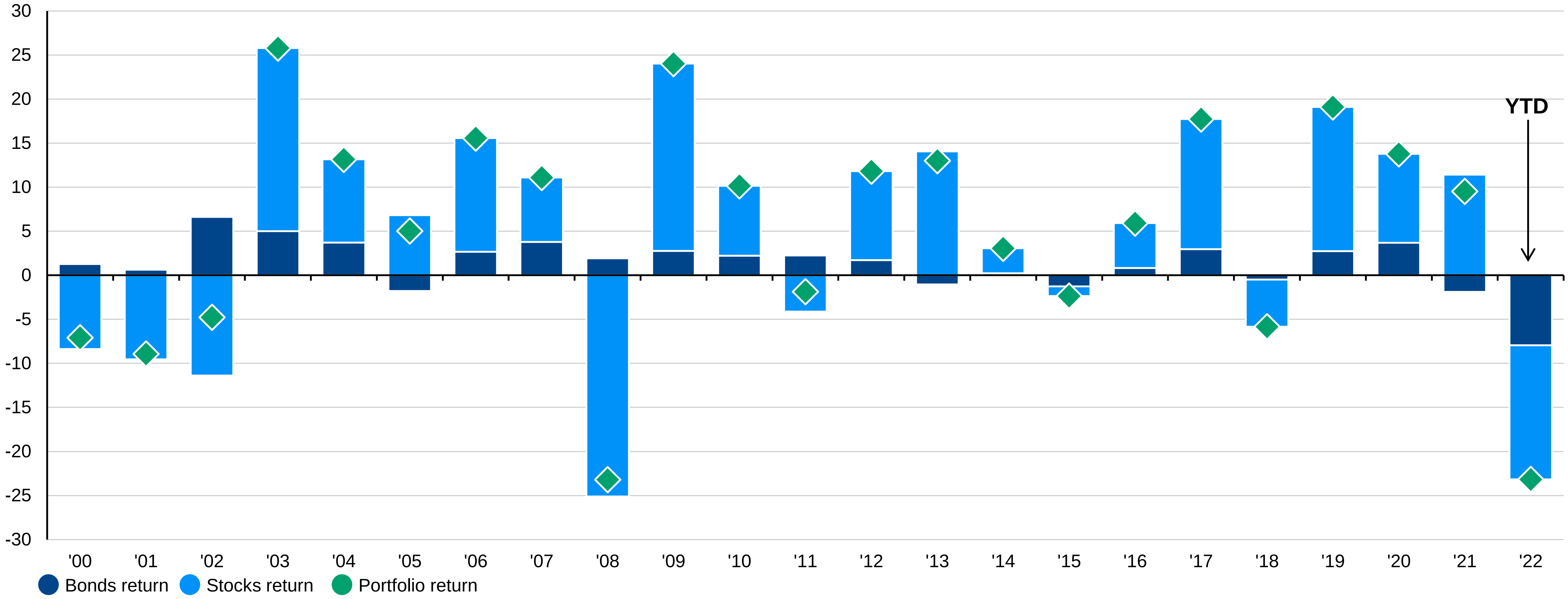
2022 has been a tough year for investors

Annual returns in a 60/40 stock-bond portfolio

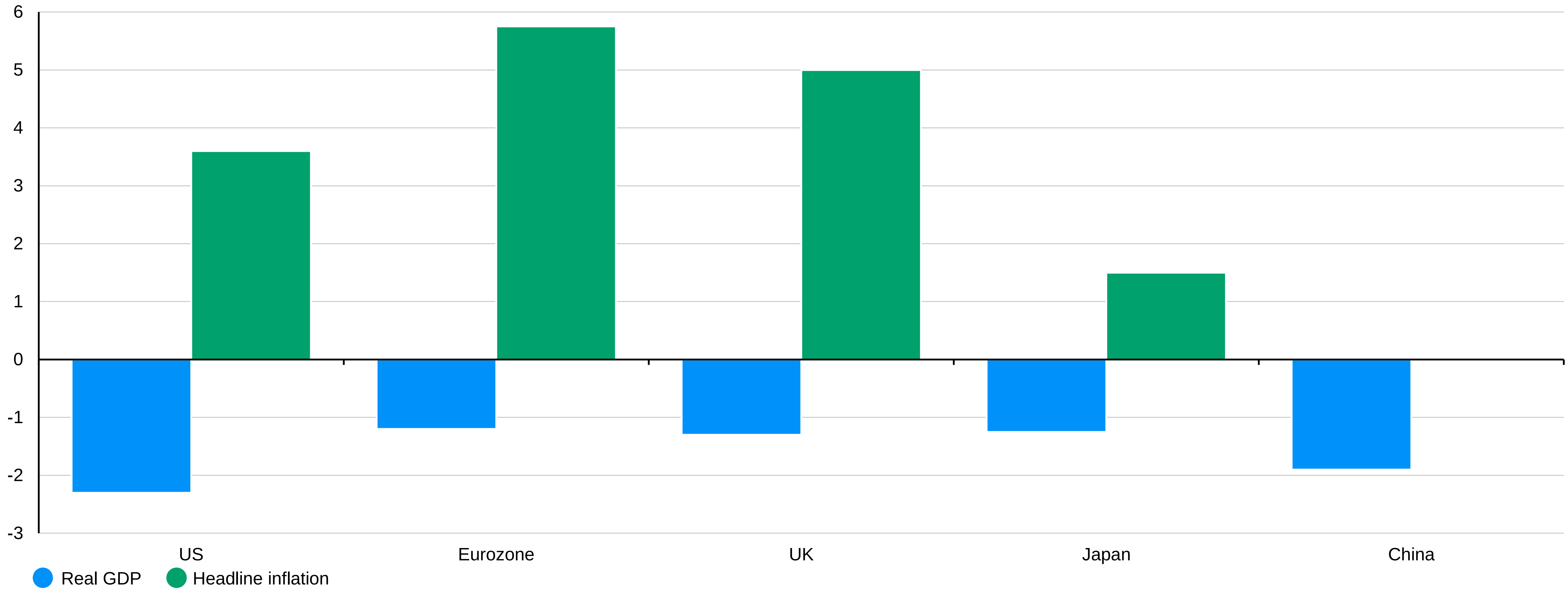
%, total return in USD



Source: Bloomberg Barclays, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Stock returns are calculated using MSCI All-Country World Index and bond returns using Bloomberg Barclays Global Aggregate. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 30 September 2022.

Growth downgrades and inflation upgrades have been a painful mix.

Year-to-date change in 2022 growth and inflation consensus forecasts
% point change in year over year measures

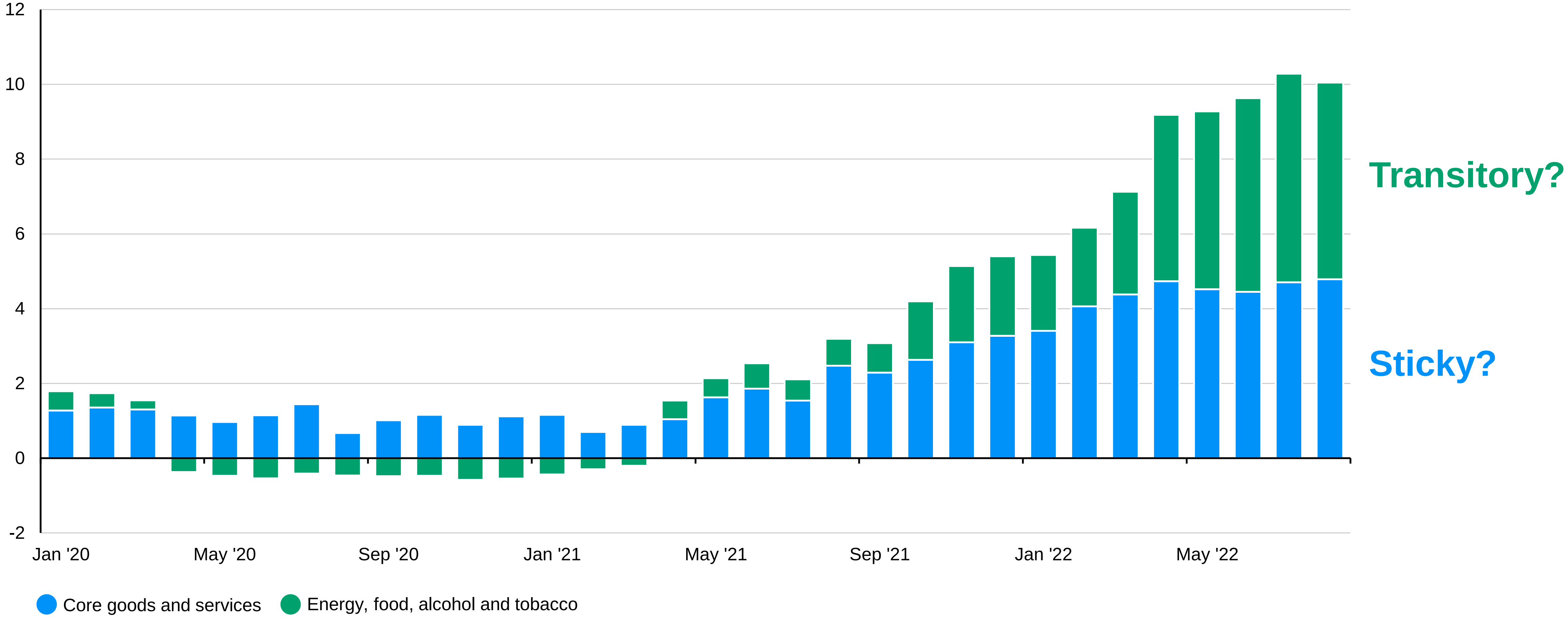


Source: Bloomberg, J.P. Morgan Asset Management. Forecasts are from Bloomberg contributor composite. Data as of 11 October 2022.

The broadening of inflationary pressures is still a major concern

UK headline inflation breakdown

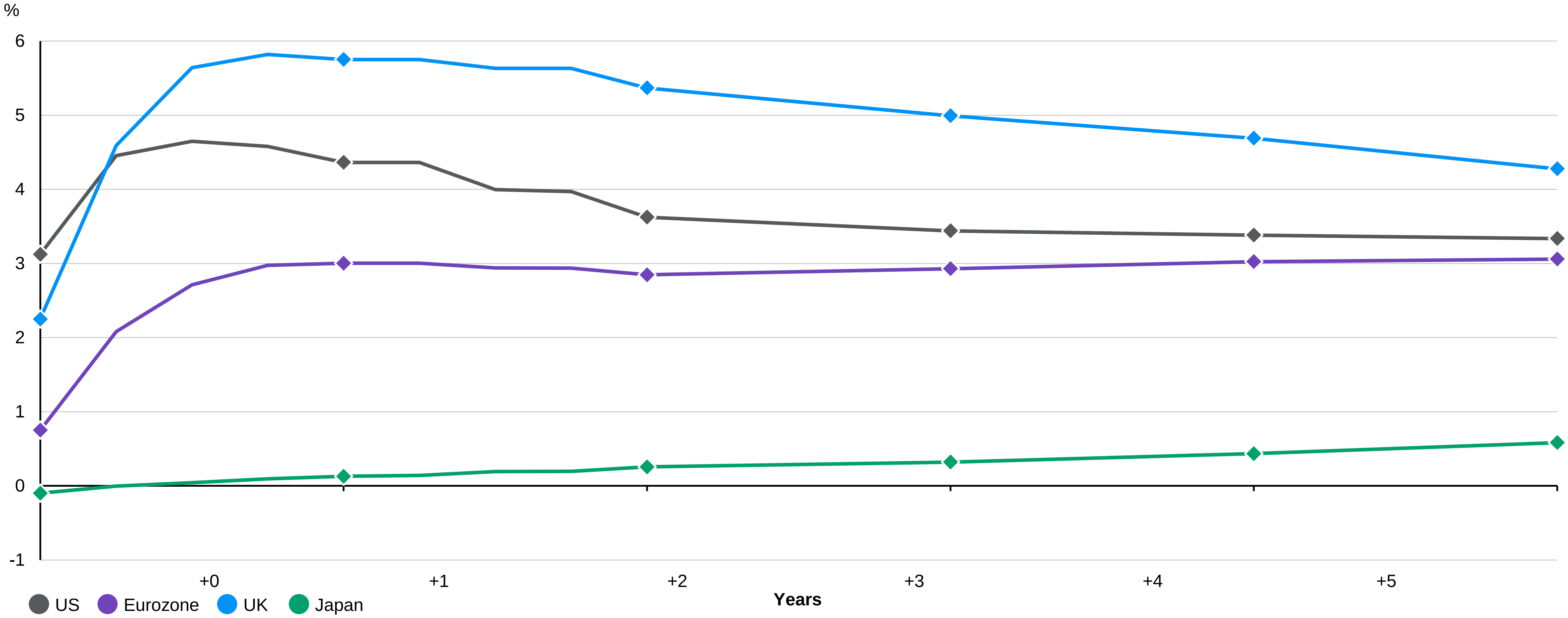
% change year on year



Source: ONS, Refinitiv Datastream, J.P. Morgan Asset Management. Data as of 30 September 2022.

Central banks have been forced to respond

Market expectations for central bank policy rates

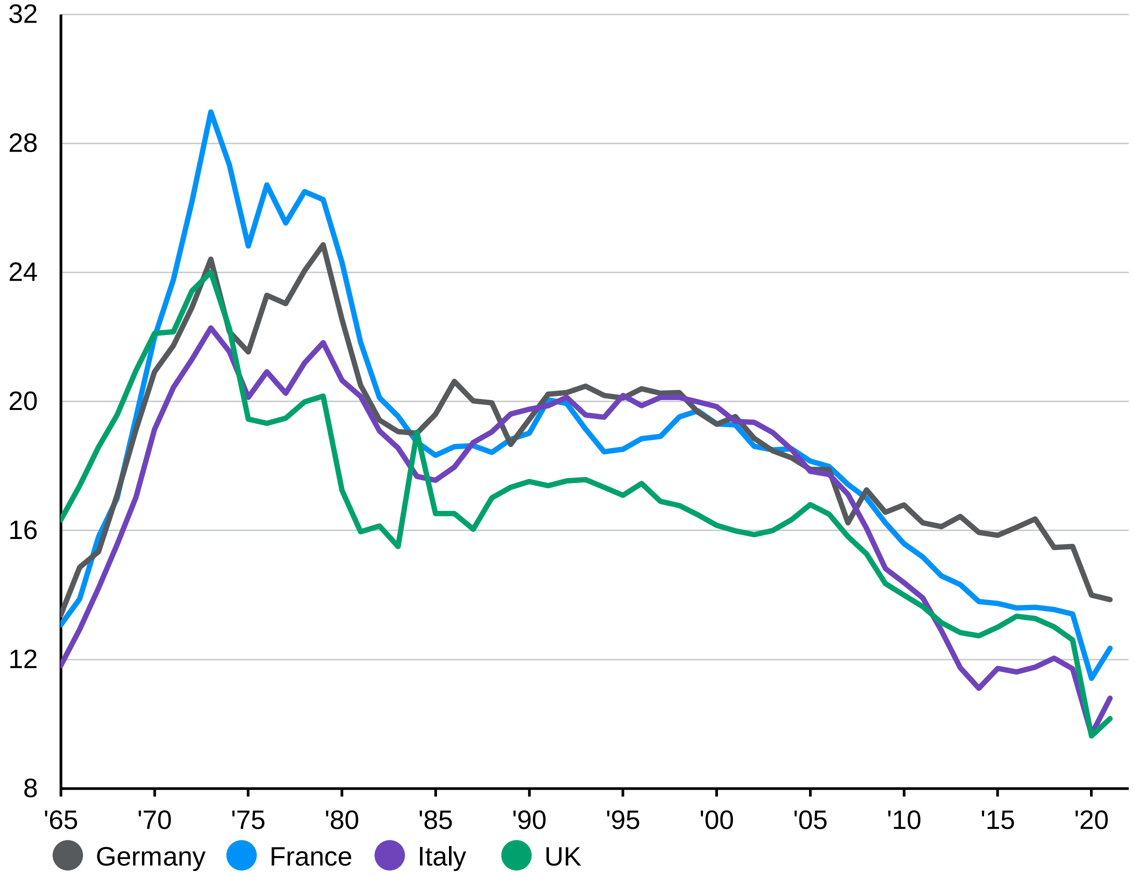


Source: Bloomberg, J.P. Morgan Asset Management. Expectations are calculated using OIS forwards. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 11 October 2022.

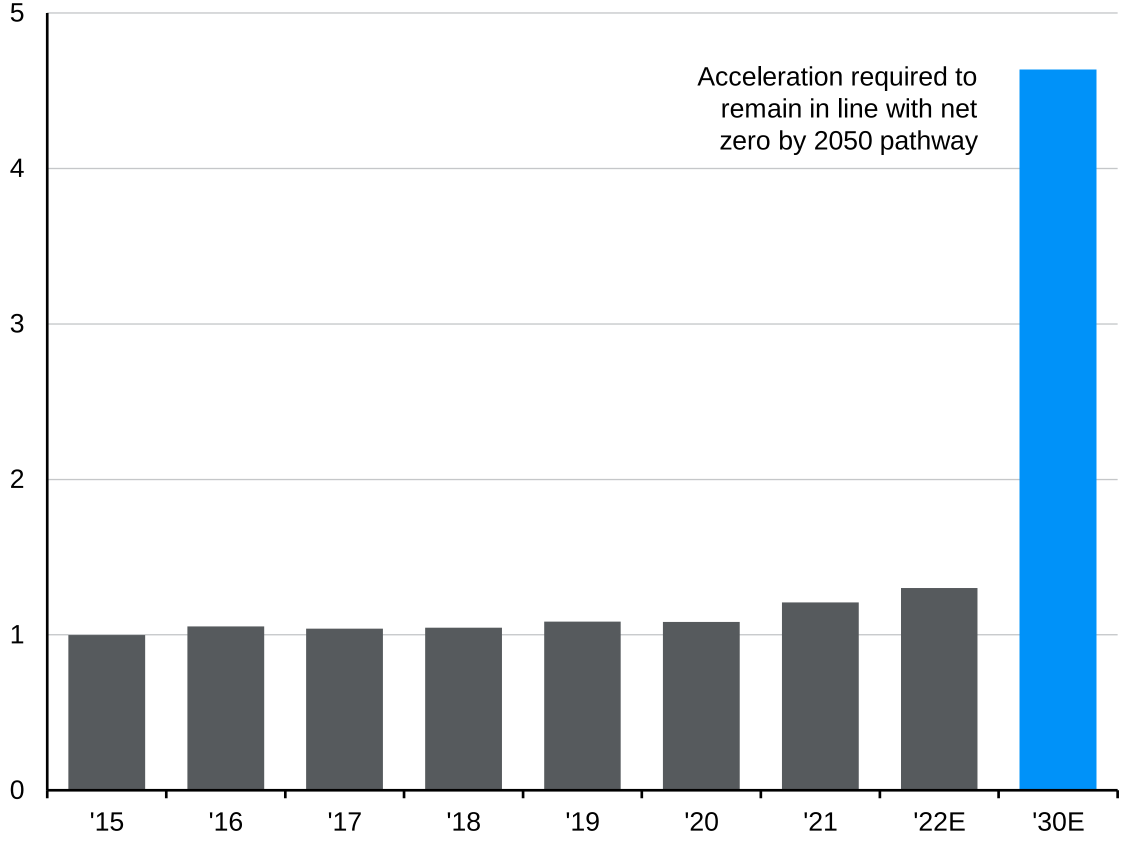
ESG

Crises can catalyse change… and this may offer opportunity

% of primary energy consumption
GWh per year



Global investment in clean energy and energy efficiency
USD trillions



Source: Our World in Data, J.P. Morgan Asset Management. GWh is gigawatt hours. (Right) International Energy Agency, J.P. Morgan Asset Management. Historical investment figures taken from World Energy Investment (2022) report. 2030 forecast taken from Net Zero by 2050 (2021) report. For illustrative purposes only. *Guide to the Markets - UK*. Data as of 30 September 2022.

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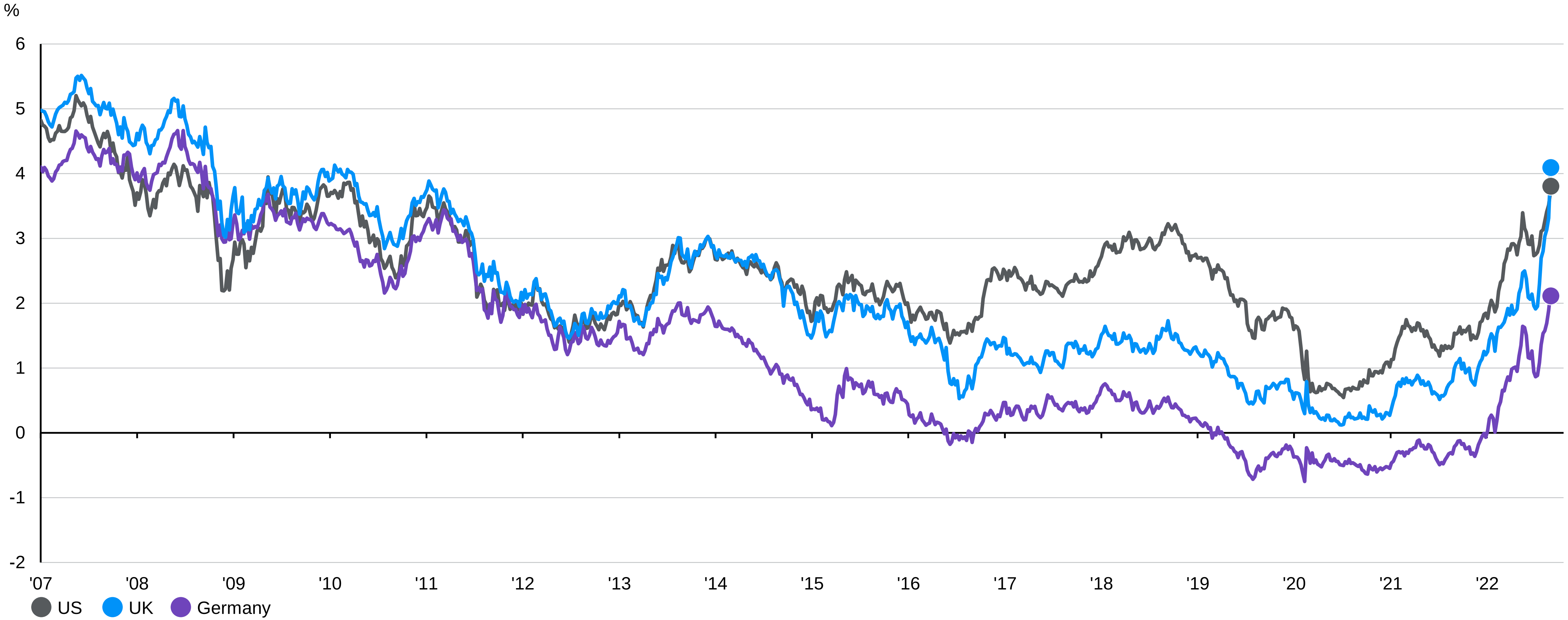
Fixed Income

A lot of value has been restored in fixed income

Nominal 10-year government bond yields

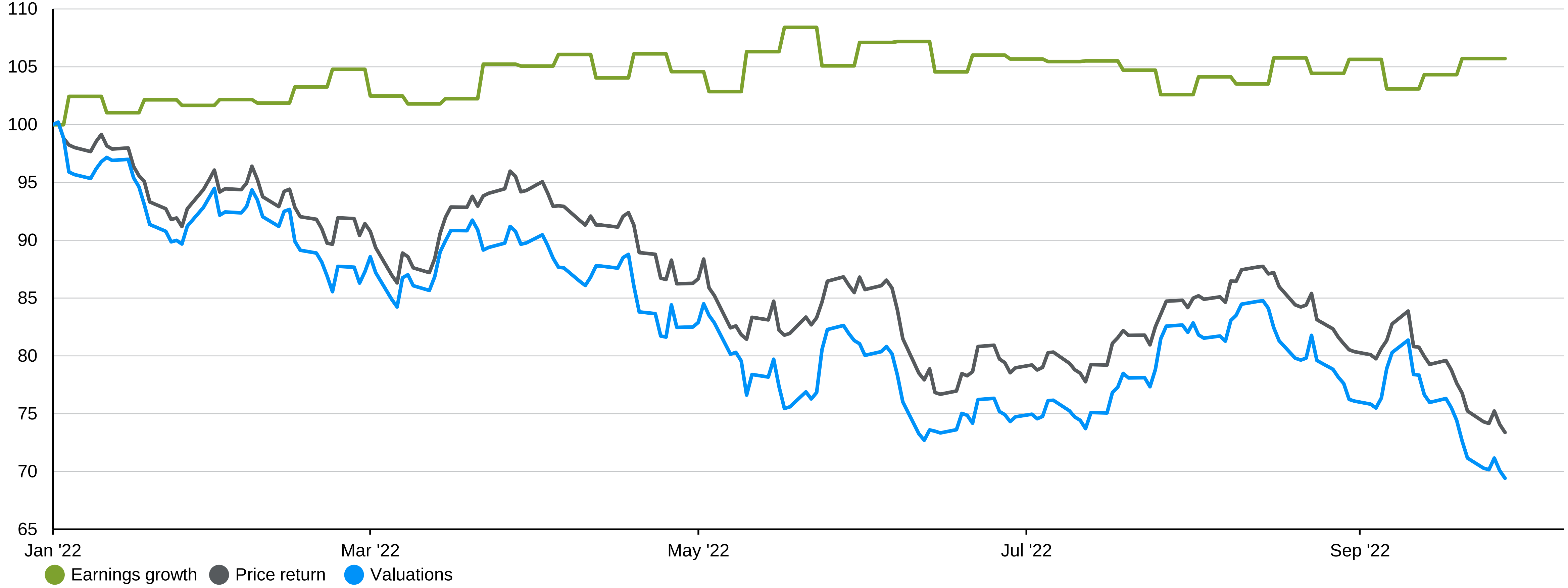


Source: Refinitiv Datastream, J.P. Morgan Asset Management. 10-year breakeven represents the difference in yield between nominal and inflation-protected government bonds, and is a market-based measure of average inflation expectations over the next 10 years. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.* Data as of 30 September 2022.

This has hurt equity valuations

MSCI World earnings, valuations and returns

MSCI World earnings growth and price return



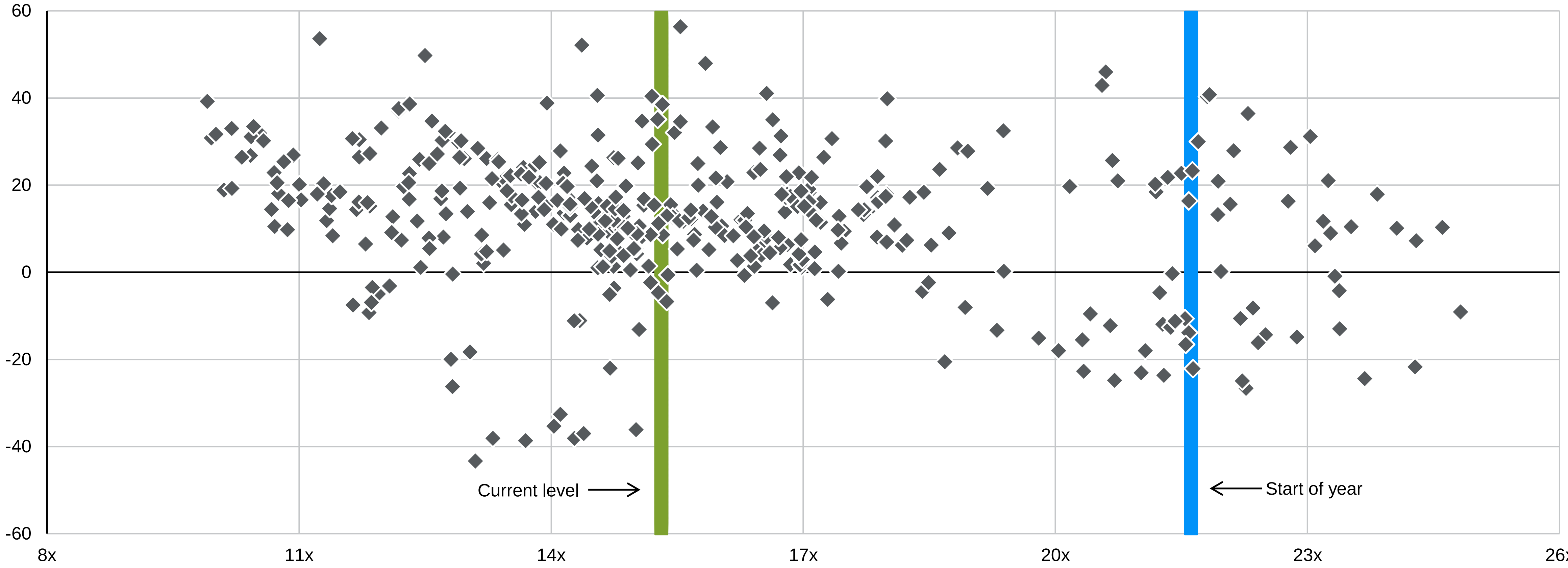
Source: MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. Earnings and valuations are based on 12-month forward earnings expectations. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK.* Data as of 30 September 2022.

In the short term this doesn't necessarily mean much

Equities

S&P 500 forward P/E ratios and subsequent 1-year returns

%, annualised total return*



Source: IBES, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management. *Dots represent monthly data points since 1988, which is earliest available. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 30 September 2022.

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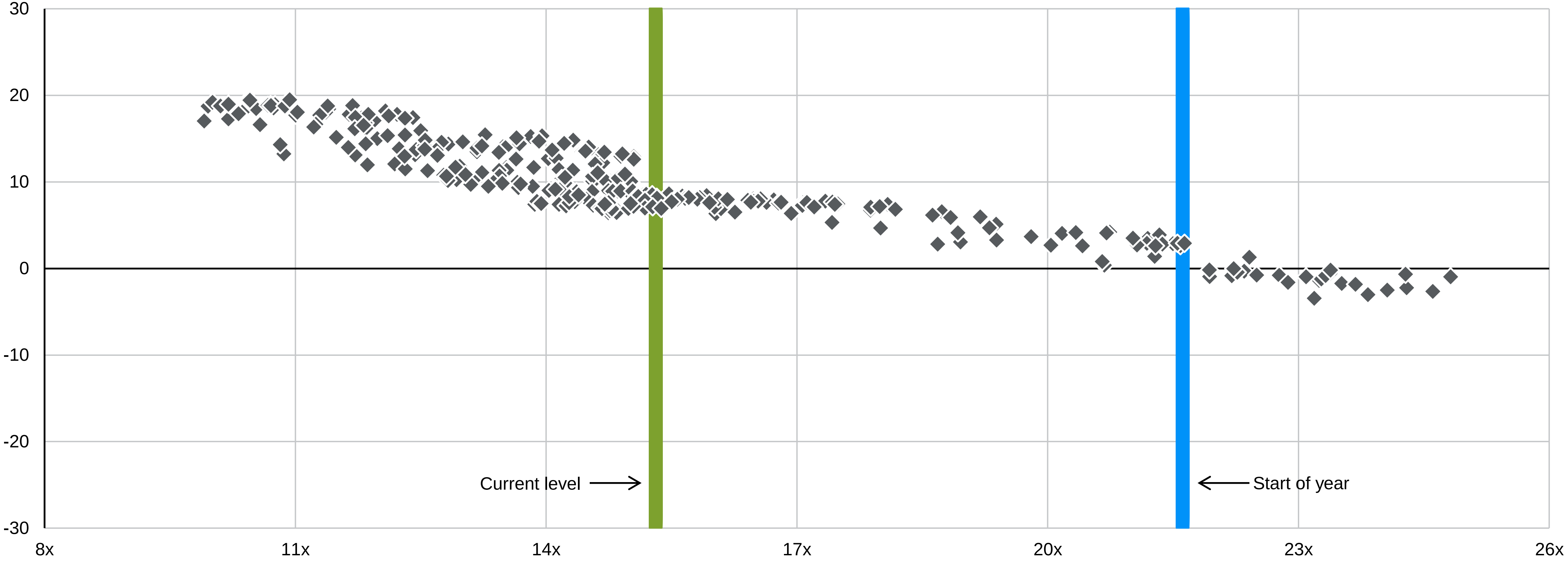
Equities

But for longer term investors potential returns look more compelling

S&P 500 forward P/E ratios and subsequent 10-year returns

%, annualised total return*



Source: IBES, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management. *Dots represent monthly data points since 1988, which is earliest available. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 30 September 2022.

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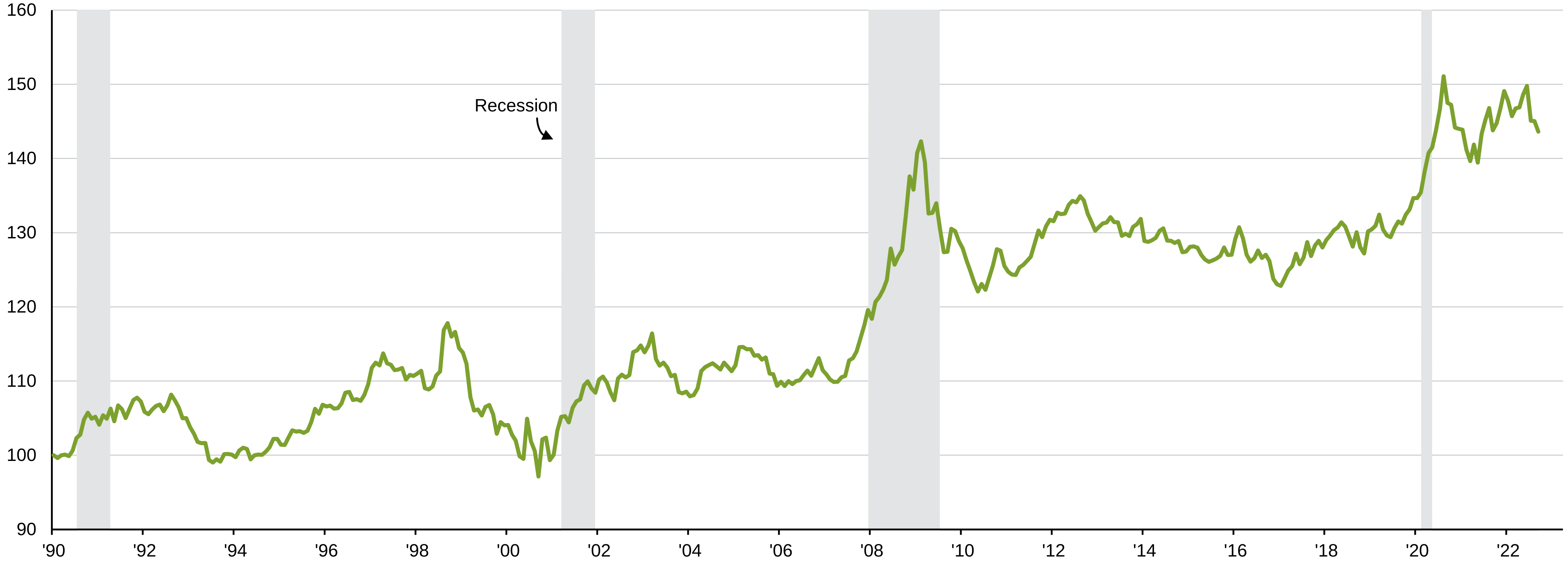
Equities

In the new cycle “quality” characteristics should be well rewarded

S&P 500 Quality/S&P 500 relative performance

Relative total return index level, rebased to 100 in 1990



Source: J.P. Morgan Asset Management Quantitative Beta Solutions, Standard & Poor’s, J.P. Morgan Asset Management. S&P 500 Quality index is the top quartile quality stocks in the S&P 500 determined by JPMAM Quantitative Beta Strategies based on measures of profitability, financial risk and earnings quality. Periods of “recession” are defined using US National Bureau of Economic Research (NBER) business cycle dates. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 30 September 2022.

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Key takeaways

1. **Returns in 2022 are highly unusual relative to history**
2. **Crises can be a catalyst for change**
3. **A new playbook for a new cycle**

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Unless otherwise stated, all data as of 11 October 2022 or most recently available.
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