J.P.Morgan
ASSET MANAGEMENT

Strategic Investment Advisory Group

AI-conscious asset allocation: Portfolio construction in a capital investment boom



A quick summary (TL;DR)

It's a boom, not a bubble	We are living through the largest and most rapid capital investment boom in history
Opportunity and disruption go hand-in-hand	All capital investment booms involve the displacement of prior models of economic activity
It's still early in the process	The technology is still evolving and build-out is just getting rolling
History suggests competition is risky	Prior booms in which firms competed for technological dominance saw major disruption
The cost of the build-out is massive	Capital markets are "all hands on deck" and hyperscalers are the credit backstop
Monopolies don't innovate, but they can pay	After the build out, ongoing capital expenditure needs are usually significant
Competition is great for end users	Technical innovation and price competition drive higher levels of adoption
Think of three investment phases	First, picks and shovels. Second, winners and losers. Third, the global user base.
Winners and loser from AI disruption	Active management requires a framework for judging winners and losers
The scale of AI overwhelms asset classes	Reconsider asset classes as a spectrum of AI intensity, and look for defensive assets

Source: J.P. Morgan Asset Management; data as of July 31, 2026. For illustrative purposes only.

Three broad investment themes

The scale and dynamic nature of the AI boom requires a thoughtful approach to portfolio construction

1

Lean into core AI technology with a targeted, active approach to public equity, venture capital and private growth equity.

2

AI risk is present in many places and difficult to measure. Use the full allocation to spread out AI exposure across asset classes.

3

Reconsider past assumptions about portfolio risk diversification and seek clearly defined AI-defensive exposures.

Opinions and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. The views and strategies described may not be suitable for all investors.

Common attributes of past capex booms are relevant today

Key elements of historical capital investment booms

	Railroad network	Telephone network	Petroleum refining and distribution	Interstate Highway System	Fiber optic cable network
Timing	1830s to 1880s	1870s to 1930s	1860s to 1920s	1950s to 1990s	1990s to 2000s
Key industries displaced	• Horses • Carriages • Ships • Canals	• Mail • Telegraph	• Whaling • Transport (later)	• Railroads • Regional transit	• Copper wire • Telephone and cable networks
Level of intra-industry competition	Intense	Limited	Limited	None	Intense
Major failures among early leaders	Yes	No	No	No	Yes
Emergence of a monopoly and regulation	No	• AT&T monopoly • Break-up in 1980s	• Standard Oil monopoly • Break-up in 1911	Federal/state ownership	No
Consolidation among key firms	Yes	Yes	Yes	No	Yes
High ongoing capital expenditures	Yes	Yes	Yes	Yes	Yes
Long-term productivity gains	Yes	Yes	Yes	Yes	Yes

Source: J.P. Morgan Asset Management; data as of July 31, 2026. For illustrative purposes only.

Capital investment booms often follow a consistent pattern

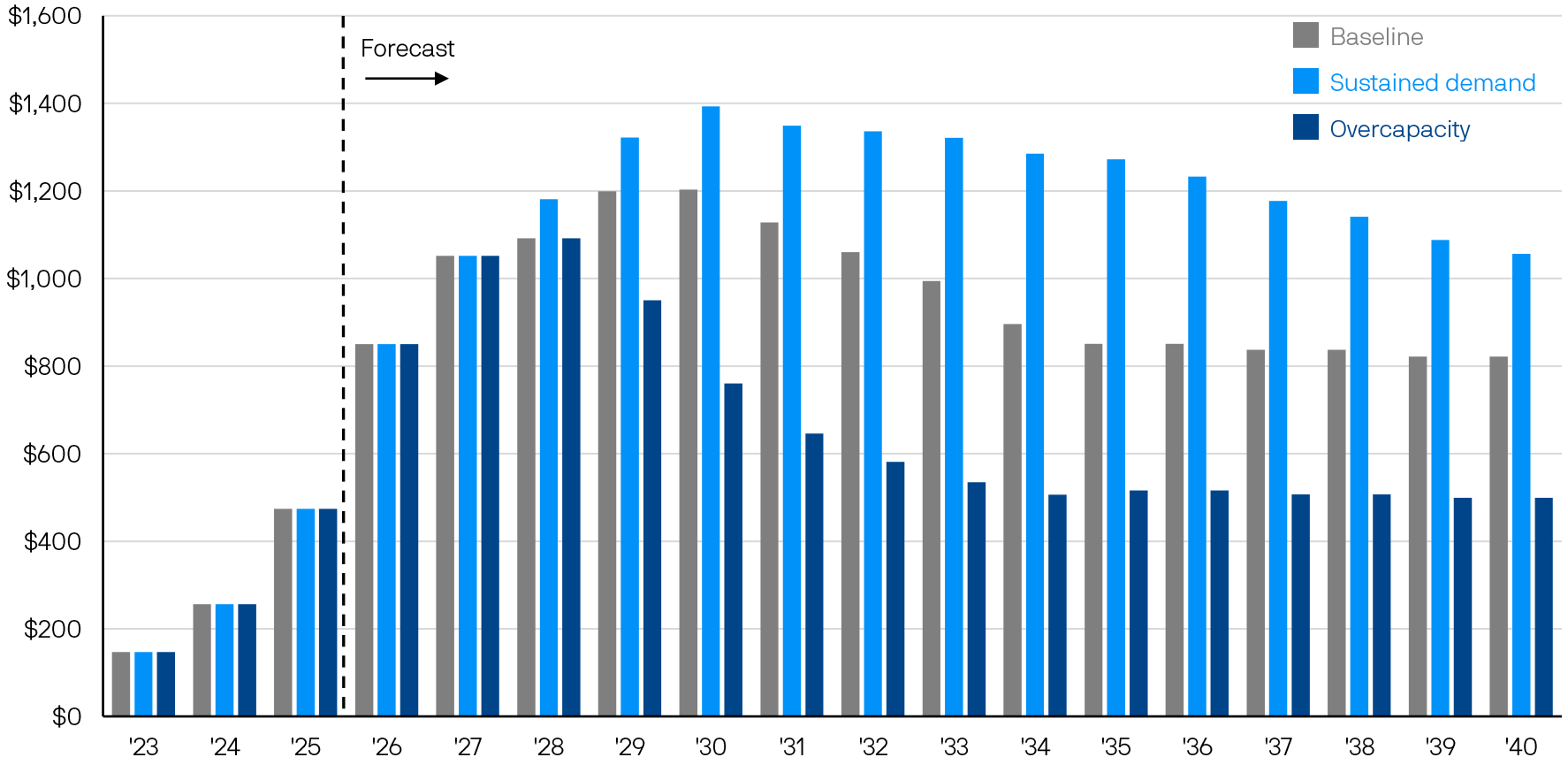
Phases of capital investment booms

PHASE 1: ORIGIN STORY	**A new solution to an old problem**	A viable solution to a longstanding and significant economic barrier or inefficiency is identified, attracting the interest of entrepreneurs and investors.
PHASE 2: BUILD-OUT	**Aggressive capital investment**	Firms compete aggressively to establish dominance, raising large amounts of capital from investors to build out the necessary infrastructure – often in parallel to one another.
PHASE 3: REALITY CHECK	**Reality check on high expectations**	Optimism over the growth rates and the scale of the opportunity collides with the reality of fierce competition, the high cost and/or scarcity of capital, and/or broader economic weakness.
PHASE 4: SHAKE-OUT	**Elimination of weaker competitors**	Weaker enterprises are unable to meet lofty expectations and run into difficulty raising fresh capital. Often, they go bankrupt or are acquired by other firms at a discount.
PHASE 5: VIABILITY	**Reorganization and rationalization**	Following a period of consolidation, operators are able to maintain more stable and profitable business models with sustainable capital structures.
PHASE 6: BROAD ADOPTION	**Residual benefits to society**	As access expands, costs fall, and new use-cases emerge, the new technology fosters improvements in productivity and sustainably higher growth rates.

Source: J.P. Morgan Asset Management; data as of July 31, 2026. For illustrative purposes only.

In the AI build-out, we see a range of potential outcomes for AI capital spending

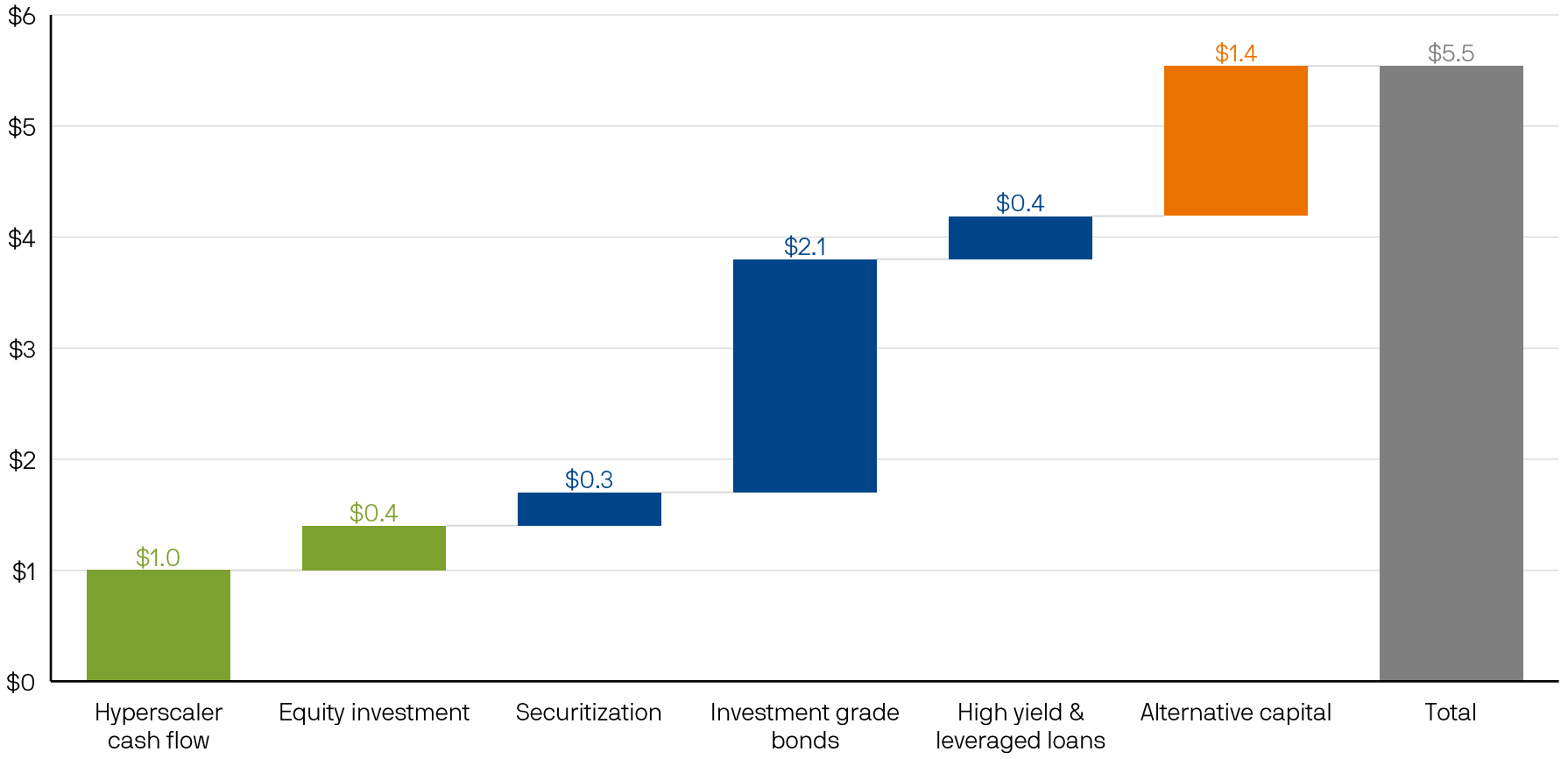
Total U.S. AI capital expenditure (USD billions)



Source: Company reports, J.P. Morgan Asset Management; data based on availability as of July 31, 2026. Anchors to projections of spend from the top five hyperscalers and an assumption of capex for neocloud, enterprise and government AI infrastructure. Baseline: spending normalizes around $800B as the initial buildout matures. Sustained demand: capex remains above $1T as agentic AI and robotics extend the cycle. Overcapacity: returns disappoint or efficiency accelerates post-2029, limiting the pace of reinvestment, and spending corrects by roughly 45% of peak.

The full scope of capital markets are funding the AI build-out

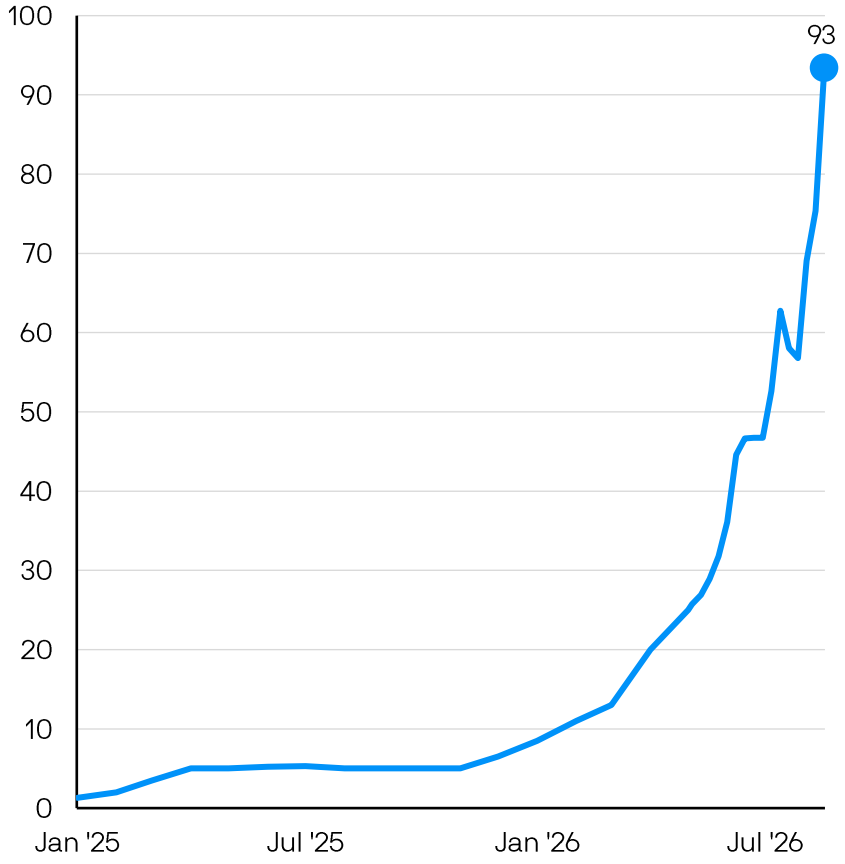
Expected total AI capex investment through 2030 (USD trillions)



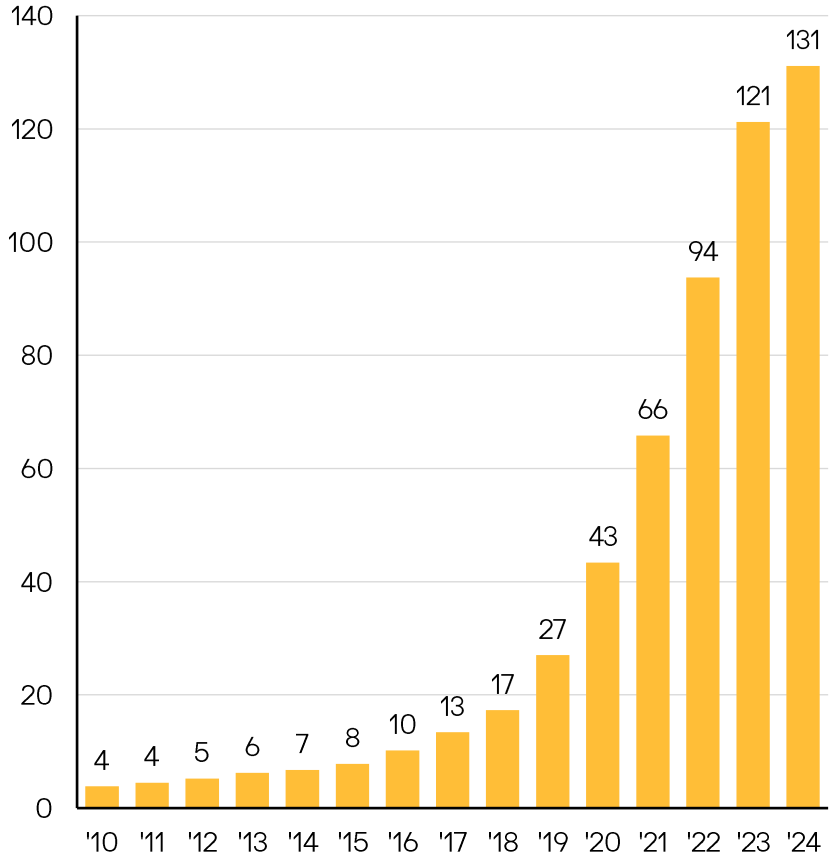
Source: J.P. Morgan Global Research, J.P. Morgan Asset Management; data based on availability as of July 31, 2026. All funding forecasts come from the 2026 "AI Capex 2.0: If You Build It, They Will Finance It - Updated Growth & Capital Markets Forecasts" research report published by J.P. Morgan Global Research. Alternative capital includes private credit, real estate funds, infrastructure funds, REITs and government funding. Figures may not sum to total due to rounding.

AI usage and innovation continue to grow

OpenRouter weekly tokens processed (trillions)



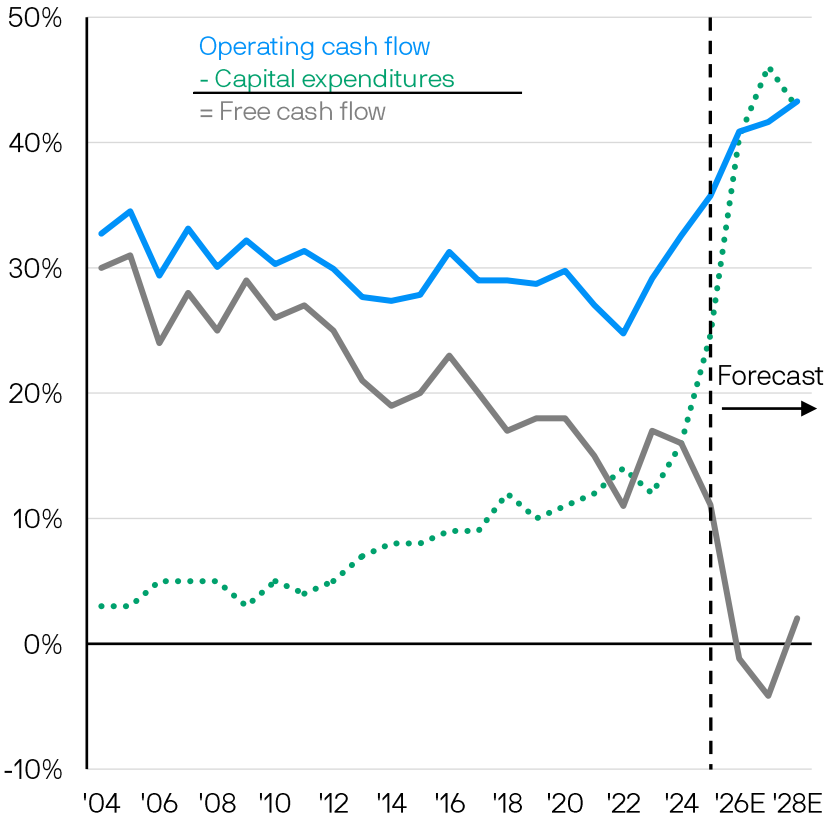
AI patents granted worldwide (thousands)



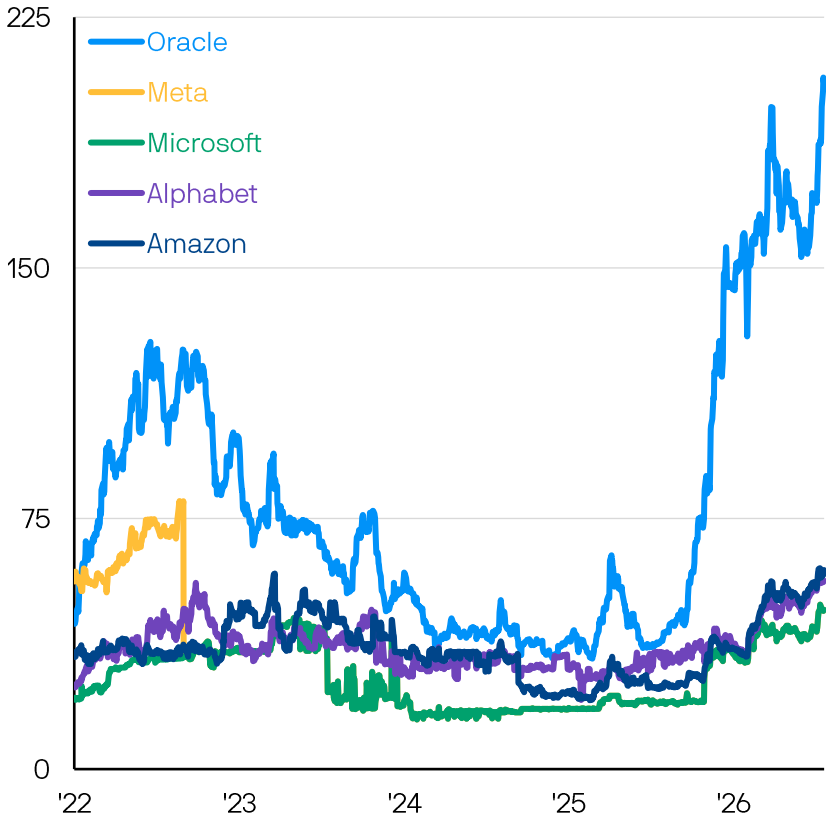
Source: J.P. Morgan Asset Management. (Left) Source: OpenRouter, Google (I/O keynotes and quarterly earnings calls); data as of August 17, 2026. OpenRouter is an independent model-routing API platform that lets developers toggle between models. A token is a unit of text, generally about three-quarters of a word, that AI models read and generate. (Right) *Stanford University Human-Centered Artificial Intelligence – The 2026 AI Report*; data as of April 2026.

Hyperscalers have drawn on their revenue streams and balance sheet strength to fund AI capex

Hyperscalers' cash flow and capex as a percent of sales



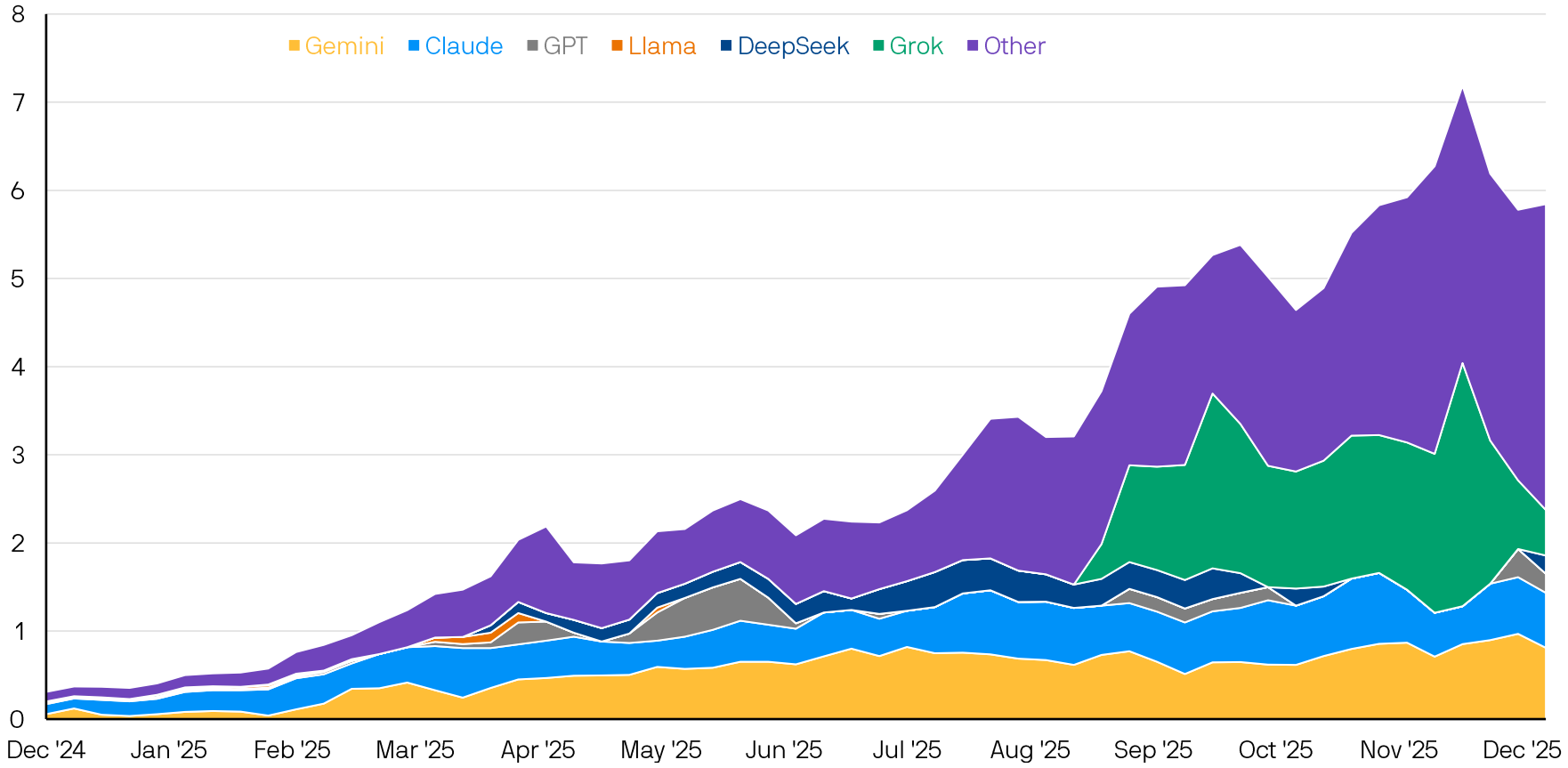
Five-year credit default swaps (bps)



Source: Bloomberg, J.P. Morgan Asset Management. (Left) Data as of July 31, 2026. Data for 2026, 2027 and 2028 reflect consensus estimates. Capex shown is company total. Hyperscalers are the large cloud computing companies that own and operate data centers with horizontally linked servers that, along with cooling and data storage capabilities, enable them to house and operate AI workloads. (Right) Data as of July 22, 2026.

AI model usage remains broadly distributed

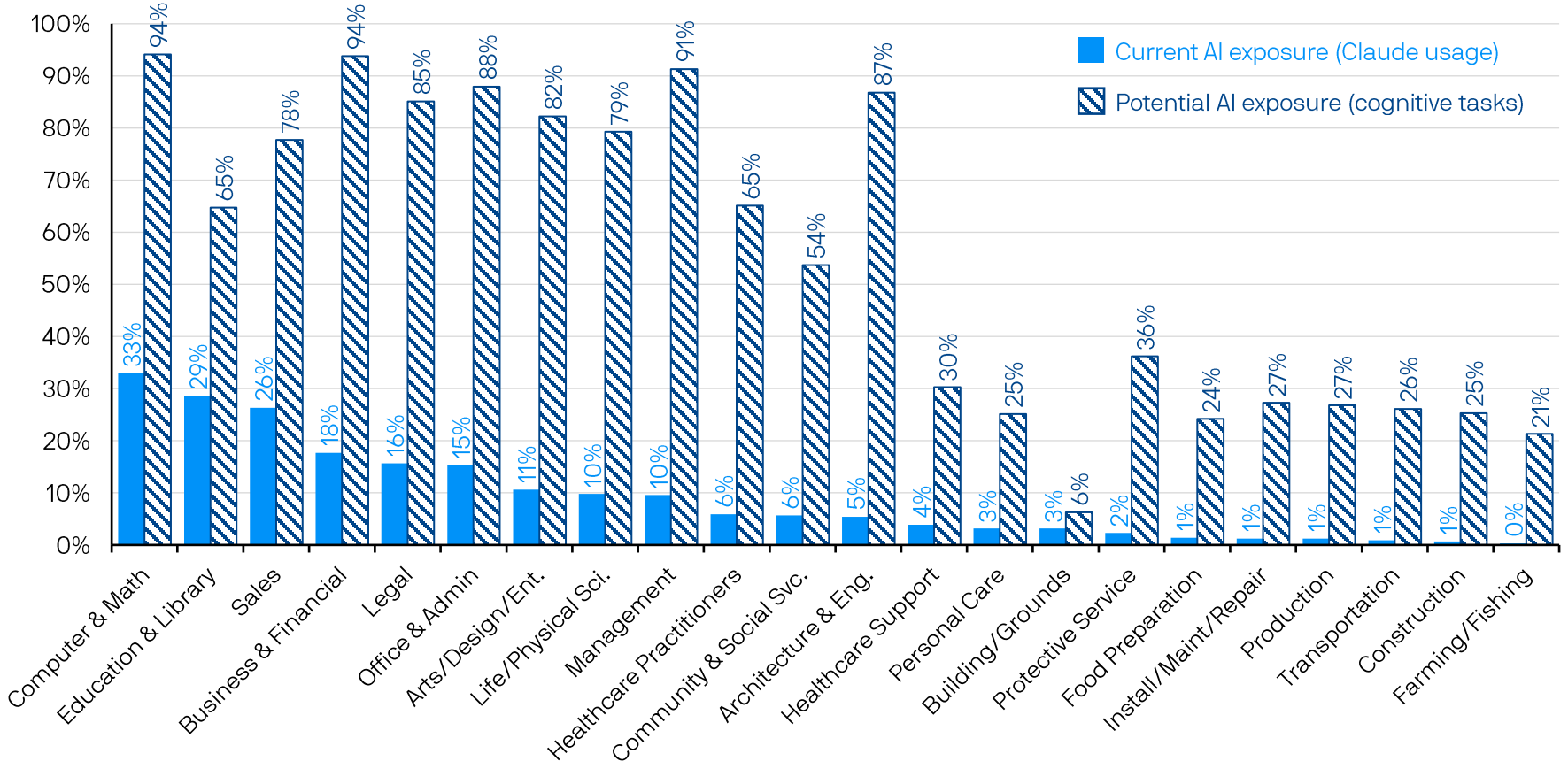
Token consumption through OpenRouter API calls (trillions of tokens)



Source: OpenRouter LLM Ranking Leaderboard, J.P. Morgan Asset Management; data as a of December 31, 2025.

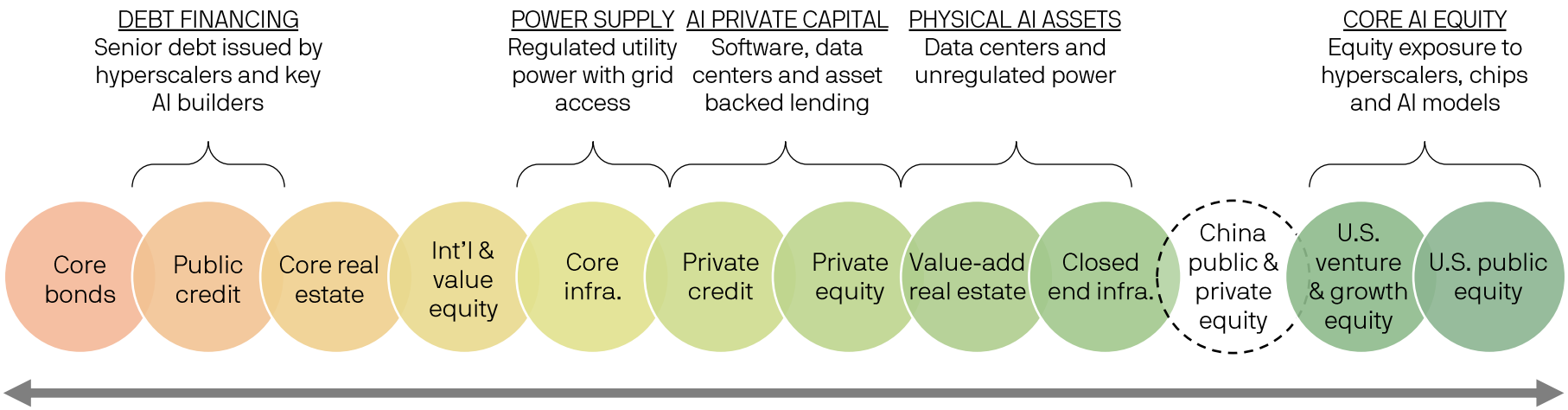
AI usage is growing, but it is still well below its potential

Share of an occupation's current and potential tasks exposed to AI (percent)



Source: Anthropic Economic Index, Eloundou et al. (2024), O*NET, Bureau of Labor Statistics, J.P. Morgan Asset Management; data as of May 31, 2026. Potential exposure is the share of an occupation's tasks that large language models, paired with complementary software, could perform with meaningful time savings, from Eloundou, Manning, Mishkin and Rock (2024). Current exposure is the share of tasks with observed, work-related Claude usage, as published by Anthropic.

Exposure to AI is distributed broadly across asset classes



Defensive asset classes

Emphasis on low-AI risk and long-term productivity benefits

Potential long-term benefits from:

- Limited direct AI exposure during the boom
- Global and sector diversification
- Declining unit cost of AI
- Productivity and non-inflationary growth

AI within diversified privates

Spreading out AI risks across multiple asset classes

Exposure to the full AI capital raise:

- Data center development
- Behind-the-meter power
- Asset backed financing (chips)
- Utility scale grid power

Concentrated AI exposure

Momentum driven with high risk from winners and losers

Near term outlook dependent on:

- U.S. leadership in AI technology
- Ongoing hyperscaler subsidy
- Access to debt and equity markets
- Growth of the user base

Source: J.P. Morgan Asset Management; data as of July 31, 2026. For illustrative purposes only.

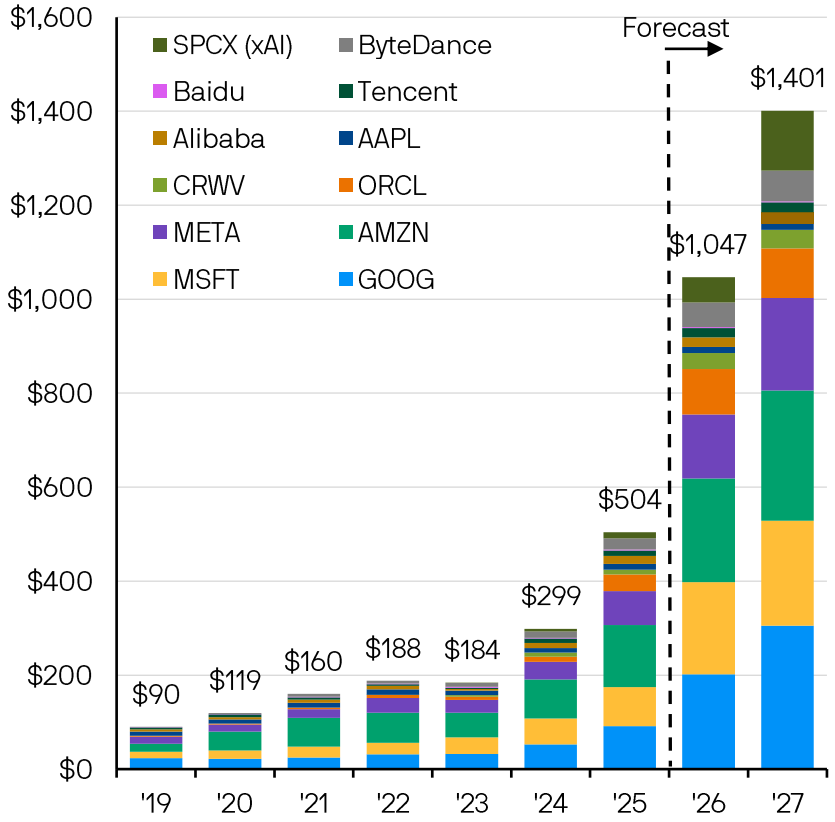
Key access points to the AI opportunity set

	Benefits	Risks
U.S. large cap public equity	Liquid, low cost access to scaled players across the AI ecosystem	High valuations and risk concentration in AI markets
Growth equity	Later stage access to private firms with scalable business	Higher valuations and reduced portfolio diversification
Venture capital (VC)	Early access to AI innovators and disruptive business models	Surge in new business formation may be a challenge
China public equity & VC	Parallel AI ecosystem to the U.S., with differentiated characteristics	Government intervention and geopolitical risks
Closed-end infrastructure	Primary access point for direct exposure to data centers	Untested data center business model and illiquid fund structure
Value-add real estate	Building data center "shells" and converting legacy properties for AI	Real estate represents only a small portion of data center value
Private credit	Financing multiple elements of the AI build-out at attractive yields	Concentrated exposure to sectors and firms facing disruption
Core infrastructure	Regulated grid power delivery to AI firms under long term contracts	Pushback from regulators and ratepayers over costs
International & value equity	Low AI intensity with long-term benefits from AI efficiencies	Limited participation in the key elements of AI upside
Core real estate	Very low AI exposure outside of localized office/residential gains	Long-term impact of AI on real estate usage is unknown
Corporate debt	Quality borrowers issuing paper at attractive all-in yields	Asymmetric risk and the scale of debt issuance are concerns
Core fixed income	Very low AI exposure outside of investment grade credit	Impact of AI on inflation and rates could be a concern

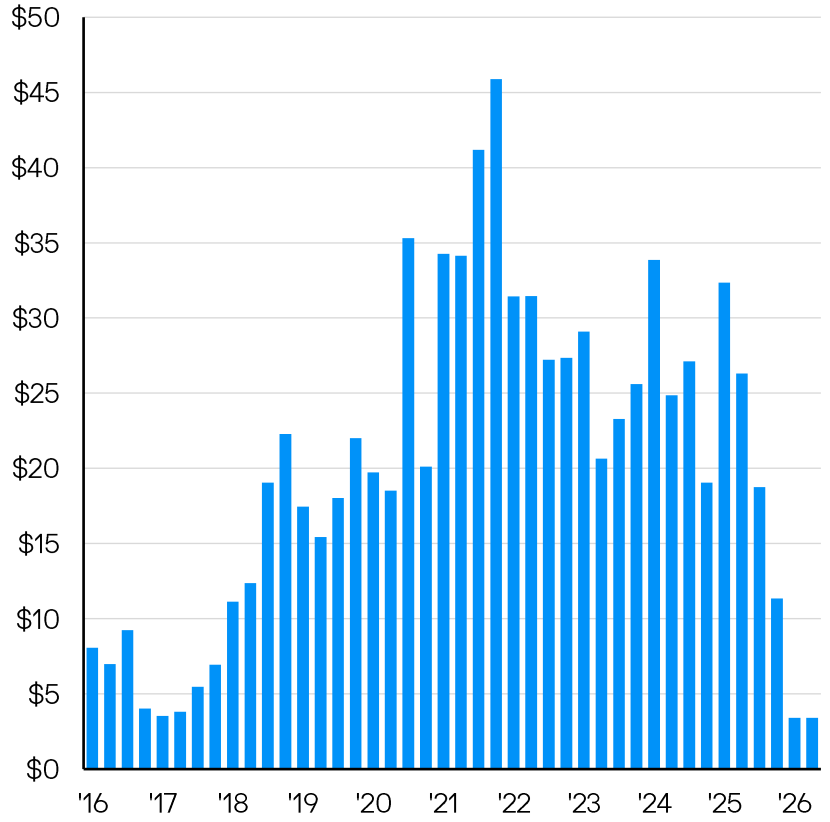
Source: J.P. Morgan Asset Management; data as of July 31, 2026. For illustrative purposes only.

Hyperscaler capex keeps rising, but recent stock moves reflect investor concerns about their cash flow

Cloud and hyperscaler capex (USD billions)

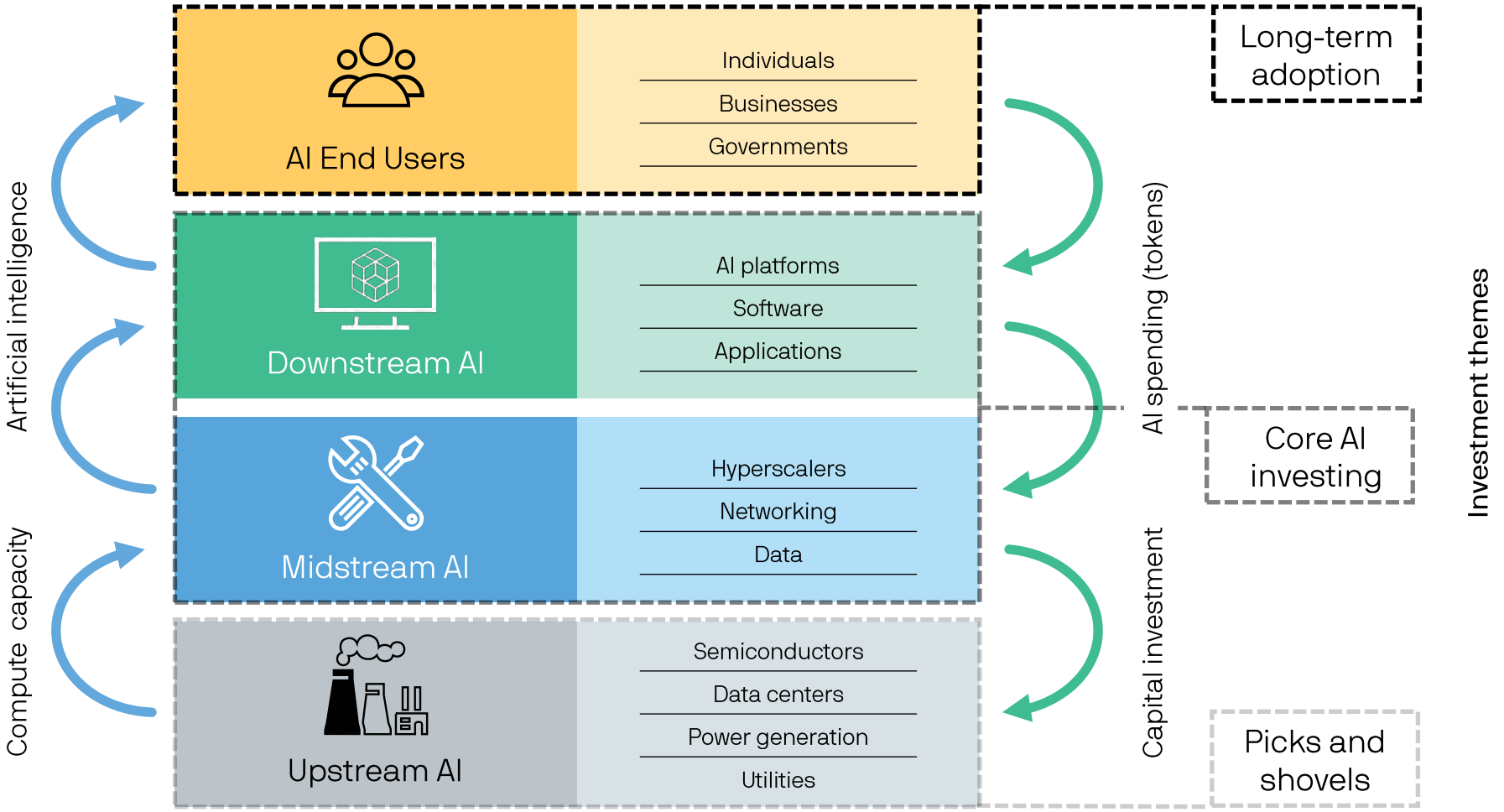


Hyperscaler quarterly share buybacks (USD billions)



Source: Bloomberg, J.P. Morgan Asset Management. (Left) Data as of August 20, 2026. All of the forward-looking numbers here are based on Bloomberg Consensus estimates, aside from ByteDance which is private and based on Goldman Sachs' estimates as of June 30, 2026. (Right) Data as of March 31, 2026. Hyperscalers include Amazon, Google, Microsoft, Meta and Oracle.

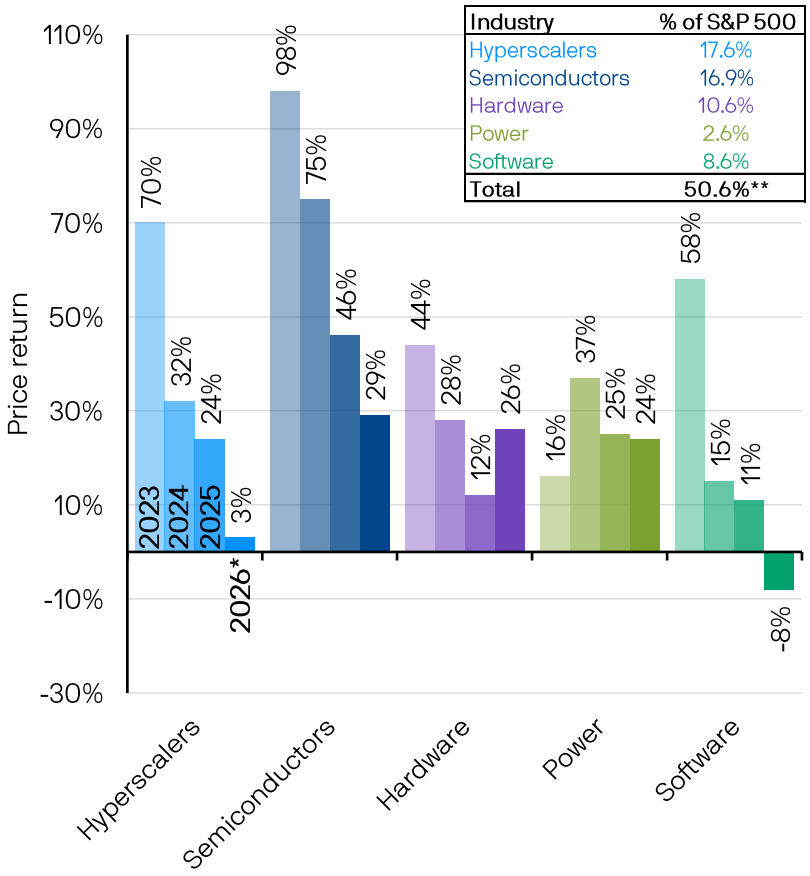
Aligning investment themes with the AI value chain



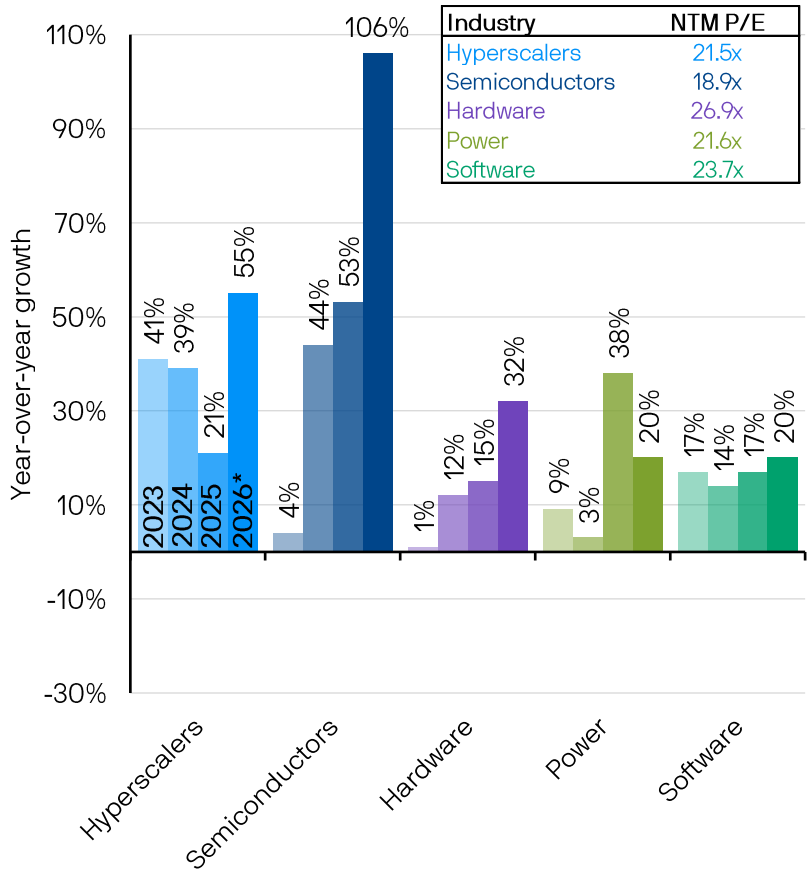
Source: J.P. Morgan Asset Management; data as July 31, 2026. For illustrative purposes only.

The sector mix of AI winners has shifted in recent years

AI-related industry performance (2023 – Now)



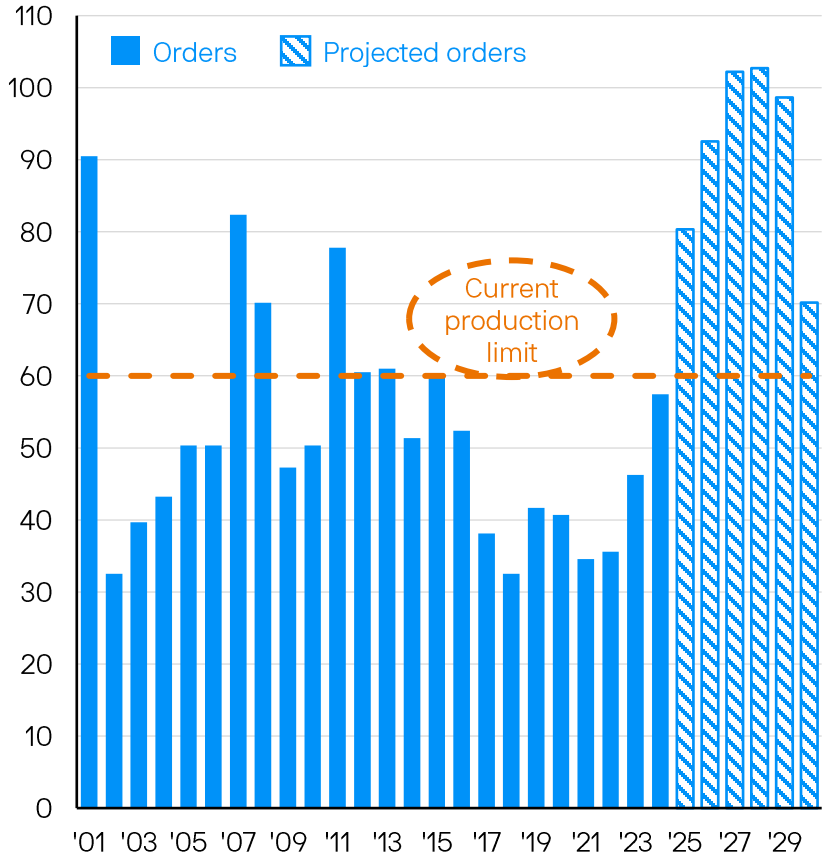
AI-related industry earnings growth and multiples



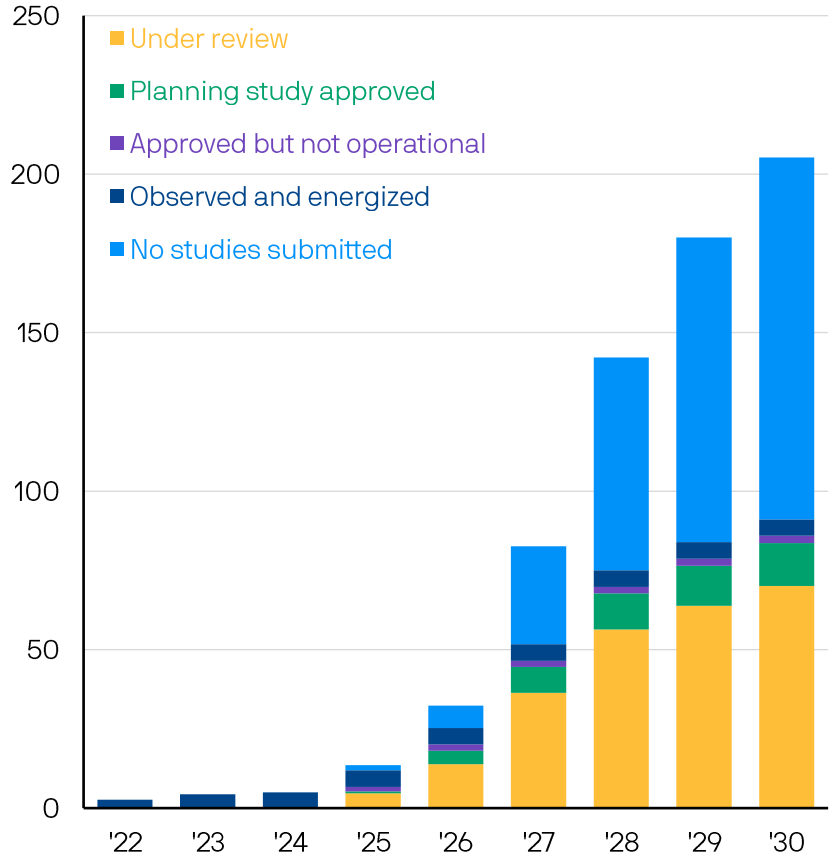
Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management; data as of July 31, 2026. *2026 price return is year-to-date, and earnings growth reflects 2026 consensus estimates as provided by FactSet. Hyperscalers is a market-weighted composite of AMZN (Sector = Con. Disc, Industry = Broadline Retail), GOOGL/GOOG (Comm. Svcs., Interactive Media & Scvs.), META (Comm. Svcs., Interactive Media & Scvs.), MSFT (Info. Tech., Software) and ORCL (Info. Tech., Software). The remaining categories are based on GICS Industries. **Total percentage in the S&P 500 does not double count hyperscalers that fall in additional categories.

The utilities industry may be at the start of an AI-driven electricity supercycle

Global gas turbine orders (GW)



ERCOT large load interconnection requests (GW)



Source: J.P. Morgan Asset Management. (Left) Bloomberg News; data as of October 2025. (Right) ERCOT; data as a of October 2025.

A framework for assessing AI disruption

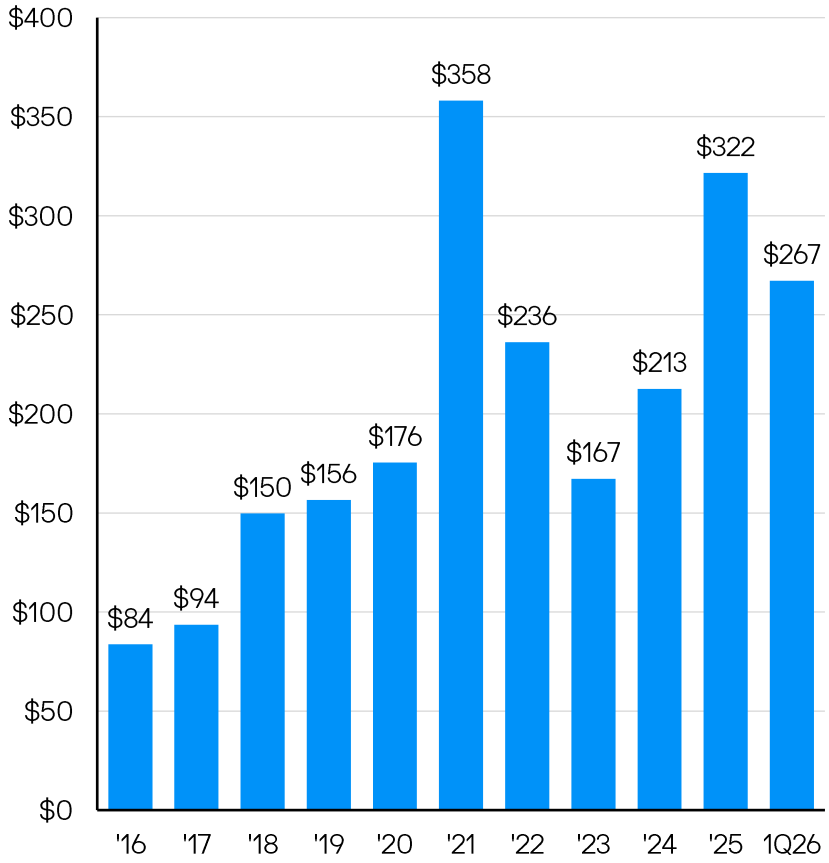
Key pillars

Factor	Description
Substitutability	Measures how easily AI tools can substitute the company's primary value proposition • Higher risk: simple, commoditized information products • Lower risk: complex, or highly specialized offerings with human oversight
Switching costs	Assesses integration depth, workflow embeddedness and switching barriers • Higher risk: low integration, minimal lock-in • Lower risk: mission-critical systems, regulatory requirements, deep workflow integration
Data moat	Evaluates the uniqueness and defensibility of data assets • Higher risk: publicly available or easily replicable data • Lower risk: proprietary, structured, validated or exclusive datasets
Regulatory and trust barriers	Protection from compliance requirements and trust factors • Higher risk: unregulated, low trust requirement products • Lower risk: highly regulated industries requiring accountability and verified accuracy
AI integration capability	Measures willingness to transform, adopt AI and integrate into product stack • Higher risk: those with legacy technology and/or slow innovation cycles • Lower risk: organizations with strong tech capability, active AI development, proven track record

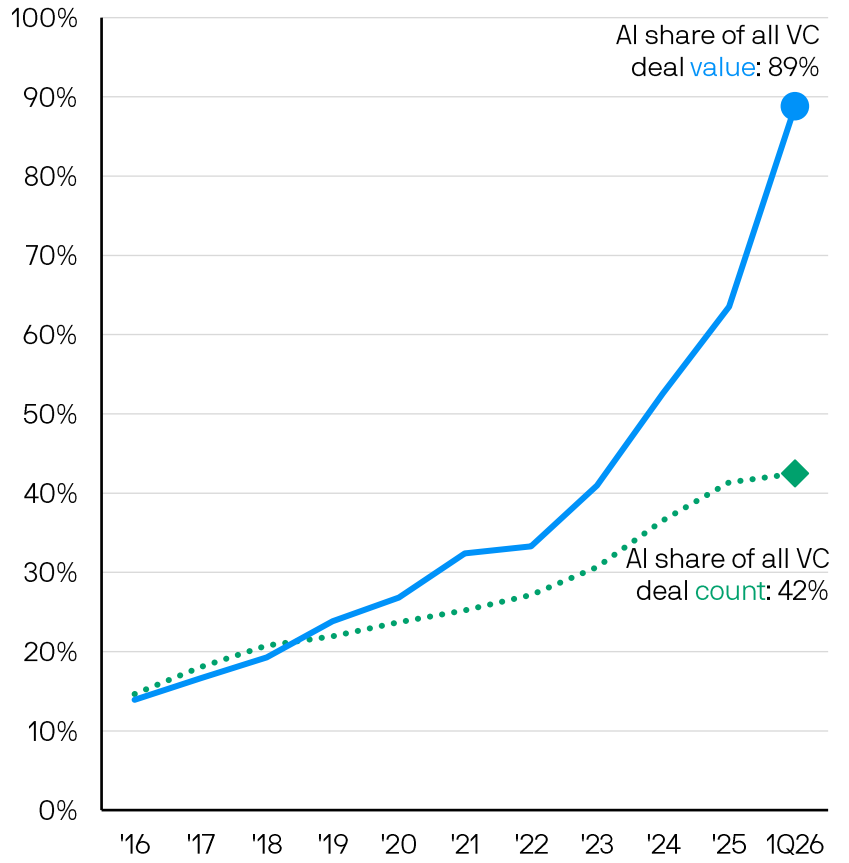
Source: J.P. Morgan Asset Management; data as of July 31, 2026. For illustrative purposes only.

The venture industry is on pace for record deployment in 2026

U.S. VC capital deployed (USD billions)



AI share of all U.S. VC deal activity

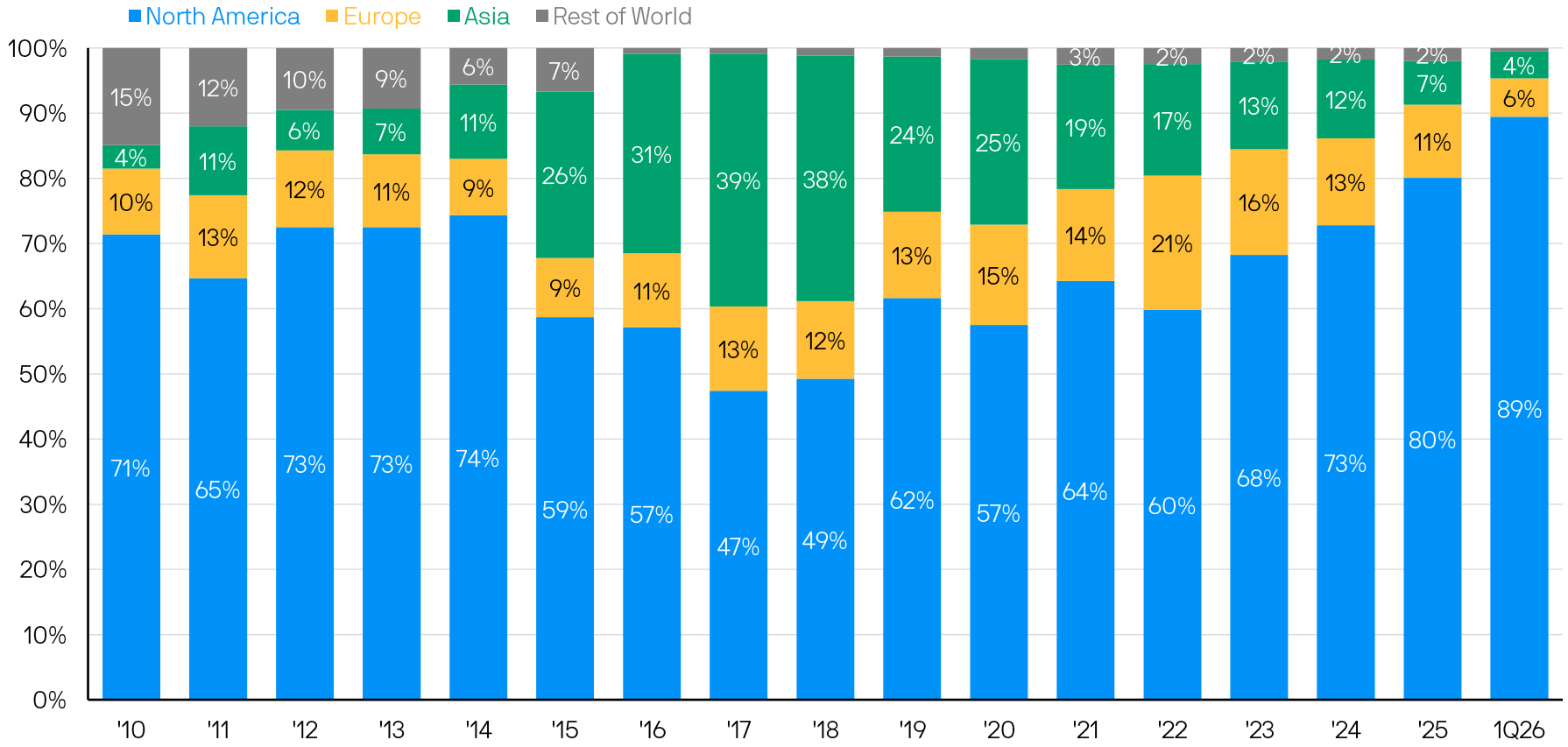


Source: Pitchbook, J.P. Morgan Asset Management; data based on availability as of March 31, 2026.

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The U.S. claims the lion's share of global VC deals in AI and machine learning

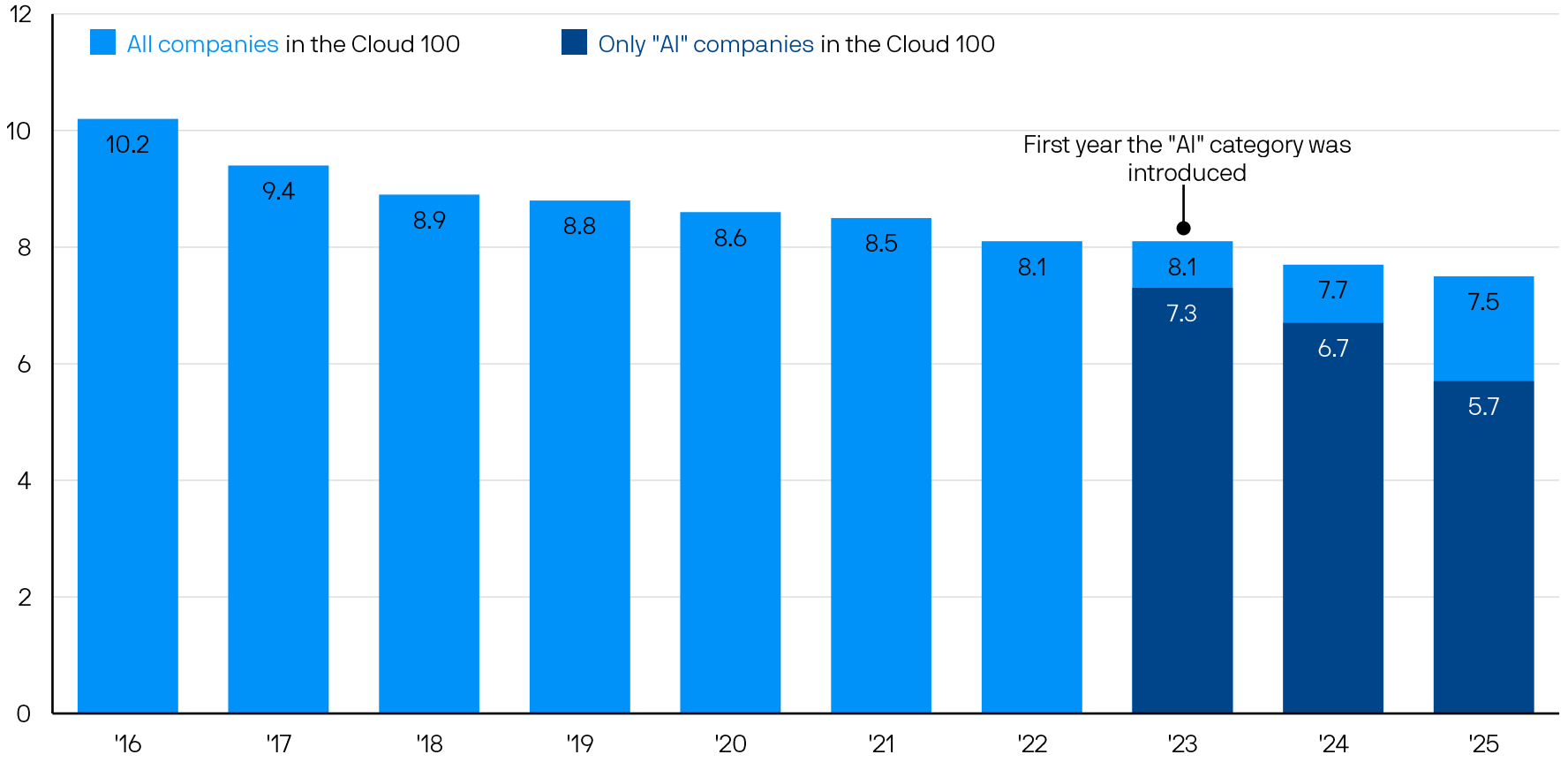
Global AI and machine learning venture capital investment by region



Source: Pitchbook, J.P. Morgan Asset Management; data based on availability as of March 31, 2026.

Revenue growth at AI start-ups has accelerated

Average years to USD 100 million annual recurring revenue (“centaur status”)



Source: Bessemer Venture Partners' *The 2025 Cloud 100 Benchmarks Report*; J.P. Morgan Asset Management; data as of December 31, 2025.

The AI build-out is increasingly debt-driven

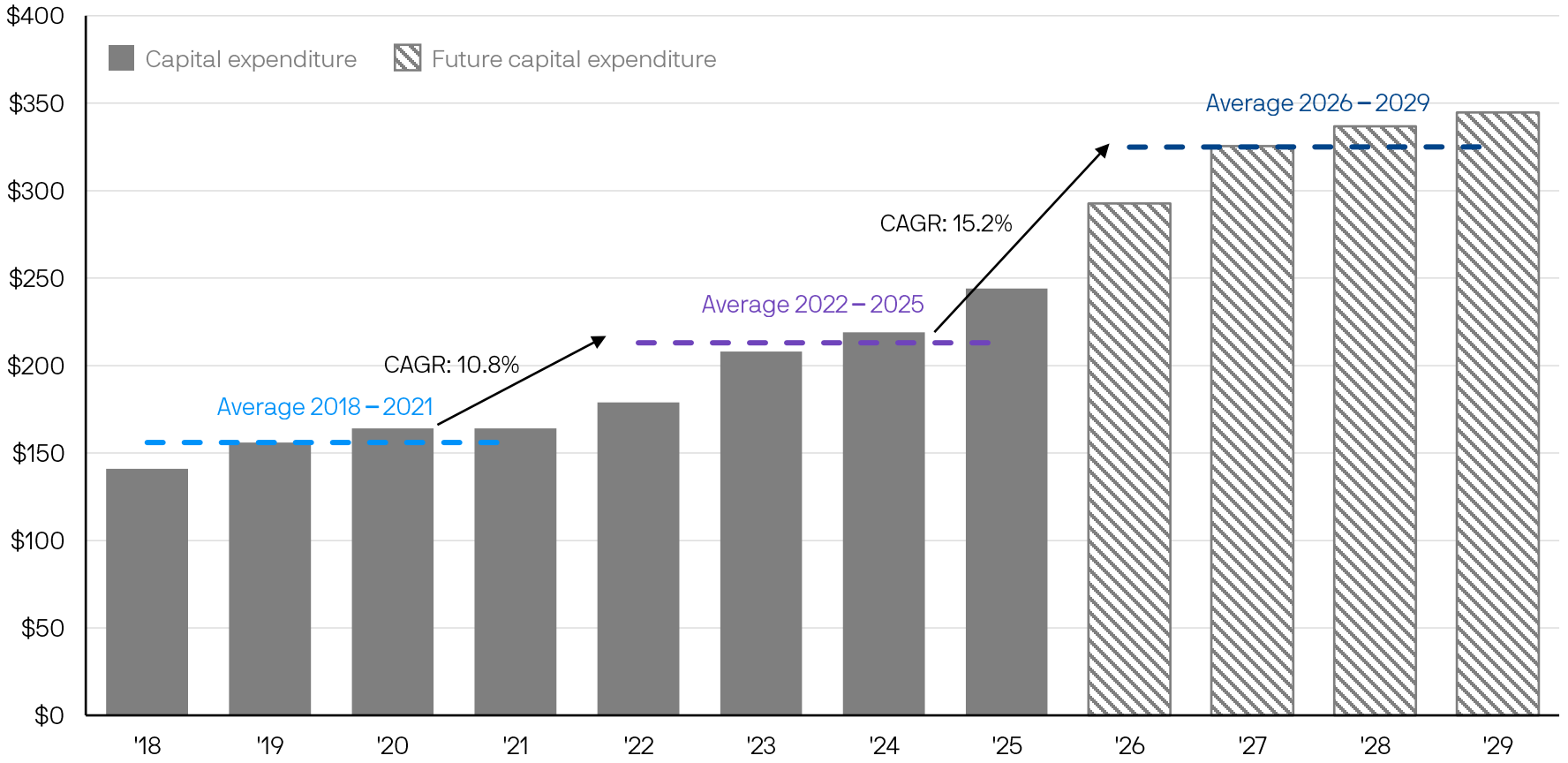
Hyperscaler bond issuance (USD billions)

2021	2022	2023	2024	2025	2026 (estimate)	2027 (estimate)
$30	$34	$14	$17	$109	$280	$300

Source: J.P. Morgan Asset Management; data as of August 27, 2026.

Power demand from data centers is transforming the utilities sector

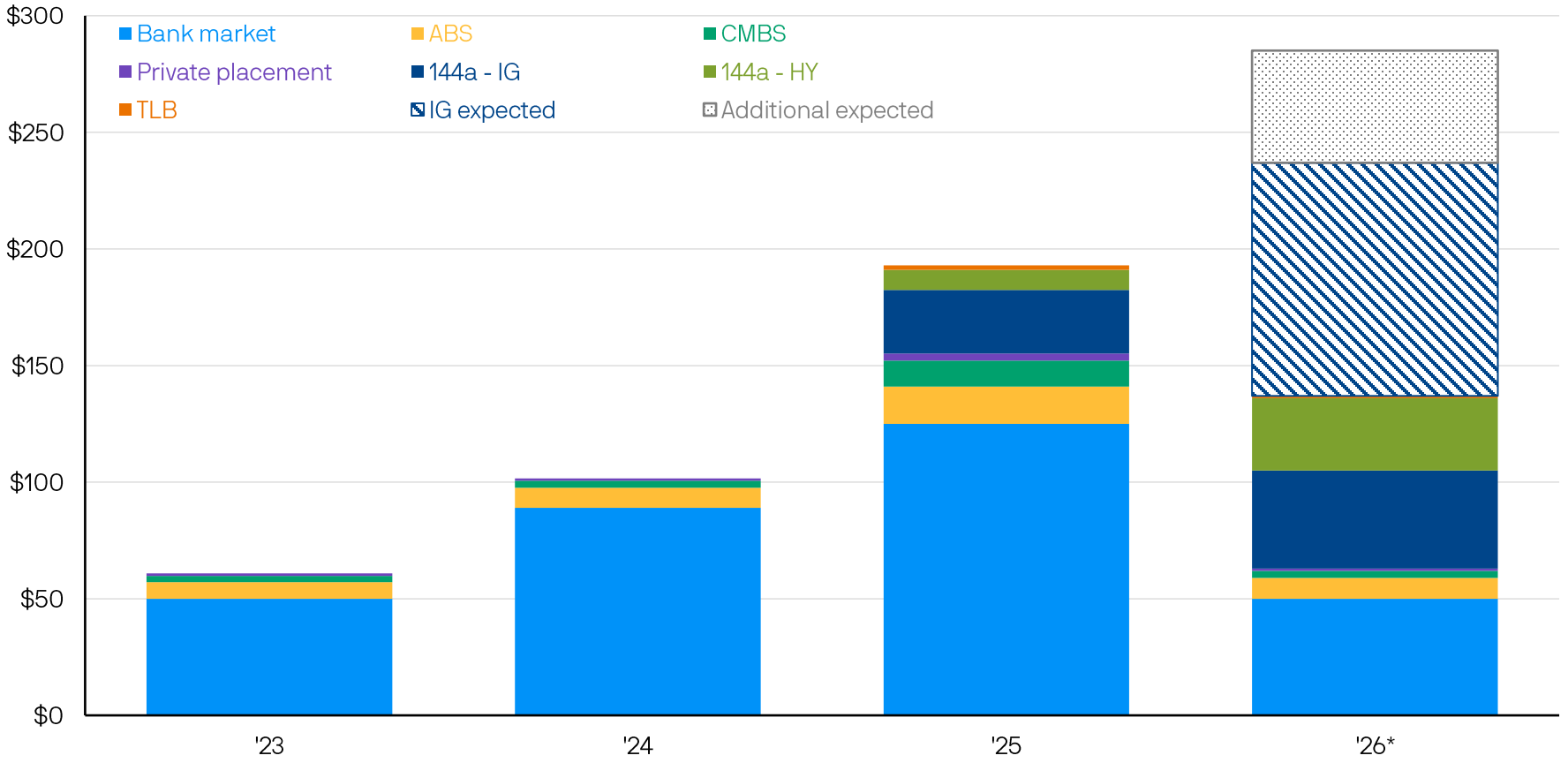
North America investor-owned regulated utilities capital spending (USD billions)



Source: Standard & Poor's, J.P. Morgan Asset Management; data as of May 1, 2026.

Once financed with bank construction loans, data centers now draw in capital across the debt spectrum

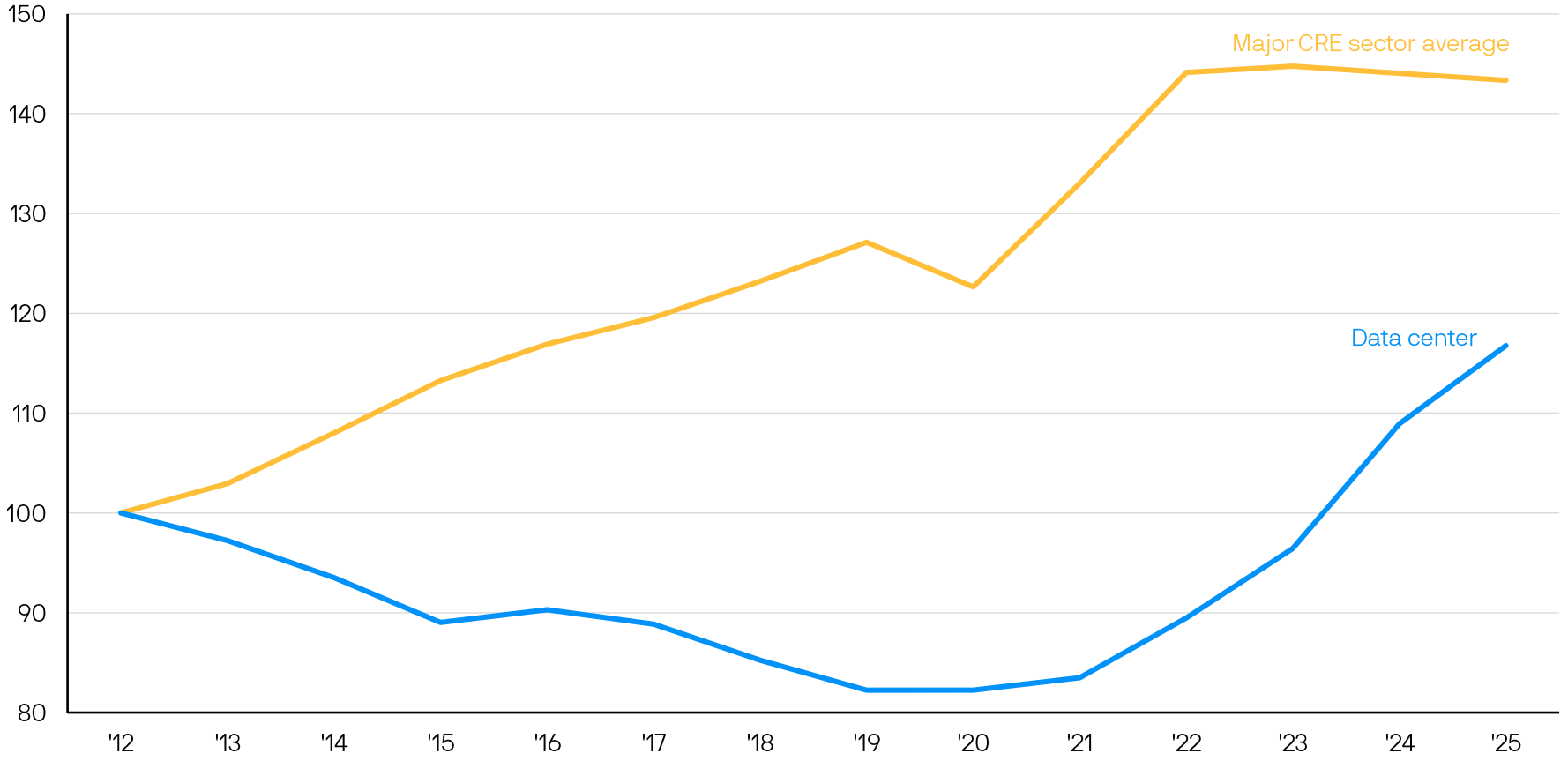
Data center financing (USD billions)



Source: J.P. Morgan Asset Management; data as of August 27, 2026.

Historical performance of data centers has been mixed

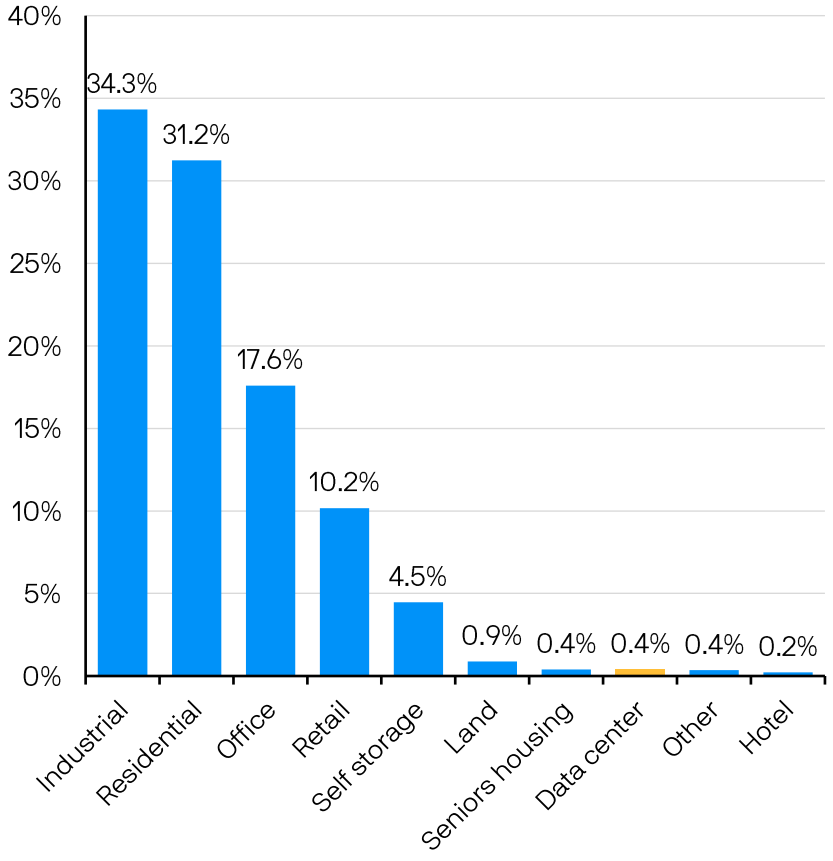
Market revenue per available foot, indexed to 100 in 2012



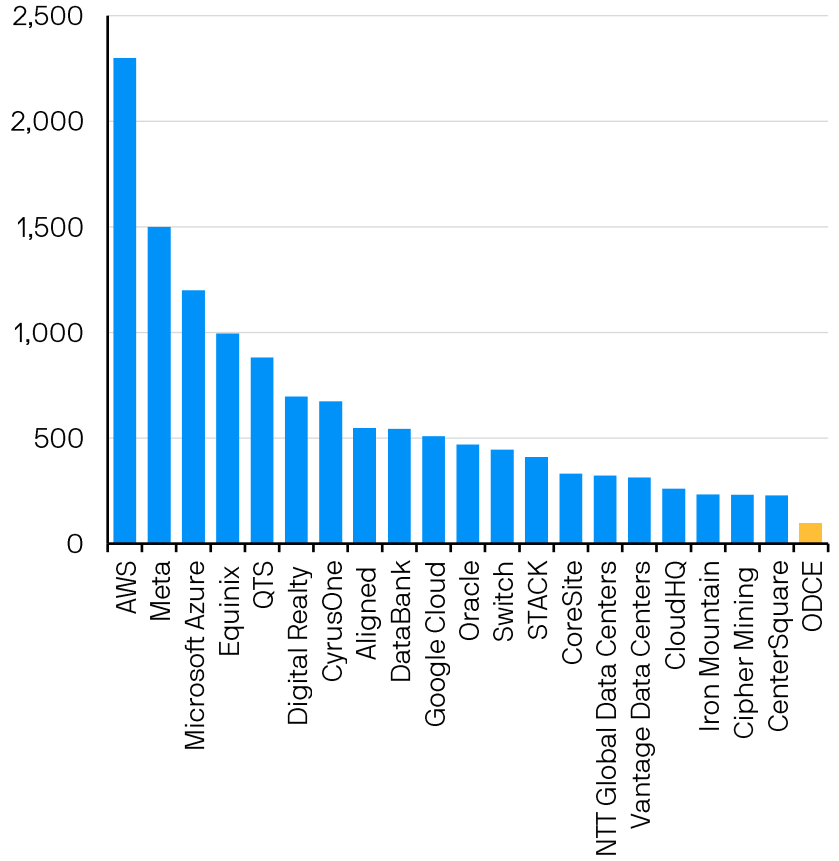
Source: Green Street Advisors, J.P. Morgan Asset Management; data as of December 31, 2025.

Open-end core real estate funds have limited data center exposure

NFI-ODCE sector weights



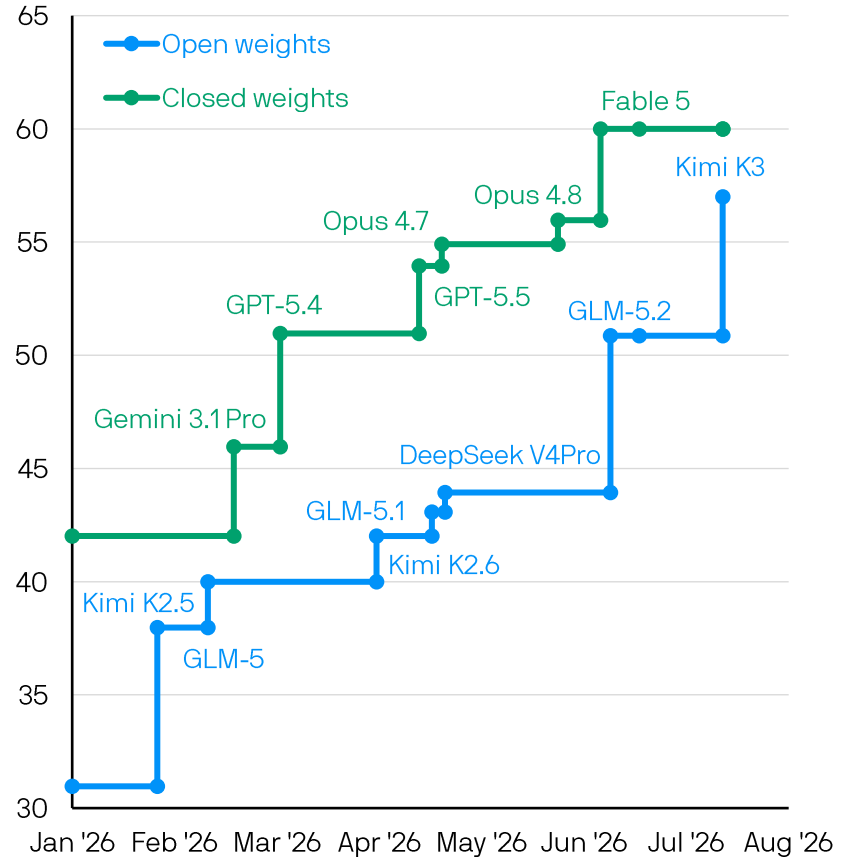
IT capacity for top 25 data center companies (MW)



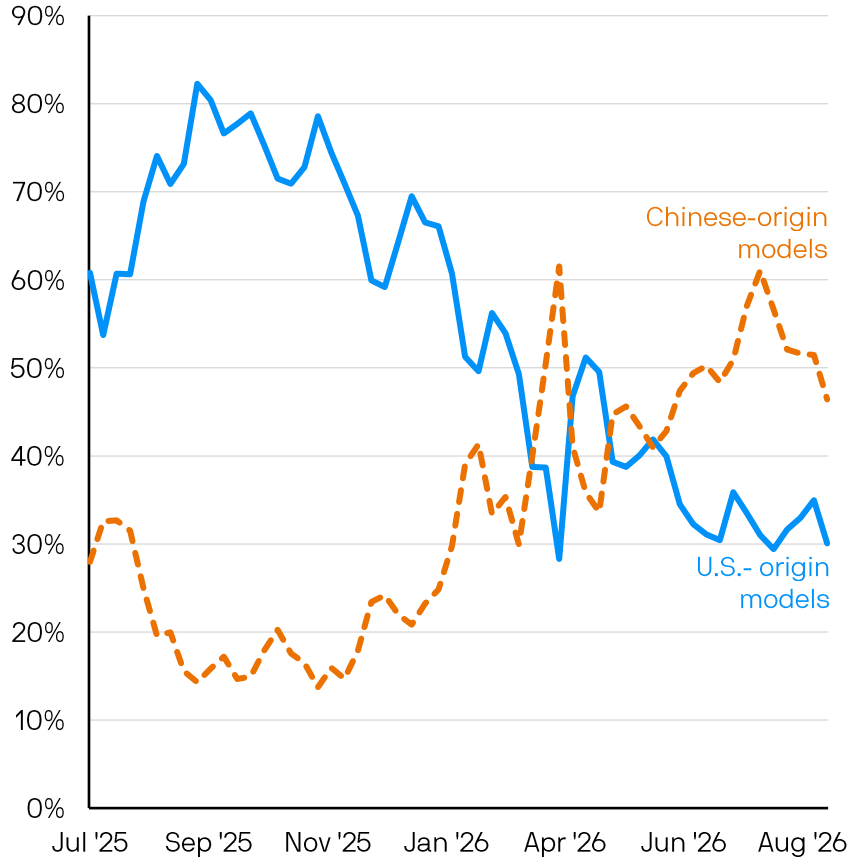
Source: J.P. Morgan Asset Management. (Left) NCREIF ODCE; data based on availability as of May 29, 2026. (Right) NCREIF ODCE, Green Street Advisors, ABI Research; data based on availability as of May 29, 2026.

Chinese AI models are close behind top U.S. performers, and are seeing growing adoption

Artificial Analysis Intelligence Index scores



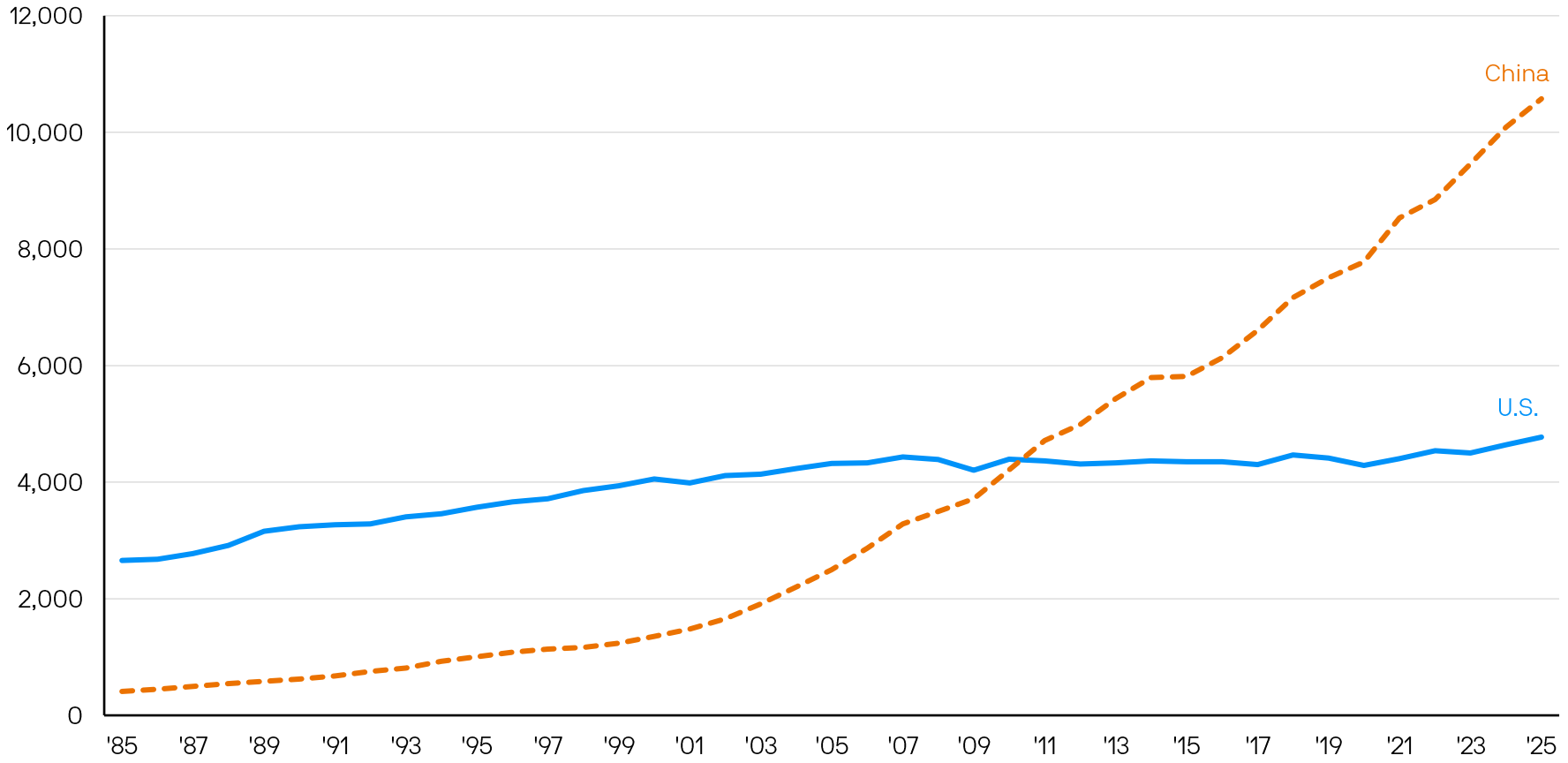
Weekly share of tokens processed on OpenRouter



Source: J.P. Morgan Asset Management. (Left) Liquid AI, Maxime Labonne, Artificial Analysis; data as of July 17, 2026. (Right) OpenRouter; data as of August 17, 2026. OpenRouter is a developer-facing service that routes API (application programming interface) requests across hundreds of models, so its usage skews toward developer and agentic workloads. It under-represents enterprise workloads, which mostly run on the major cloud platforms or directly with a model developer, such as OpenAI or Anthropic. Weekly data, July 13, 2025 to August 17, 2026.

China generates more electricity than the U.S.

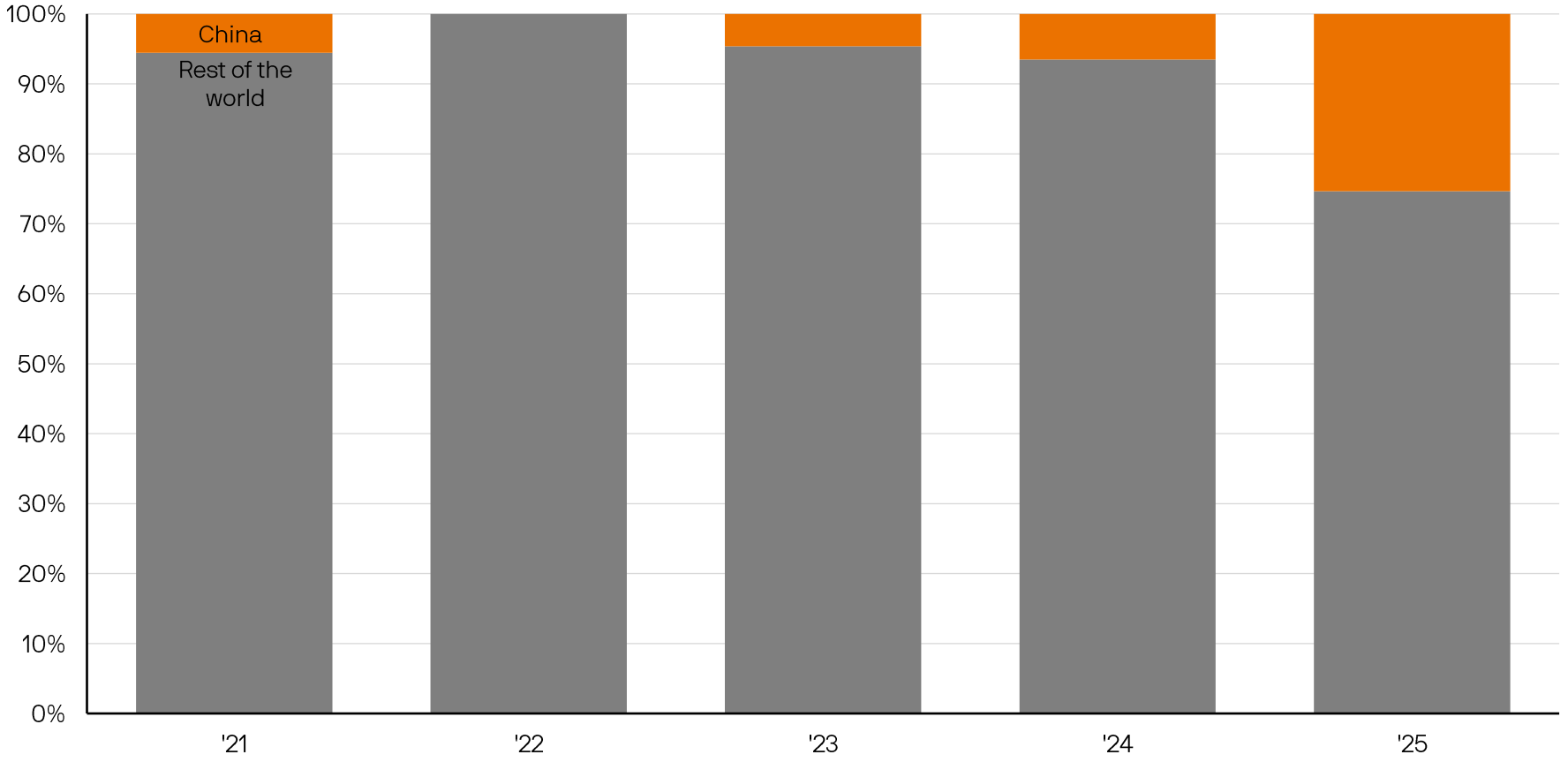
Electricity generation (TWh)



Source: Energy Institute, J.P. Morgan Asset Management; data as of June 30, 2026.

The role of Chinese chips in LLM training is modest, but growing

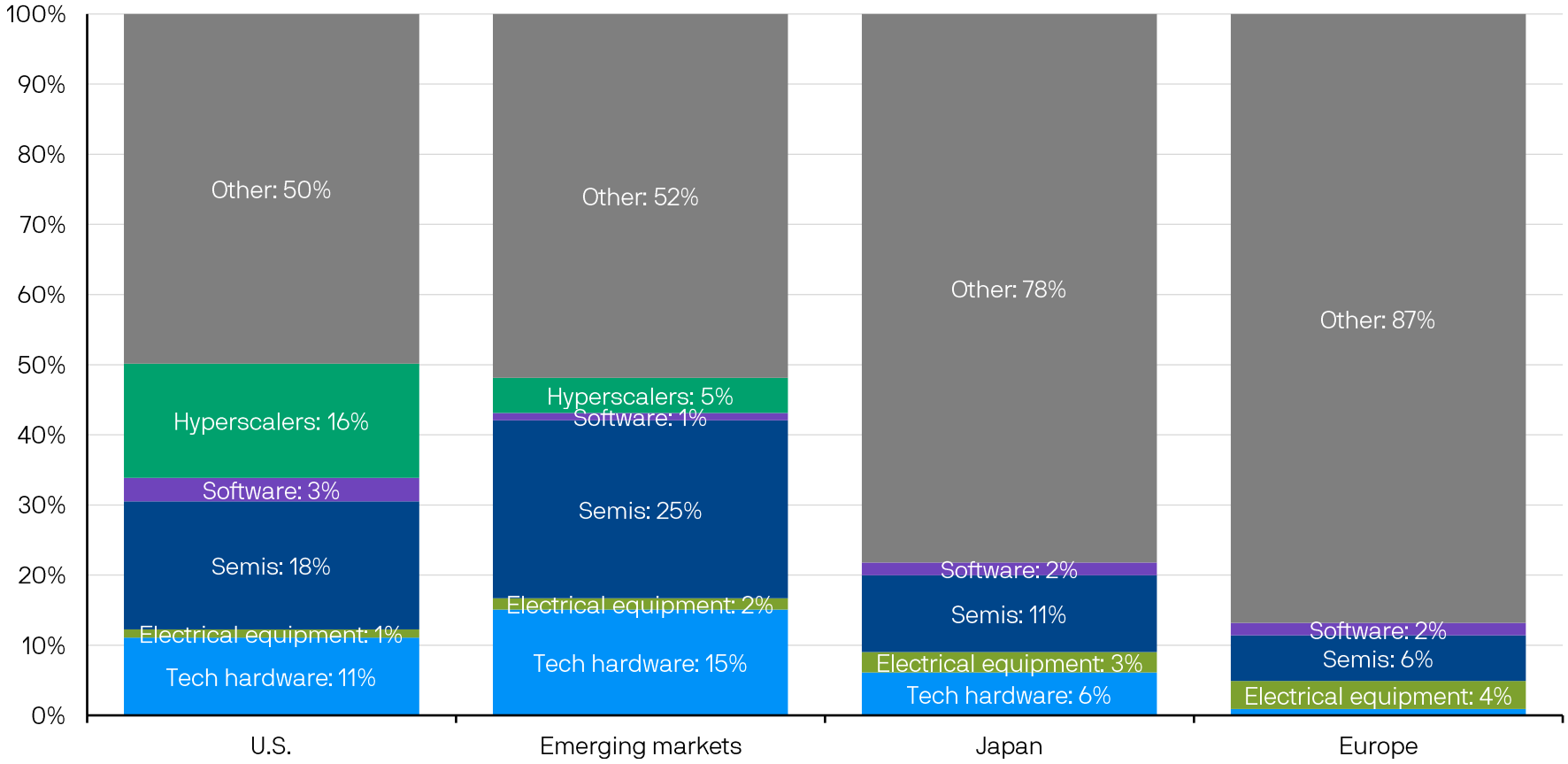
Origin of chips used to train Chinese LLMs as a share of total models trained



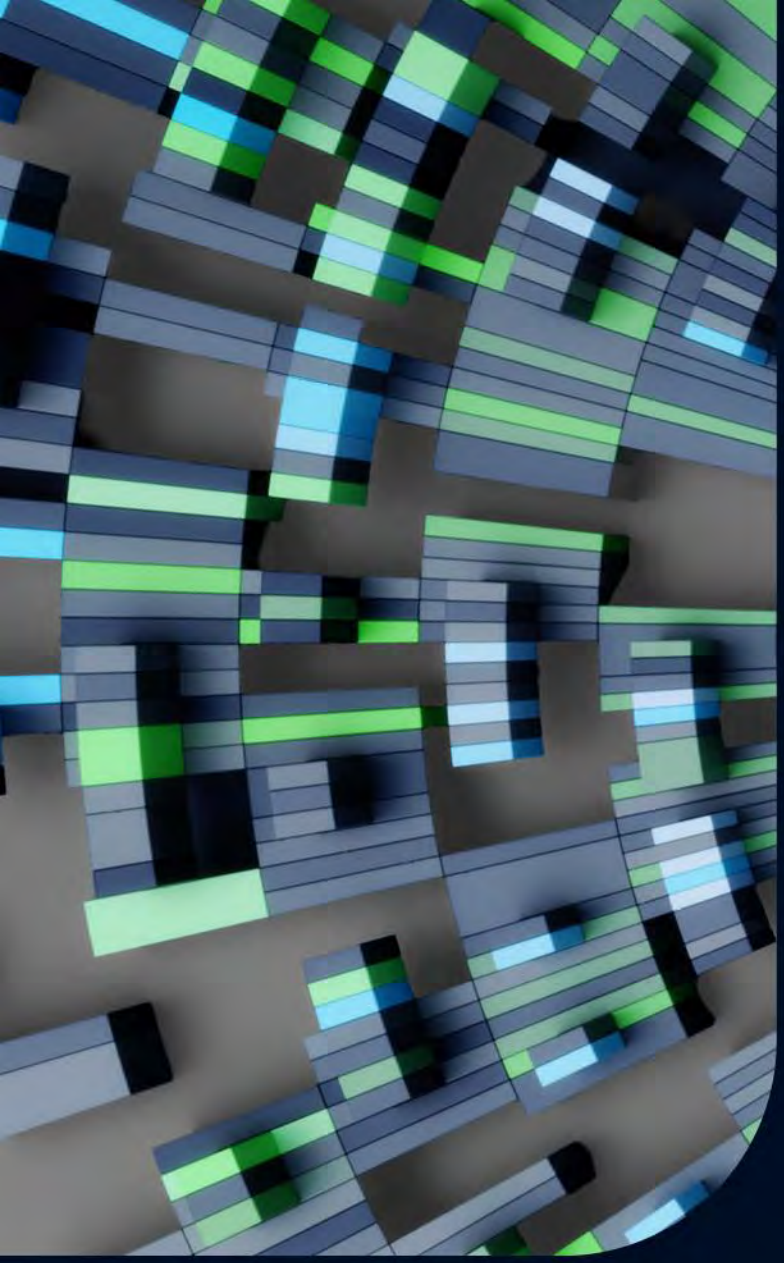
Source: EpochAI, J.P. Morgan Asset Management; data as of July 2025.

The size and composition of AI-related sectors varies greatly across global equity markets

Equity index exposure to AI-related industries as a percent of total market cap



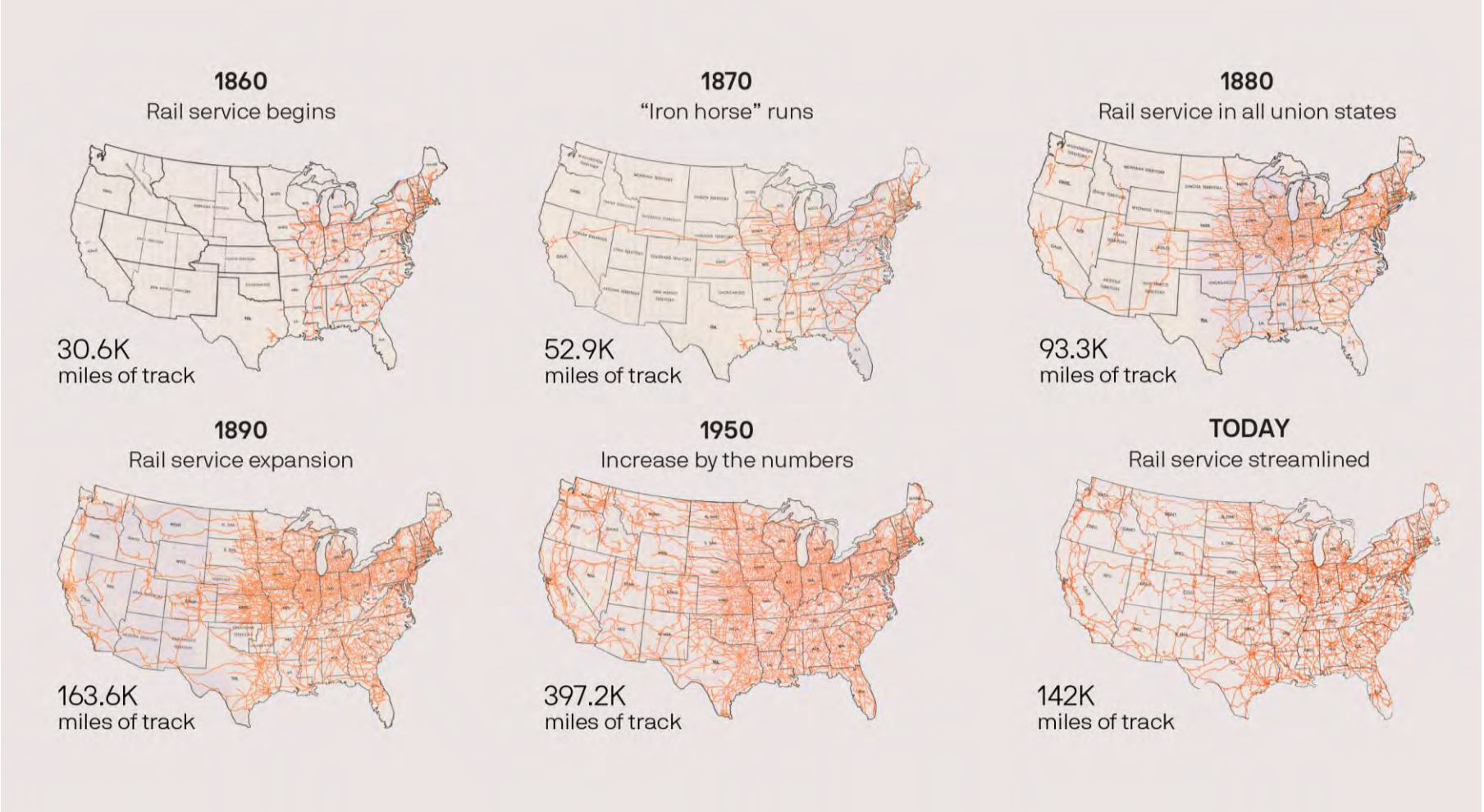
Source: LSEG Datastream, MSCI, S&P Global, J.P. Morgan Asset Management; data as of July 31, 2026. MSCI indices are used for EM, Europe and Japan, US: S&P 500. US hyperscalers include Alphabet, Amazon, Meta, Microsoft and Oracle. EM hyperscalers include Alibaba and Tencent. The US software weight is adjusted to exclude Microsoft and Oracle given they are counted as hyperscalers.



Appendix

Historical case studies of capital investment booms

Growth of the U.S. rail network



Source: *American Railroads: Their Growth and Development*, Association for American Railroads, January 1950.

Key characteristics of the railroad boom

Descriptor	Key question
Origin	After emerging in the United Kingdom, railroad technology rapidly spread to the United States where geographic scale made the technology incredibly valuable.
Scale of investment	Peak investment reached 6% of GDP in the 1870s and an estimated 180 million acres of land grants were issued by the U.S. federal and state governments.
Duration	The railroad build-out took 60-70 years, peaking in the 1870s.
Key players	Initially, many smaller operators competed to establish commercially viable routes where geography was favorable. Consolidation gradually reduced the number as economies of scale became a key factor.
Sources of capital	Railroads raised large amounts of public capital in debt and equity markets, with support from government subsidies.
Nature of competition	Initially open competition, with increasing regulation as the scale of railroad operations grew and competitors consolidated.
Competitive end state	Passenger and freight rail were subject to local monopolies while competition increased near major urban centers and port facilities.
Market reaction	At their peak in 1881, railroads represented 66% of U.S. stock market capitalization.
Extent of business failures	Widespread bankruptcy was a defining characteristic of the railroad boom, as the need for huge capital investment created debts that could not be serviced in economic downturns.
Residual infrastructure	The rail system and its right-of-way is still in existence and would be impossible to build today.
Residual productivity/growth	By some estimates, the development of the railroads increased U.S. GDP by 25%. They facilitated decentralized manufacturing and industrialization. Farming in the Midwest and ranching in the West became profitable.
Disruptions	Except in localized cases, river and canal shipping became rapidly obsolete.

Source: J.P. Morgan Asset Management; data as of July 31, 2026. For illustrative purposes only.

The long distance and regional telephone system



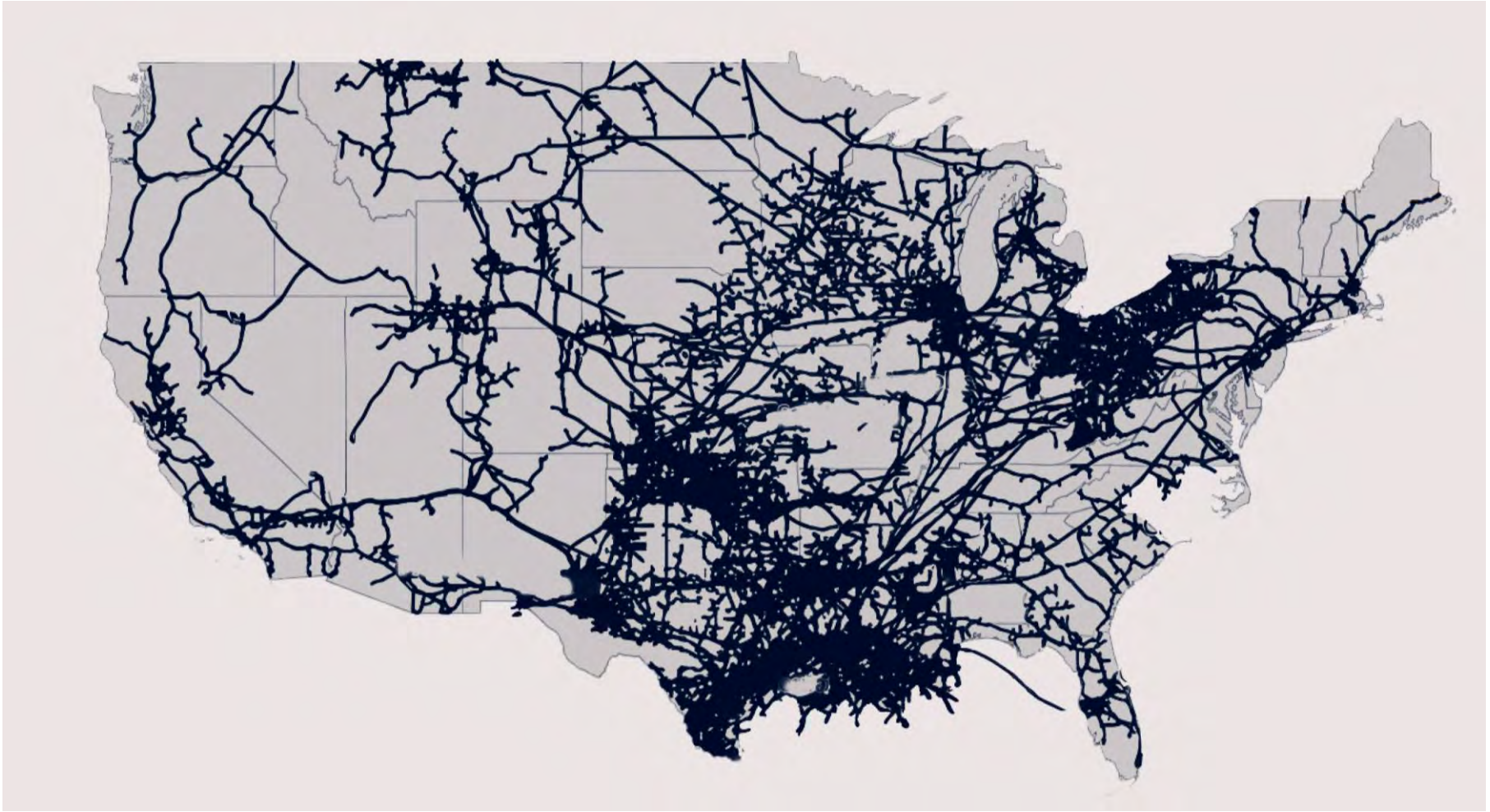
Source: M. D. Fagen, ed., A History of Engineering and Science in the Bell System: The Early Years (1875–1925), vol. 1 (New York: Bell Telephone Laboratories, Inc., 1975).

Key characteristics of the telephone system build-out

Descriptor	Key question
Origin	Telephone service piggybacked on the success of the telegraph, quickly replacing code-based transmission with voice transmission.
Scale of investment	Hundreds of billions of dollars were spent to build and maintain the telephone network, often reaching 3%-4% of GDP on an annual basis.
Duration	60-70 years
Key players	One: AT&T
Sources of capital	Public debt and equity
Nature of competition	Very limited. With few exceptions, the entire U.S. was using the AT&T local and long distance network.
Competitive end state	Monopoly. Eventually, AT&T split up into a series of geographic regional monopolies; there was little competition at the consumer level.
Market reaction	AT&T eventually became the most valuable company in the world by market capitalization, and a massive issuer of investment grade bonds.
Extent of business failures	Limited due to AT&T's monopoly
Residual infrastructure	Significant, capital-intensive infrastructure including long distance and local networks, undersea cables, and switching technology.
Residual productivity/growth	The productivity advantages provided by instantaneous low-cost communication are exceptionally large. AT&T's research arm, Bell Labs, developed many groundbreaking technologies including the transistor, laser and solar cell.
Disruptions	Legacy communication systems disappeared almost immediately, and the barrier to entry limited competition and innovation. Longer term consequences include higher prices for connectivity, long distance calling, and a lack of choice in equipment.

Source: J.P. Morgan Asset Management; data as of July 31, 2026. For illustrative purposes only.

Oil and gas pipelines in the U.S.



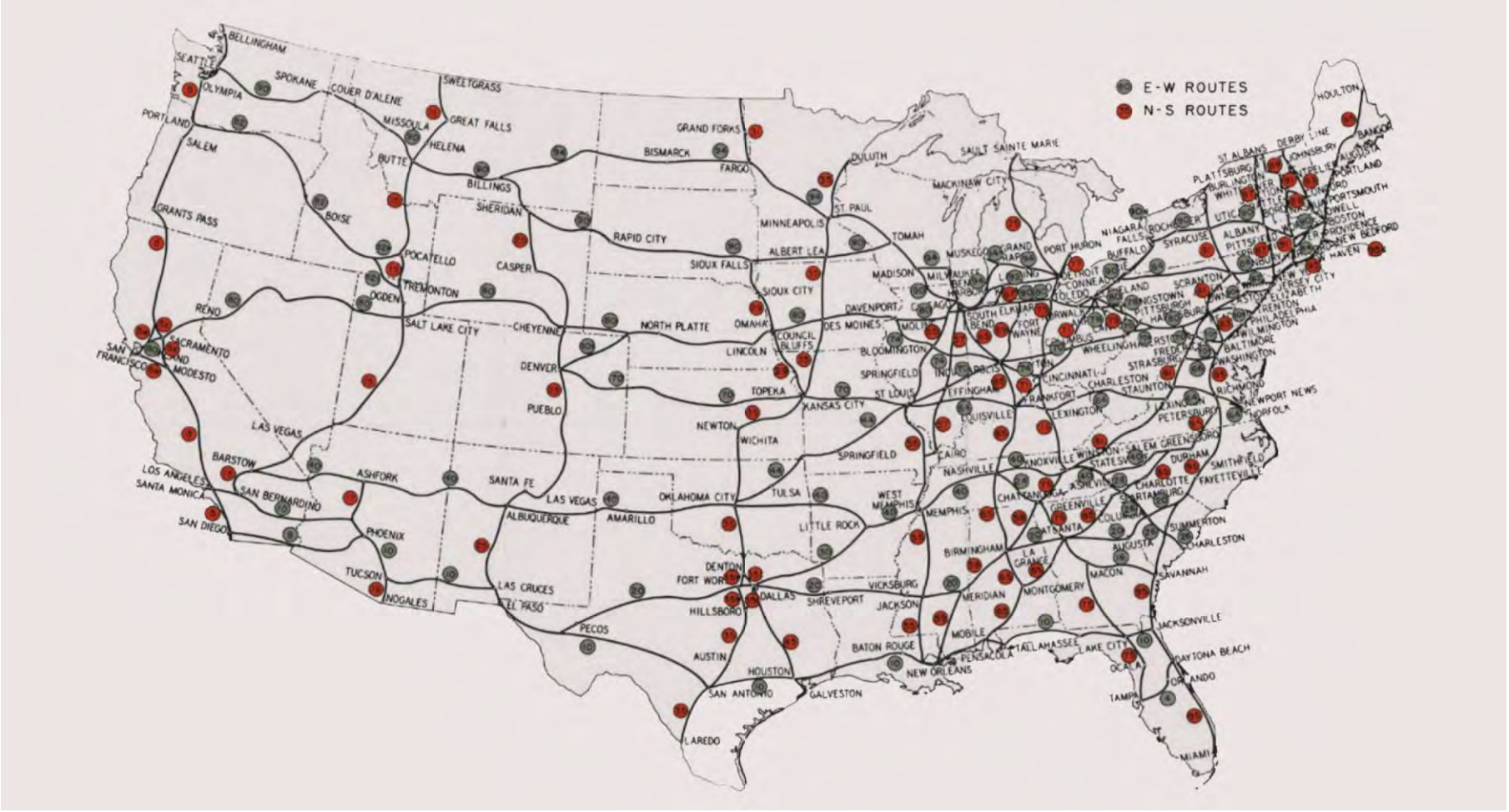
Source: U.S. Department of Transportation, Pipeline and Hazardous Materials Safety Administration. National Pipeline Mapping System (NPMS). Accessed July 31, 2026. https://www.npms.phmsa.dot.gov

Key characteristics of the petroleum boom

Descriptor	Key question
Origin	Petroleum emerged as a replacement for costly lighting and heating energy sources in the second half of the 19th century.
Scale of investment	Investment in oil and gas has grown steadily over time, though the economy's oil intensity has diminished as efficiency gains and electrification have taken hold.
Duration	The industry emerged into something resembling its modern form between 1880 and 1930.
Key players	Upstream production has remained a fragmented industry. Downstream production was consolidated under Standard Oil and subsequently shifted to a small number of oil majors with limited direct competition.
Sources of capital	Standard Oil was formed as a private partnership and never listed its shares on any stock exchange. Other oil companies raised capital in the public equity and debt markets.
Nature of competition	Limited. A monopoly under Standard Oil, and subsequently a highly regulated business with limited direct competition.
Competitive end state	Limited competition across large, well-capitalized refining and distribution companies. Speculative upstream drilling and extraction.
Market reaction	Standard Oil was the largest company in the world at the time of its breakup—valued at over USD 1 billion (estimated value of USD 1 trillion today).
Extent of business failures	Upstream drilling is subject to booms and busts based on access to producing fields and prevailing market prices. Downstream refining and distribution are generally highly profitable and there have been few, if any, business failures.
Residual infrastructure	The infrastructure of the oil and gas industry requires an enormous amount of ongoing capital investment. Major facilities/assets (pipelines, tankers, refineries, storage) have long working lives.
Residual productivity/growth	The widespread availability of a steady supply of concentrated, portable energy allowed for the development of the automobile, airplane, diesel trucks and locomotives.
Disruptions	Whaling and candle-making for lighting were displaced rapidly by kerosene, which in turn was displaced by electricity. Personal transportation and airlines eventually displaced passenger railroads for long-distance travel, though not for freight traffic.

Source: J.P. Morgan Asset Management; data as of July 31, 2026. For illustrative purposes only.

The U.S. interstate highway system



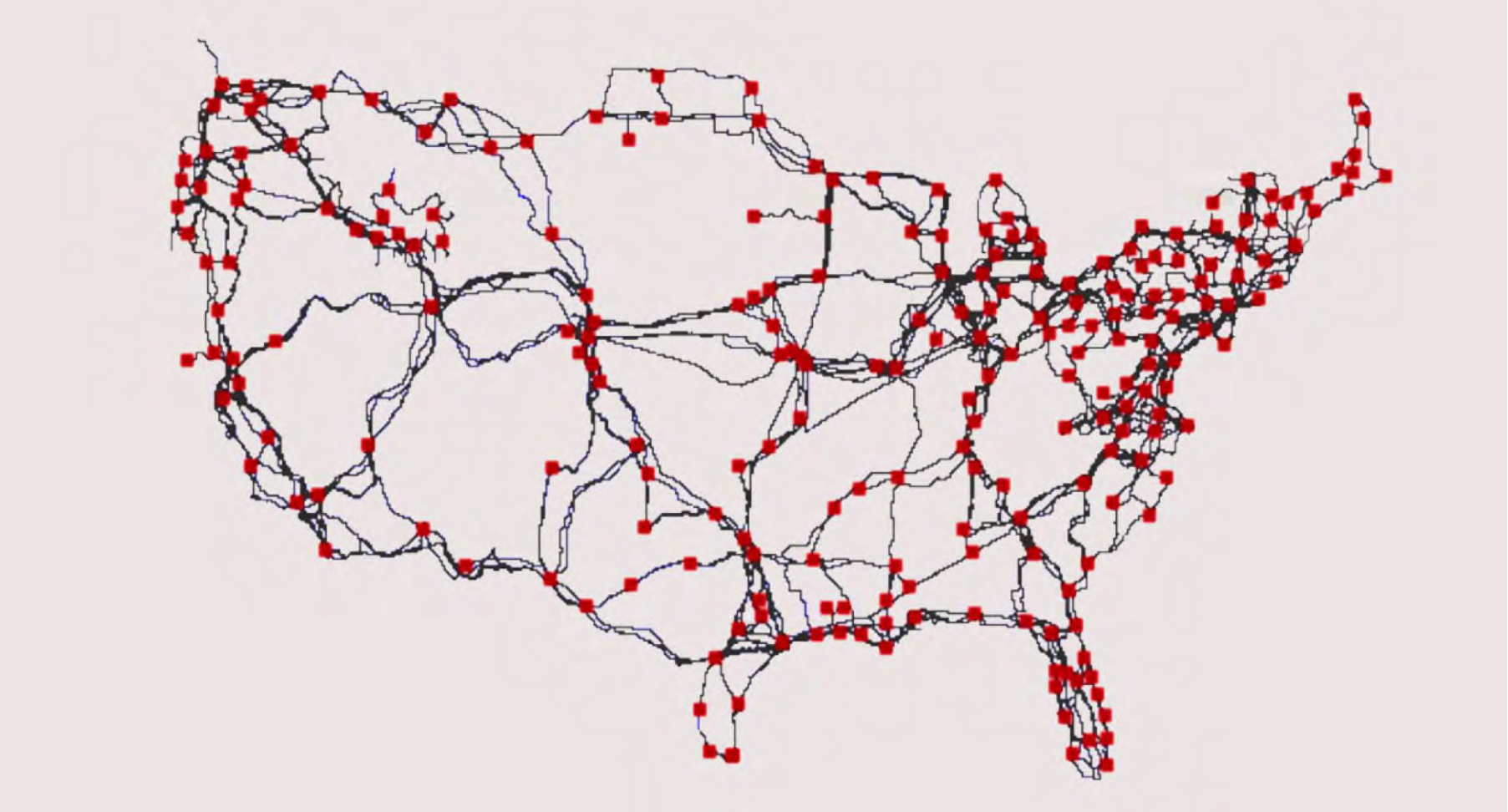
Source: Elisheva Blas, "The Dwight D. Eisenhower National System of Interstate and Defense Highways: The Road to Success?," The History Teacher vol. 44, no. 1 (November 2010): fig. 1 (appendix), 134.

Key characteristics of the interstate highway system buildout

Descriptor	Key question
Origin	The federal government initiated a massive capital investment project to create a nationwide interstate highway system.
Scale of investment	In current dollars, more than USD 600 billion was spent on the system and there are extensive ongoing maintenance costs.
Duration	30-40 years
Key players	The project was initiated and designed by the Federal Highway Administration, with state agencies leading the contracting and supervision.
Sources of capital	Gas taxes and public debt
Nature of competition	None. The interstate highway system is effectively a government monopoly. The construction bidding process was competitive.
Competitive end state	Monopoly. Technically the individual states "own" their portions of the interstate network, with costs shared between federal and state authorities. In rare cases, privately financed toll roads compete with existing interstates.
Market reaction	No public securities were issues specifically to fund the highway system.
Extent of business failures	None.
Residual infrastructure	The system represents more than 44,000 miles of highways
Residual productivity/growth	Estimates of the multiplier effect of highway spending range from 1.8X to 6.0X, and some estimates suggest that the system is responsible for roughly one quarter of overall productivity growth during the period of its construction.
Disruptions	Decline in passenger rail, higher levels of pollution and greenhouse gas emissions associated with automobile traffic, destruction of some urban neighborhoods and increased suburban sprawl.

Source: J.P. Morgan Asset Management; data as of July 31, 2026. For illustrative purposes only.

Fiber-optic cable network

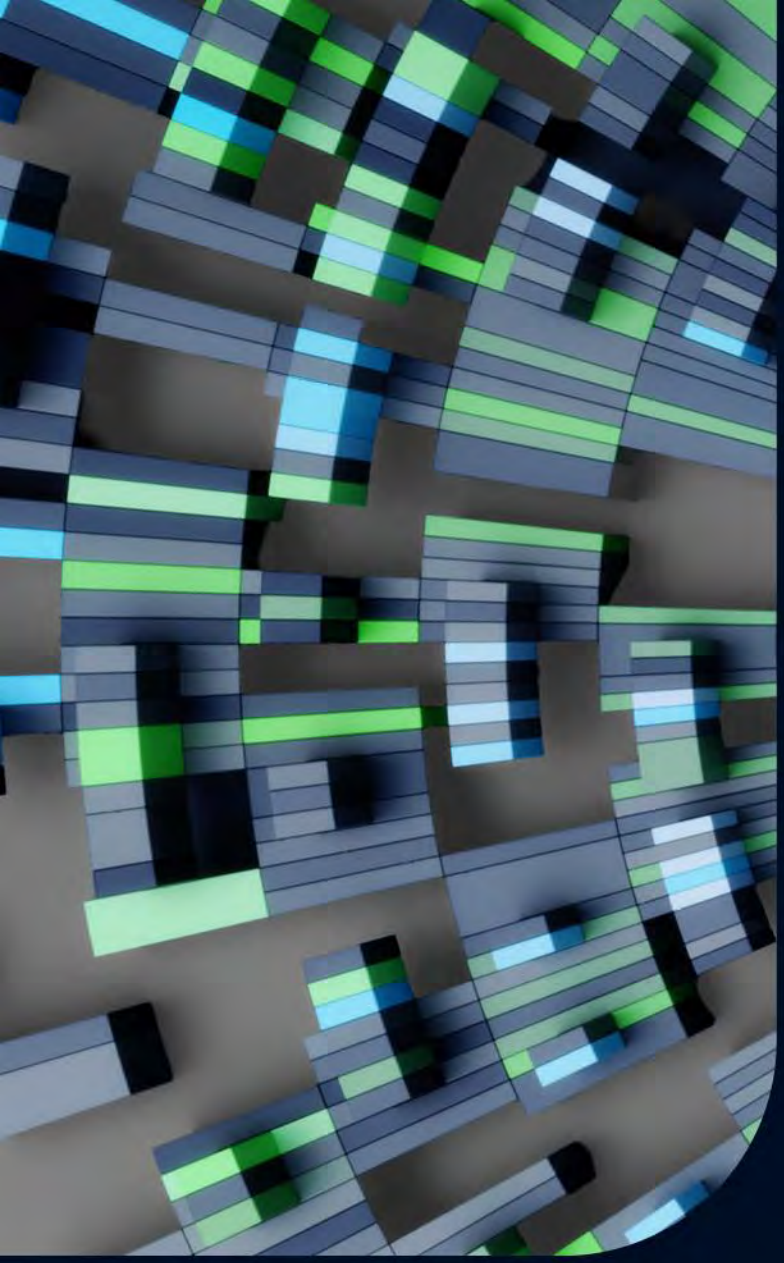


Source: Ramakrishnan Durairajan et al., "InterTubes: A Study of the US Long-haul Fiber-optic Infrastructure," in Proceedings of the 2015 ACM Conference on Special Interest Group on Data Communication (SIGCOMM '15) (London, United Kingdom, August 17–21, 2015), fig. 1, https://doi.org/10.1145/2785956.2787499.

Key characteristics of the fiber-optic boom

Descriptor	Key question
Origin	Deregulation of the telecommunications industry coincided with advances in fiber-optic cable technology.
Scale of investment	Hundreds of billions of dollars were spent to build out a fiber-optic network in parallel to the older copper wire network.
Duration	10 years
Key players	Several large telecom firms, including WorldCom, Global Crossing, Nortel Networks, Qwest, and Lucent Technologies; suppliers including Cisco, Corning and JDS Uniphase.
Sources of capital	Public equity and debt
Nature of competition	Highly competitive. Telecom deregulation allowed wide-open competition across telephone, internet and cable providers.
Competitive end state	Low cost competition
Market reaction	Fiber-optic investment and valuations reached a peak within a few years and collapsed quickly. Shareholder and bondholder losses were extreme.
Extent of business failures	Numerous companies failed and others lost much of their peak equity values.
Residual infrastructure	The extent and durability of fiber networks established in the late 1990s remains operational today.
Residual productivity/growth	The modern internet could not exist without the massive capacity of the fiber-optic network created between 1996 and 2001. The scale of the network could only have arisen from a capital boom in which multiple companies competed for total dominance.
Disruptions	Legacy cable and dial-up internet were disrupted.

Source: J.P. Morgan Asset Management; data as of July 31, 2026. For illustrative purposes only.



Appendix

Appendix

Macroeconomic and market update

Where are we now?

A summary of the macroeconomic and market landscape

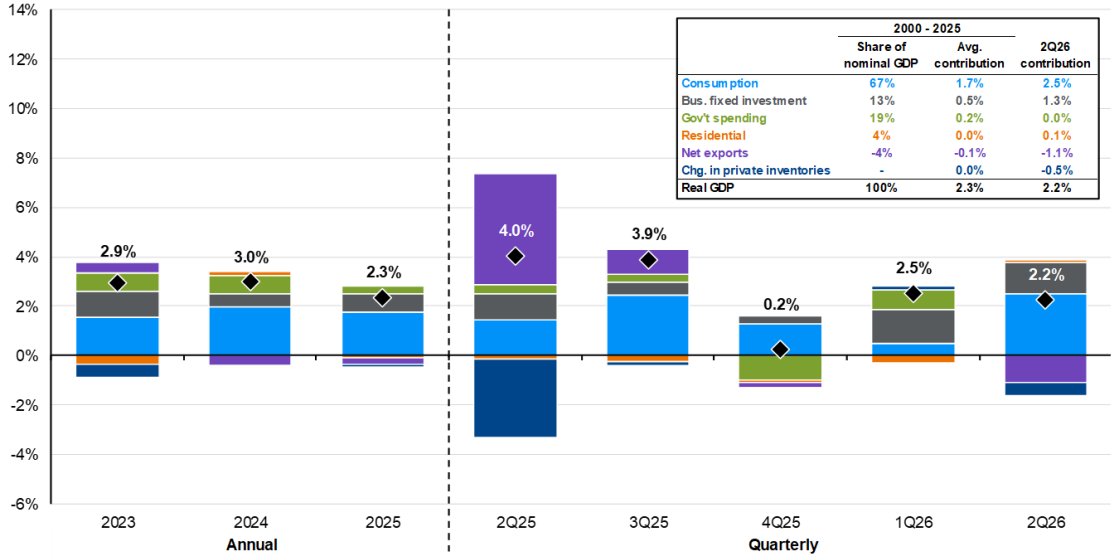
Growth	Likely to remain healthy given high levels of AI capex. Concerns about labor supply remain in the background.
Inflation	Elevated due to energy prices, tariffs, tight labor markets and consumer demand.
Fed policy	Pivoting to a more restrictive stance, with substantial uncertainty surrounding the change in Fed leadership.
Fiscal balance	Substantial structural deficits are now the norm, with elevated debt service and rising debt-to-GDP baked in.
Interest rates	Front end rates elevated and yield curves steeper on inflation uncertainty and Treasury supply concerns.
Credit spreads	Spreads are tight. Hyperscaler issuance impacting IG, HY credit quality improving as risk moves to private markets.
U.S. equity	Revenue growth and margins appear sustainable, but elevated capex is eating into buyback and dividend expectations.
Global equity and FX	Reasonable valuations and currency tailwind from U.S. dollar weakness supportive of the outlook.
Real assets	Increasingly viewed as core defensive holding against inflation, AI concentration and elevated stock/bond correlation.
Financial alternatives	Higher rates may be a headwind for legacy private equity and credit, but a tailwind for hedge funds and distressed.

Opinions and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice.

Growth is positive, but not for everyone

U.S. GDP growth is being driven by a combination of consumption and business fixed investment.

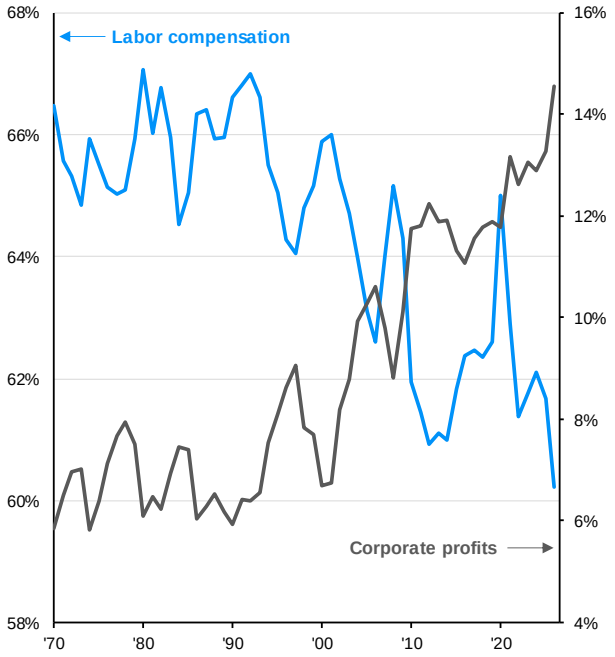
Contributors to real GDP growth
Seasonally adjusted annualized rate



	2000 - 2025 Share of nominal GDP	Avg. contribution	2Q26 contribution
Consumption	67%	1.7%	2.5%
Bus. fixed investment	13%	0.5%	1.3%
Gov't spending	19%	0.2%	0.0%
Residential	4%	0.0%	0.1%
Net exports	-4%	-0.1%	-1.1%
Chg. in private inventories	-	0.0%	-0.5%
Real GDP	100%	2.3%	2.2%

Labor's share of national income has continued a multi-decade decline, while corporate profits share has grown.

Labor compensation vs. corporate profits
Share of national income, annual and 2Q26



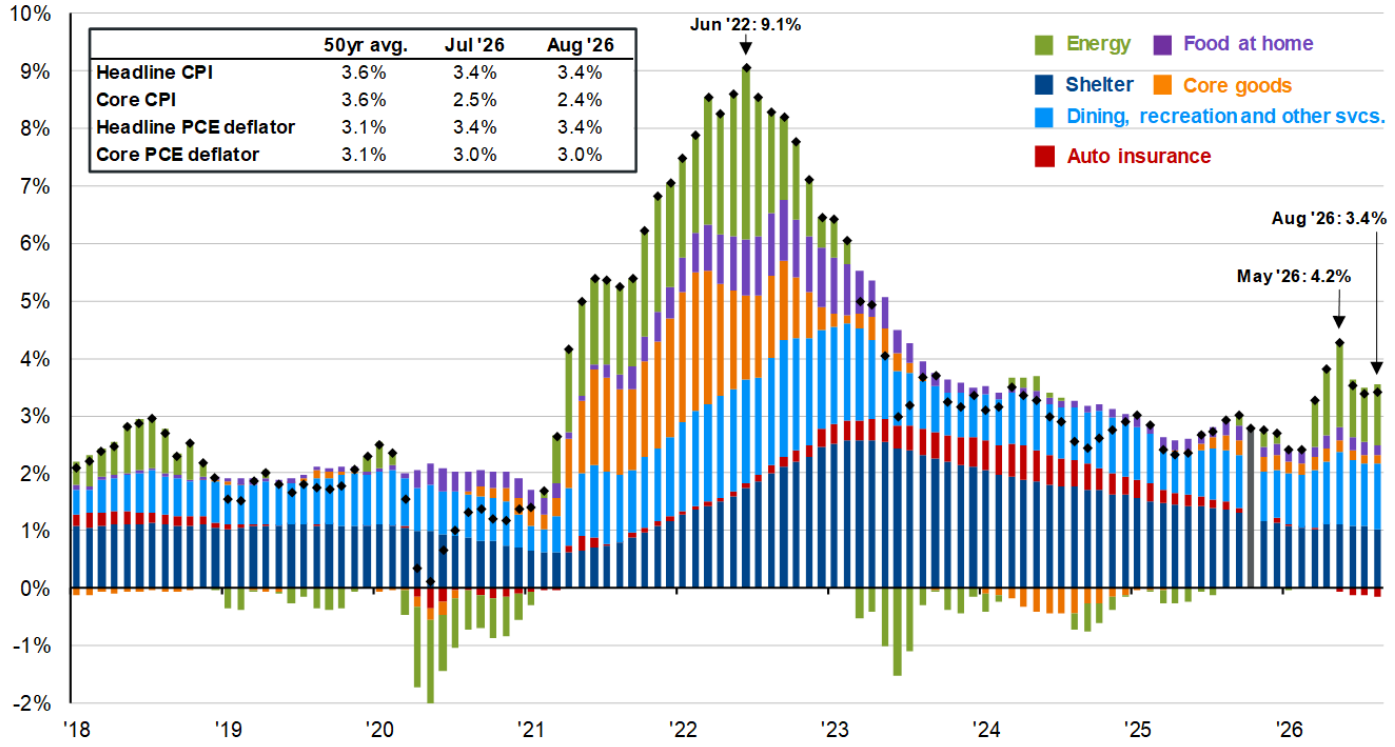
Source : BEA, FactSet, J.P. Morgan Asset Management. Guide to the Markets – U.S . Data are as of October 7, 2026

Inflation remains elevated

After initially peaking during the post-COVID period and the Russian invasion of Ukraine, inflation has declined substantially while still remaining above target for an extended period. Tariffs (in 2025) and the Iran conflict (2026) are driving more recent upswings.

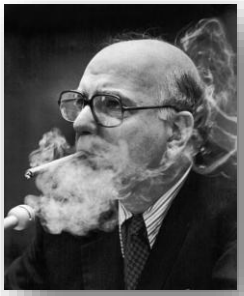
Contributors to headline CPI inflation

Contribution to year-over-year % change in CPI, non-seasonally adjusted



Source : BLS, FactSet, J.P. Morgan Asset Management; data as of October 7, 2026.

The Fed's evolving strategies for fighting inflation



PAUL VOLKER: The "brute force" method

HIKE RAPIDLY TO A VERY HIGH REAL RATE	CRUSH THE ECONOMY, AND INFLATION	CUT RATES RAPIDLY BACK TO NEUTRAL

VERDICT: Effective, but with a lot of economic pain



JEROME POWELL: The "finesse" approach

HIKE UNTIL REAL RATES ARE POSITIVE	HOLD STEADY AS INFLATION COMES DOWN	CUT RATES SLOWLY BACK TO NEUTRAL

VERDICT: Softens the economic blow, but inflation lingers



KEVIN WARSH: Judge us not by our words, but by our "limited" actions

NARROW THE MANDATE TO AVOID POLICY MISTAKES	END FORWARD GUIDANCE AND REDUCE ASSETS	EXPAND THE DATA SET ON INFLATION AND PRODUCTIVITY

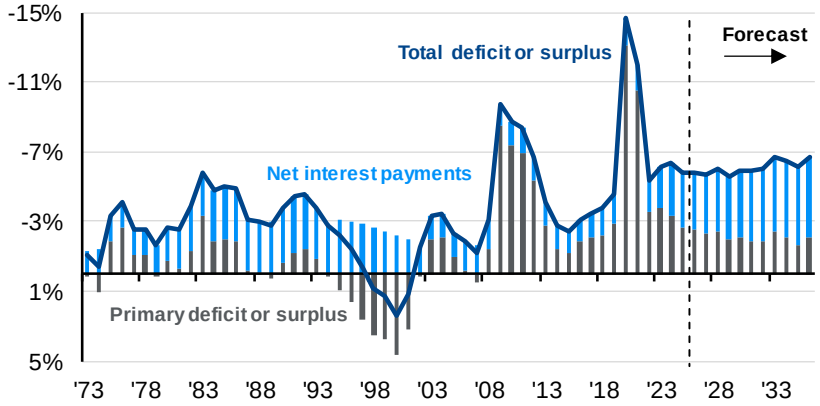
QUICK TAKE: An initial stumble on credibility, but a quick recovery?

Source: J.P. Morgan Asset Management; as of October 7, 2026.

Federal finances are going from bad to worse

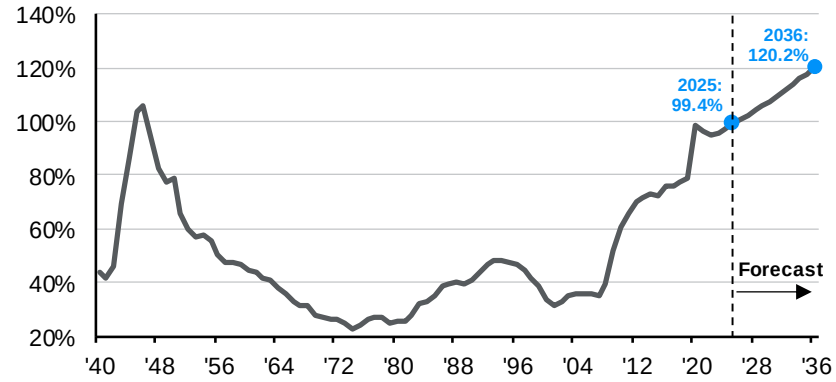
Federal deficit and net interest payments

% of GDP, 1973 - 2036, CBO Baseline Forecast



Federal net debt (accumulated deficits)

% of GDP, 1940 - 2036, CBO Baseline Forecast, end of fiscal year

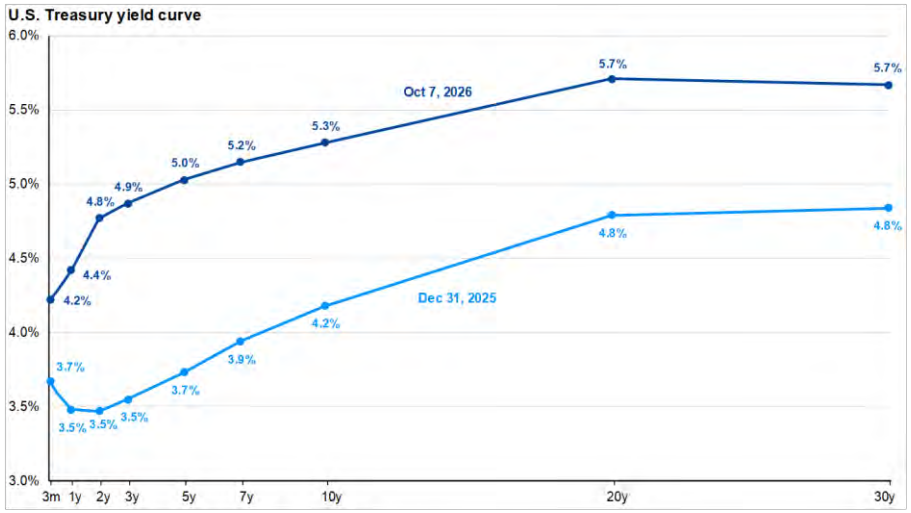


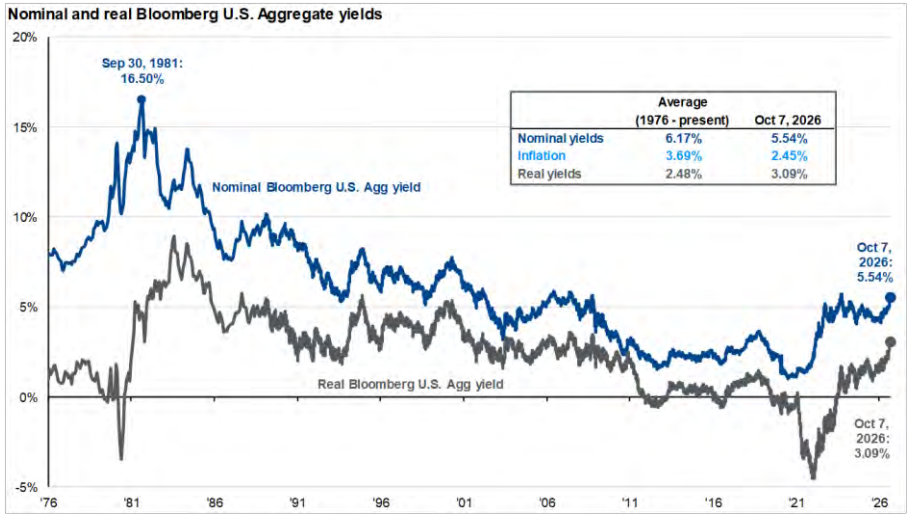
Traditionally, budget deficits stabilized during positive economic cycles, allowing growth and inflation to catch up to the debt. Today, annual deficits are roughly 6% of GDP, despite relatively positive growth and low unemployment. Debt service costs are a large and growing component of federal spending.

As a result, the debt-to-GDP ratio is expected to continue growing at a rapid pace, reaching more than 120% of GDP in the next decade. It remains unclear at what level this will become a problem.

Source: BEA, CBO, Treasury Department, J.P. Morgan Asset Management; data as of October 7, 2026.

Bond markets are noticing





	Average (1976 - present)	Oct 7, 2026
Nominal yields	6.17%	5.54%
Inflation	3.69%	2.45%
Real yields	2.48%	3.09%

Since the beginning of the year, short term interest rates have risen with expectations of more restrictive Fed policy, while long term interest rates show investors are demanding greater compensation.

Nominal interest rates and real interest rates are now back to levels reminiscent of the pre-GFC period. The impact on other asset classes from higher yields and real borrowing costs has been less obvious.

Source: FactSet, Federal Reserve, J.P. Morgan Asset Management; data as of October 7, 2026.

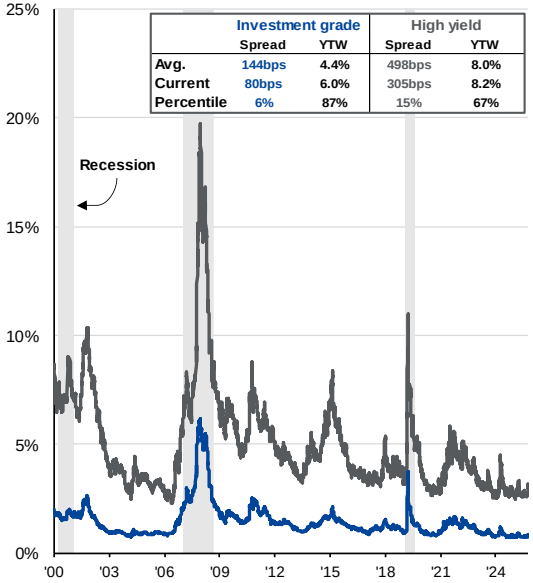
Credit markets are calm

Both investment grade and high yield spreads are at or near all-time tight levels. Strong fundamentals and healthy demand for all-in yield are driving investor demand.

Default rates have remained contained, though other measures of credit stress have shown signs of weakening. Some weakness is sector specific (software), but some is likely the cumulative effect of higher-for longer interest rates.

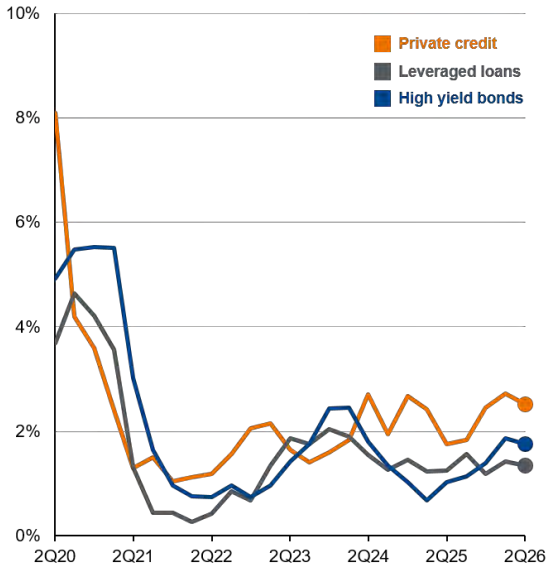
Corporate credit spreads

Option adjusted spread, 2001 - present



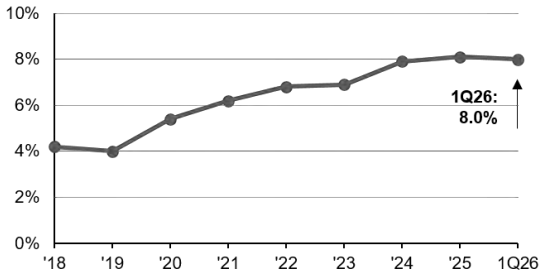
Public and private credit default rates

Quarterly



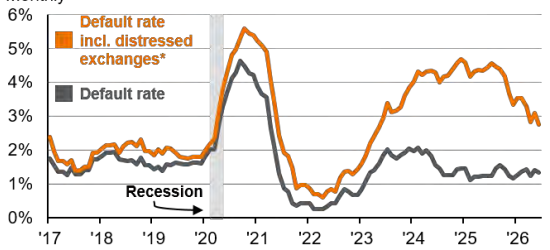
Payment-in-kind income by year

% of business development co.'s int. and div. income



U.S. leveraged loans default activity

Monthly



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management; data based on availability as of October 7, 2026.

U.S. equity markets: Catching up to the “Magnificent 7”

U.S. large cap remains incredibly concentrated, but this is largely backed up by fundamentals.

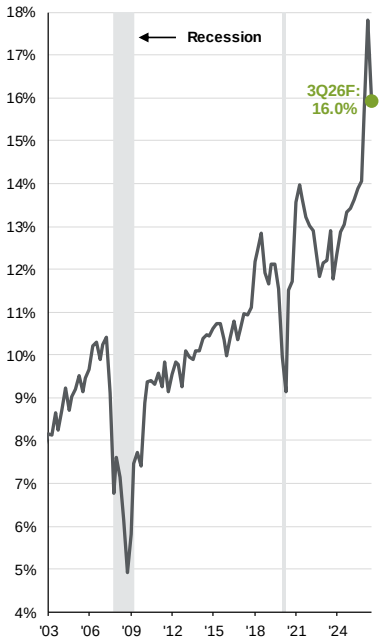
Margin growth expectations are rising to unsustainable levels.

Performance is starting to broaden out, but the market’s strength is still focused on growth sectors.

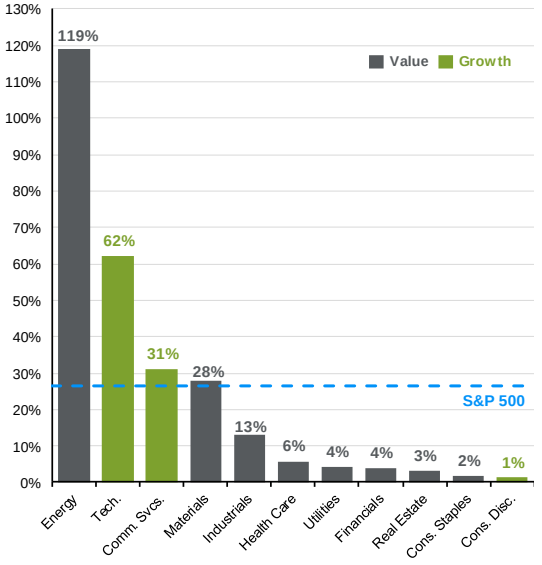
Weight of the top 10 companies in the S&P 500
% of market capitalization, % of last 12 months earnings



S&P 500 profit margins
Quarterly earnings/sales



S&P 500 earnings growth by sector
3Q26, consensus estimates, year-over-year



Source: Compustat, FactSet, FTSE Russell, Standard & Poor’s, J.P. Morgan Asset Management; data as of October 7, 2026.

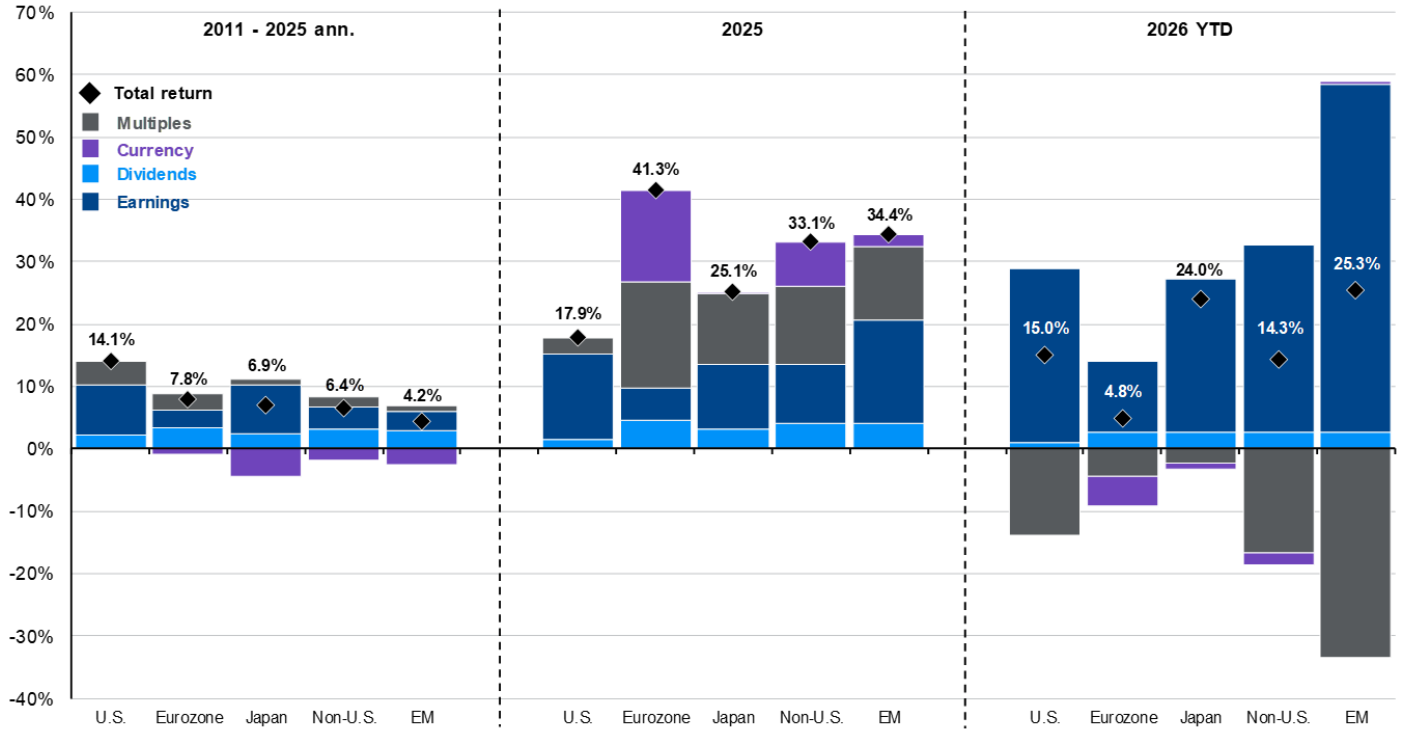
J.P.Morgan
ASSET MANAGEMENT

Global equity: After years of lagging performance, a comeback

For most of the post-GFC period, non-U.S. equities lagged U.S. equities by a significant margin, due in large part to lower earnings and currency weakness. Relative performance has improved recently, with strong earnings, higher multiples – and a modest contribution from currency effects.

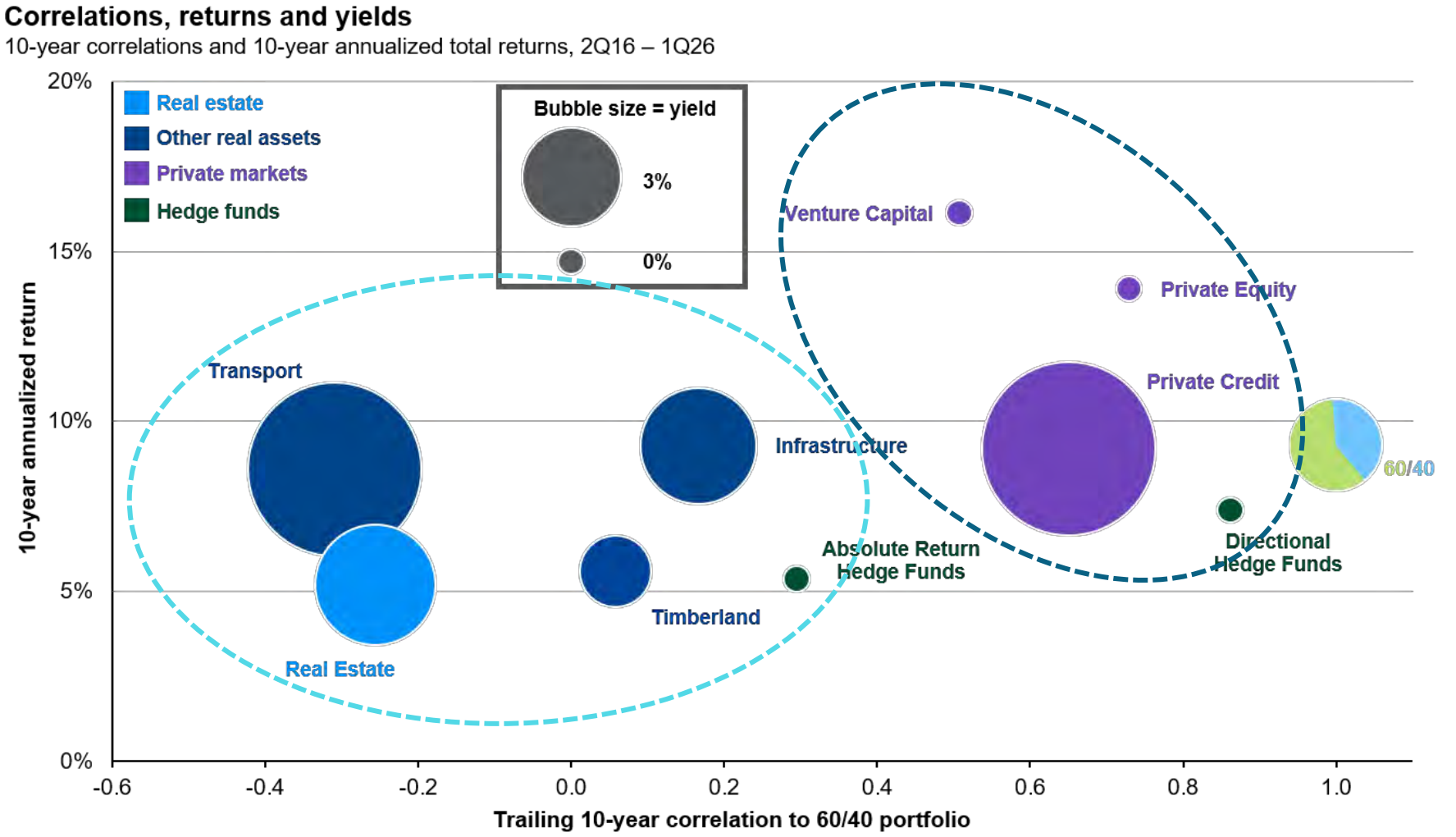
Sources of global equity returns*

Total return, USD



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management; data as of October 7, 2026.

Alternatives: A range of returns, income and diversification



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management; data based on availability as of October 7, 2026. Past performance is not indicative of future returns.

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