JP Morgan – 2025 investment outlook: U.S. equities – Renaissance U.S. Equity Value Fund

[Inspiring music]

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[Featuring David Silberman, Managing Director and Portfolio Manager, JP Morgan Equity Income and JP Morgan U.S. Value Funds]

[A headshot of David Silberman]

[An image of a modern office building]

>> David Silberman: We're optimistic about the outlook for 2025 for several reasons. We think a combination of pro-growth policies from the Trump administration, a continued easing by the Federal Reserve Bank, and finally, a broadening out of earnings, helps us to be constructive on the large cap value universe and specifically the US value strategy. Let's dig deeper into each one of these components.

First, we believe that the pro-growth policies of the Trump administration are going to help to extend the business cycle. Specifically, a greater emphasis on deregulation and the fiscal boost from extending the tax cuts that are set to expire could improve business confidence, open up capital markets, and accelerate economic growth. A continued easing by the Fed could lead to a re-steepening of the yield curve, and ideally lead to lower borrowing costs for both businesses and consumers. Finally, we think that after a period of growth being driven by a few companies, The Magnificent Seven, we expect to see a broadening of earnings from the rest of the market.

The broadening has actually started to happen and we expect it to continue. The economy has really been distorted for some time. If you think about a combination of the COVID lockdowns, the reopening of the economy, the monetary policies that were put in place to deal with the lockdowns—we had supply shortages, inflation took off, we had spending bills like the Infrastructure bill and the CHIPS Act. All of these led to different parts of the economy being in recession at different points in time. Growth over the last two years did very well, while many other sectors struggled. Many sectors are now normalizing. The Fed has started its easing cycle and we are already seeing earnings breadth widen. I should caution that there are always things that we are cautious about, or concerned about, and there are risks. Risks such as the potential impact of tariffs, geopolitical risks, and valuation across wide parts of the market are not cheap. So, we position the portfolio and we have been for some time overweight financials. Financials are actually the largest allocation in the portfolio today. Now the stocks

have been rallying very nicely but we still believe that valuation is attractive and we think there are a lot of factors that are going to help the financial sector going forward. We expect deposit costs to come down. We would think, with animal spirits rising, we would expect loan growth to start to pick up, merger and acquisition activity should begin to pick up as well, and capital returns by a lot of the financial institutions are likely to be robust. Most importantly, credit conditions are in very good shape. So a company that exemplifies our positioning is a company like Wells Fargo. The company has not been able to grow their assets in over seven years because of regulatory imposition on their ability to grow their balance sheet. Now, the rest of the industry has grown their balance sheet by over 40% over the last seven years. Wells was not able to grow their balance sheet, but was still able to grow their earnings. We think that the company is trading at a very attractive valuation, we think they're making progress in addressing their regulatory issues, and they have been spending very, very aggressively to rectify those regulatory issues to the tune of about $2 billion a year. Now, while all of those costs won't come out, we do expect them to decline once the asset cap is removed. And finally, we think they have a lot of excess capital so that they'll be able to buy back stock and be able to go on the offensive for the first time in seven years.

Another area that we're overweight in the portfolio has been home improvement retail. And home improvement retail has been in a recession for the last three years. If you think about the Covid lockdowns, these companies, Home Depot and Lowe's, have been in a period where, during the lockdowns, there was a lot of demand where people were spending on their homes because they were stuck in their homes. Once the economy reopened, people substituted their spending from goods to services. So think experiences like travel reopening. Home Depot and Lowe's have been in a period where for the last three years, they've actually generated negative comps. What we find attractive and what we always look for is secular growers, companies that have a long runway of growth, and both Home Depot and Lowe's represent about 25% of an industry that we think will continue to grow. And we believe both companies will continue to take share, both in the DIY, the do-it-yourself area, as well as the professional markets. This is about a $1 trillion market with a long runway for growth. Both companies have pretty much built out their infrastructure in terms of stores. So they're spending on technology, they're spending on making sure their supply chains are in order, and during this period of negative comps, the companies have been aggressive in buying back their stocks.

So something we like companies to do, and returning excess cash flow by raising their dividends. Finally, the age of the housing stock in this country has only gone up with the average age of a home at over 40 years. What we would expect to happen is you can delay fixing issues in your home for only so long. So we would expect a combination of home improvement spending on repair to continue to accelerate given the age of the housing stock. And if the Fed's easing cycle continues, we would expect lower mortgage rates to follow down the road. And that's the added kicker that we would expect the velocity of housing turnover to pick up. And people, when they move into homes, tend to spend aggressively. So those are just two areas that we've concentrated the portfolio for 2025.

[Inspiring music]

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