# 2024 Market Outlook

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**We are likely at or near the end of current rate hike cycle with central banks more positive that they are well positioned to slow inflation without excessively slowing growth. However, the positives may already be priced into key markets such as US equities. Asia equities, which has underperformed other major equity markets in 2023, could have more upside as the macro backdrop turns more supportive in 2024. However, volatility in equities could rise in certain markets from key elections held in early 2024.**

# MARKET OUTLOOK AND STRATEGY

1. Global growth has remained resilient in 2023 but likely to weaken and stay below trend in 2024. Global services demand has slowed from robust growth earlier this year to barely expansionary at the end of 2023. Goods demand though bottoming, is likely to remain slow in 2024. Global inflation will likely decelerate but remain at elevated levels as sticky wage-inflation offsets deflationary pressures from supply-chain improvements and tighter financial conditions.

2. The US economy is growing at a comfortable pace supported mainly by services. Consumption remains healthy as unemployment rate is still at low levels and household balance sheets are still in robust shape. Manufacturing activities are still weak due to higher borrowing costs and waning goods demand though partially supported by positive fiscal policies such as the Inflation Reduction Act and Chips Acts.

3. The Eurozone economy remains weak from the headwinds of high energy prices, weak global demand, and higher borrowing costs. However, the outlook for retail sales and household consumption could become more positive going into 2024 as real wage growth is expected to turn positive with a decline in inflation and with a resilient labour market.

4. The post-pandemic recovery in China has been below market expectations and the multitude of incremental easing measures have so far failed to shore up confidence, especially in the property sector. Economic growth could however accelerate in 2024 if China chooses to significantly ramp-up its pro-growth measures or fiscal spending.

5. The Federal Reserve (Fed) has turned more dovish in the December meeting with Chairman Powell acknowledging that we are “at or near the peak rate” of this cycle. Projections by the Fed also show a downward shift in inflation and rates expectation in 2024 and we expect the Fed to begin cutting rates by the first half of 2024. The European Central Bank (ECB) also held rates constant in December. Although comments were more hawkish compared with the US Fed, we expect the ECB to also start cutting rates by April 2024.

6. Key risks are:
i) a stronger than expected US economy and inflation staying elevated leading to the Fed keeping rates higher for longer,
ii) policymakers in China failing to stabilise expectations and
iii) a deterioration in the geopolitical situation leading to a spike in energy prices.

# EQUITY

**7.** Market sentiment and positioning has turned risk on at end of 2023 with consensus view of a soft landing in the US. Equities have historically performed well post the final Fed rate hike in a soft-landing scenario. The risk however is that consensus projections for earnings acceleration on expanding margins next year could be too optimistic as we are likely to see a rollover in corporate pricing in 2024.

**8.** US equities is very expensive as it trades at roughly 35% premium to historical median and as such, the risk to reward profile is not attractive. And mega-cap stocks would continue to outperform in 2024 only if realized sales and earnings growth beat current lofty expectations.

**9.** The macro backdrop is likely to be more supportive for Asia equities with peak US interest rates, a weaker US dollar and recovering Asian export volumes on the back of an inventory replacement cycle. But country specific factors matter too. The performance of China equities would depend on sufficient policy announcements in the coming months to help prevent financial systemic risks and help restore confidence. And the outcomes of the Taiwan presidential election in January 2024, Indonesian general election in February 2024 and Indian general election from April 2024 would drive equity returns in those markets.

**10.** The Japanese stock market has performed well in local currency terms for 2023 but the outlook is uncertain in 2024. The performance of the Japanese stock market depends on whether domestic economy can sustain its post-COVID growth, inflation, and wage hikes, as support from the Yen weakness diminishes and we await the global economy to recover. That said, structural changes in the Japanese stock market such as the current drive to improve corporate value and shareholder returns should continue unabated.

# FIXED INCOME

**11.** We are positive on Investment Grade Bonds which are supported by benign macro, strong corporate fundamentals, and termed-out maturities, especially in the US. Spreads, though tight, are likely to remain stable. We could see lower carry-driven excess returns due to current valuations, but higher total returns from stronger yield support in 2024.

*All data are sourced from Lion Global Investors and Bloomberg as at 18 Dec 2023 unless otherwise stated.

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