Global macro outlook 2024

Ten predictions

Much like this report in 2023, global conditions will remain unique and defy a confident overall summary; thus, here are ten predictions on some particularly noteworthy factors.

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1. 2024's unique characteristics

The odds are significant for a gradually growing global economy with decelerating inflation, but there are numerous factors, many of which are listed below, that will likely make investment conditions far from propitious or even reliably stable. Thus, we still believe that investors should not rely heavily on traditional models of previous economic and financial market recoveries, especially ones that worked best since the mid-1990s, as we remain in a unique era; rather, they should maintain a somewhat cautious and balanced perspective, with targeted risk-taking in select countries, sectors and stocks, as described in our other 2024 outlook pieces. Indeed, active stock selection, in particular, will be just as important in 2024 as it was in 2023 (in the US, for instance, where the broader equity market hardly rose, but the Magnificent 7 surged and represented a very large portion of index appreciation), so special attention is required in selecting managers who have excelled in the last several challenging years.

2. Western central banks will keep rates quite high to hamper "second-round effects"

These "effects" will be the key factor in how inflation evolves, and rate cuts may start much later than consensus expects. Labour's wage demands, coupled with the strikes and harmful supply shocks usually affiliated with such, obviously stand out, but the perceived "pricing power" of corporations and landlords will also be key, and they all will be watching how determined central banks will be to maintain high rates given the increasing political pressure as economies weaken further. Like we noted a year ago, this is most true in Europe, where inflation is the highest in the developed world and where labour is very powerful, especially in key political, infrastructure and economic channels. The media is covering only the largest strike actions, but there are many barely covered ones, so investors should often screen the news themselves for such. Conversely, countries with low labour demands should have an advantage economically, especially Japan and much of Asia.

3. China's positive pivots

China, much like a year ago, faces a particularly uncertain year ahead. Just at the November 2023 APEC meeting, it pivoted towards a truce with the US, but it remains to be seen how long such can withstand any sort of divisive events, like the weather balloon episode, that (forgive the pun) can blow the relationship off course again. The Taiwan election especially comes to mind, as does the trend in reciprocal economic sanctions. The EU, UK, Japan and Australia are also greatly hoping for improved relations that help domestic economic growth. China's economic recovery will likely continue at a moderate pace and its recent renewal in the financing of property development, just like a year ago this time, was a major pivot in policy that will likely support economic growth, although the previous mania for purchasing property and the economy's reliance on such will continue to be diminished. Clearly, all sides would benefit from a respite in economic and political tensions, so the incentives for success are very high. For its part, China will likely resume purchases of US Treasuries after major sales in 2022 and 2023. It also desires a more stable backdrop as it addresses the weakness in its housing sector and parts of its financial markets, while also improving the troubling situation for ordinary citizens and local governments. Meanwhile, US and other countries' corporations, especially Apple, hope that their factories there can keep producing despite various restrictions, that China will remain an important client and that the entire global supply chain will continue healing.

4. Geopolitics will continue to be a factor

The "Clash of Systems and Philosophy" will clearly continue, especially with Russia, Iran and China pursuing their own path. The Russia-Ukraine war will likely continue quite violently through much of 2024, but possibly in much less bloody way later in the year, so this may calm risk markets. The Middle East remains of clear concern, especially how Iran reacts to current developments, although there are many signs that no sides desire a widespread conflagration. If matters worsened in either of these regions, oil prices would likely become an unhelpful factor for the global economy, as would risk sentiment in general. In Asia, Taiwan will be important to watch given its January Presidential election, as China's reaction to a William Lai victory would likely become problematic. One hesitates to mention North Korea, as it is a perennial, unpredictable worry, but hopefully China will restrain it from its increasingly provocative actions so that the opposing parties can reduce tensions.

5. US elections

It is impossible to accurately predict the outcome for the Congressional and Presidential elections, as much depends on factors during the year ahead. As for the latter, my only prediction is that it will not conform to current consensus about the two top candidates for victory, and that it will be quite a wild ride. One needs to recall that much of the US governing process is fairly stable in nature, so the effects will likely be less extreme than the media headlines indicate. This latter fact is likely true for the UK, as well, although the ability of the Labour Party to effect changes would likely be greater than any potential changes in the US.

6. Besides elections, domestic politics will be important

Just like we noted a year ago, fiscal stimulus globally is already greatly constrained due to fears of its inflationary effects and as interest expenses surge, but even the normal functioning of fiscal affairs may encounter significant turbulence. In the US, the Republican control of the House of Representatives will continue to cause major disputes, including on fiscal affairs, and if a financial market or economic accident somehow occurs, action will need to be taken. House investigations of various political matters are also likely to cause great discord as well. Like the prediction a year ago, in Europe, political dissent beyond strikes is likely to be intense—especially as energy subsidies wane due to the need for fiscal restraint. Incumbent parties on both sides of the political spectrum are losing favour, with a tilt towards more conservative parties. Asia, however, again looks much calmer on the political front, which should help its economic and financial market performance.

7. Credit markets

Perhaps the greatest surprise in 2023 was credit markets' resilience, especially in the US. Although we did not predict a major worsening in such in our predictions, they clearly were of concern for nearly everyone, especially the role of private equity and private credit. We did warn, however, about extreme volatility and upsetting events in the crypto space, which clearly occurred. Meanwhile, the US banking scare in March 2023 was prevented from becoming a wider credit crisis by effective Federal Reserve and US government actions. Of course, credit markets weakened, defaults increased, especially in commercial property markets, personal lending and other areas, but not to shocking levels. 2024 will likely see continued worsening, but in ways that are reasonably predictable. Many credit investors now have regained confidence that the next Fed and ECB moves are cuts and, thus, while still cloudy, the investment skies ahead are less dark, which should keep markets reasonably well supported.

8. For overall global risk markets, one should expect neither "Doom and Gloom" ahead, nor a Goldilocks scenario

This point seems worth repeating. Although the S&P 500 greatly exceeded most predictions for 2023, as noted above, the average stock was quite soft. In Japan, stocks surged in local currency terms, but much more moderately in USD terms. The US equity market is even more expensive than a year ago at this time, so a strong rally seems unjustified from current levels, but most other countries are reasonably fairly valued and could perform well, although forex exchange factors will likely continue to play an important role. Europe, however, is suffering from unique difficulties, so it may be quite a struggle uphill. Within this backdrop, stock and sector selection will clearly be the most important key to achieve positive returns. As for Japan, nearly all power centres want the yen to stabilise around current levels, and if such occurs, it is my experience that countries that emerge strongly after currency weakness often achieve good equity returns in USD terms ahead.

9. Avoid over-reacting to short-term scares

Many macro-economic, corporate earnings and credit shocks likely lie ahead in the quarters ahead, as the global economy remains in a semi-stagflationary period in which former excesses are "cured;" however, this is part of the healing process in which the intermediate-term equity outlook is actually improving, so investors should not panic in the short-term. Indeed, as for corporate earning shocks, as long as such are not far below analysts' estimates, investors may forgive such, especially if the overall outlook remains positive.

10. Peaking problems

This may be a holiday-inspired wish, for both mankind and for investors like us, rather than a completely objective prediction, but a year from now, the world will likely face fewer huge immediate challenges. As Hamlet lamented, we have endured endless "slings and arrows of outrageous fortune" for many years and it is hard to imagine such worsening except as dire tail risks. Many of the poor economic and financial conditions, as mentioned above, both in the recent past and through 2024, are part of the healing process, and while our political problems are unlikely behind us, their shock value will likely fade. Such would allow the world to face the longer-term structural challenges more effectively.

Conclusion

We greatly hope that these comments, as well as the other outlook pieces, will prove useful to our investors and we are always willing to address their thoughts and questions. We could all use a bit of good luck in the year ahead after the tumult of the last few years.

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