

Moving Into 2024

In December our inboxes were full of forecasts for 2024, in which there was some consensus and some conflict in opinions of what would happen this year. Now as we are in the second week of January, some of these prophecies are still holding strong, whilst others have already fallen by the wayside reminding us of the speed at which the investment landscape can change and the pitfalls of trying to predict what may happen.

Inflation was a key talking point in 2023 and is likely to remain a hot topic through 2024. Rampant inflation has driven a cost-of-living crisis both in the UK and abroad, forcing central banks in many countries to raise rates to temper it. As we moved through the latter half of 2023 inflation rates had started to cool, in some cases considerably. However, towards the end of the year there were signs that the trajectory of cooling would be a little 'bumpy'. We see the need to bring inflation in line with central bank targets as a continuing theme into 2024.

Interest rates kept rising in many countries throughout 2023, with the number of rises and peak rates a hotly debated topic. As we reached the end of the year it did look like most central banks were done with their rate hiking cycles, with attention shifting to predicting when and where the rate cuts would start. The 'higher for longer' mantra seemed to be forgotten

as we came into year end with predictions for Federal Reserve and European Central Bank rate cuts starting as early as March. However, the latest inflation figures may call this in to question with policymakers retaining a cautious stance; evidence from previous rate cycles shows cutting rates too soon can lead to a rapid resurgence of inflationary pressures. We think 'higher for longer' will remain as we move through 2024.

Recessions were a key concern going into 2023, with high inflation and rising interest rates expected to be a drag on economic growth. Whilst economies did slow throughout the year to varying degrees, the long-expected recessions have in most cases not occurred. That said, they remain a threat for some economies (most notably Europe) as we move into 2024. With rates staying unlikely to return to their pandemic lows, companies will have to adapt to the higher cost of borrowing or fail.

2024 will be a record year for elections with more than 50 countries and close to 2 billion people (according to The Economist) due to go to the polls. In the UK it now looks like we will go to the ballot boxes towards the end of the year, with a labour majority the bookmakers favoured outcome at present. However, the US election is likely to have the most impact on the global economy. With a

second Trump presidency on the cards, there are questions about the future of several of Joe Biden's key legislative achievements, as well as his approach to conflicts in the Middle East and Ukraine, as well as climate. All of these combined mean geopolitics will remain a key source of global economic volatility.

Whilst many of these themes are a cause for concern, we remain cautiously optimistic for markets as we head into 2024. Bonds are now a genuine competitive alternative to equities. If central banks have reached the peak of the hiking cycle, it should be easier for businesses and consumers to plan for the coming months, even if rate cuts remain some way off. In many markets valuations still look attractive presenting opportunities for active managers and diversified portfolios.

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