Outlook 2024

Summary

11 December 2023

SIGNET

Introduction

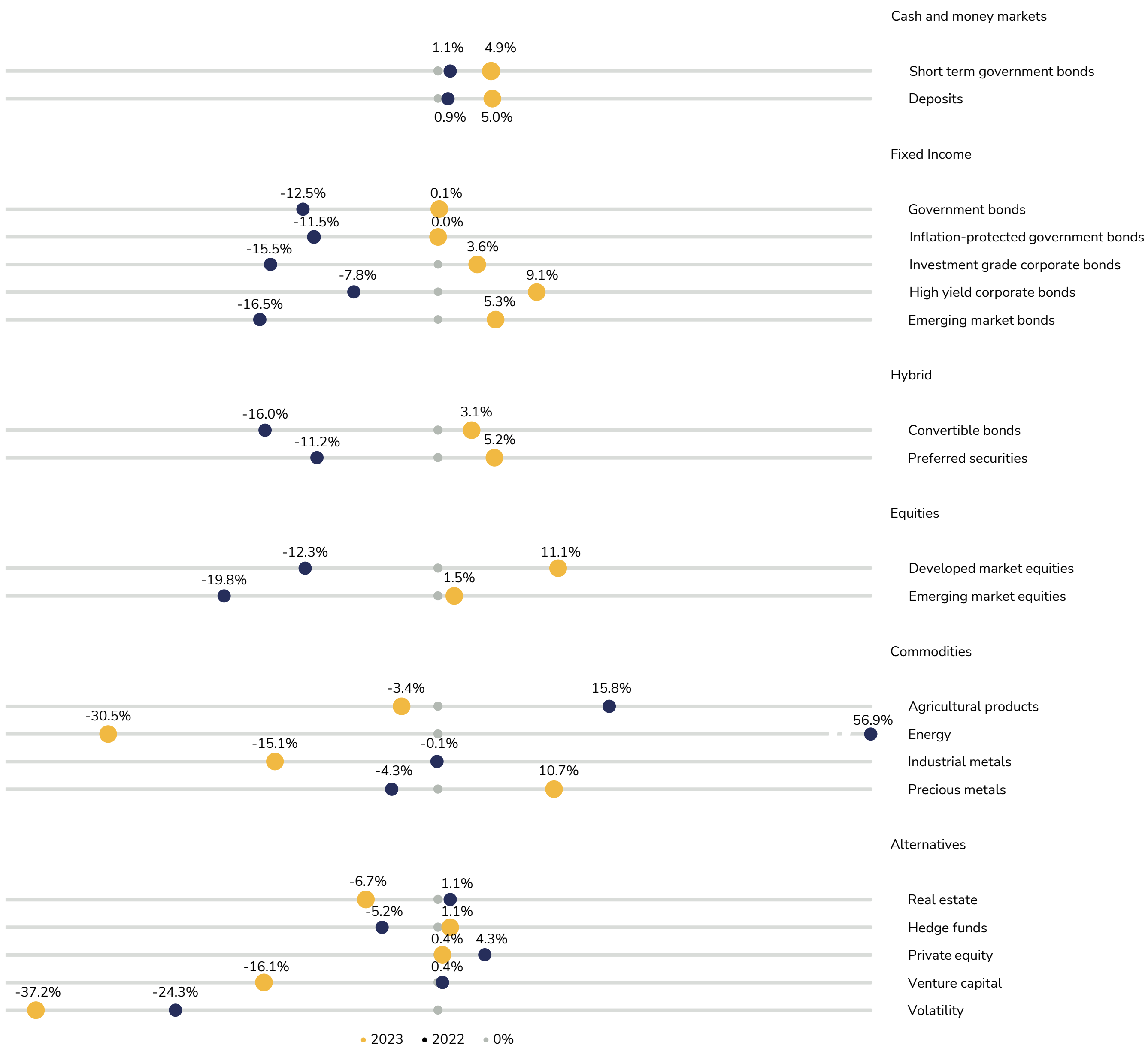
Stay calm and continue investing

- After a mind-blowing 2022, when almost all investable assets were down in price, 2023 provided positive returns for optimistic and calm investors (**fig. 1**).
- Staying invested in 2023 paid off materially and reversed losses of the previous year to a large extent. Total return indices of some assets, e.g. S&P 500, printed close to all-time highs values on fading recession fears, inflation normalization and stable corporate profits.
- In the 3Q23 the US economy — a locomotive of global growth — expanded by 2.9% (real terms, YoY), beating consensus expectations and leaving long-term potential growth of c.2% behind. Oct’23 CPI in the US was just 3.2% YoY, proving that inflation drama is likely to be over. Consequently, the Fed may not need to be hawkish for long. If tech-driven earnings growth continues, this will likely boost returns of risky assets in the US space.
- Eurozone real GDP expanded an anemic 0.1% YoY in 3Q23. However, CPI normalization is similar (2.9% YoY in Oct’23), which can lead to less restrictive monetary policy from ECB to boost sluggish activity. European equity indices may be lagging US peers due to lower share of innovative public companies with high earnings growth potential.
- Positive global economic growth, which may get a long-term tailwind from an AI-led productivity increase, along with tamed inflation and normalization of geopolitical situation are good reasons to stay invested in assets like public equities and bonds in 2024.

Chart source. Bloomberg, proprietary calculations. Private equity and venture capital — June/June performance. Please refer to the investment manager for details.

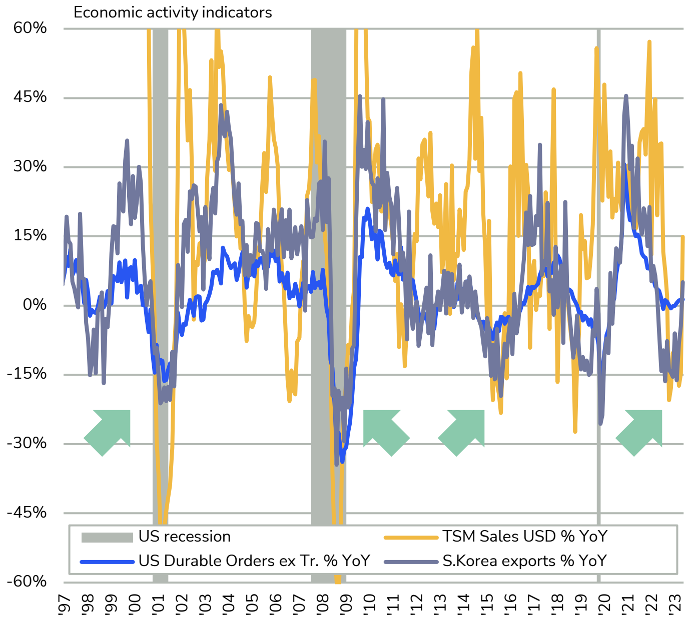
1. 2023 brought positive returns for those who did not exit the market in 2022.

Performance of assets in 2022 and 2023 (Nov/Nov)

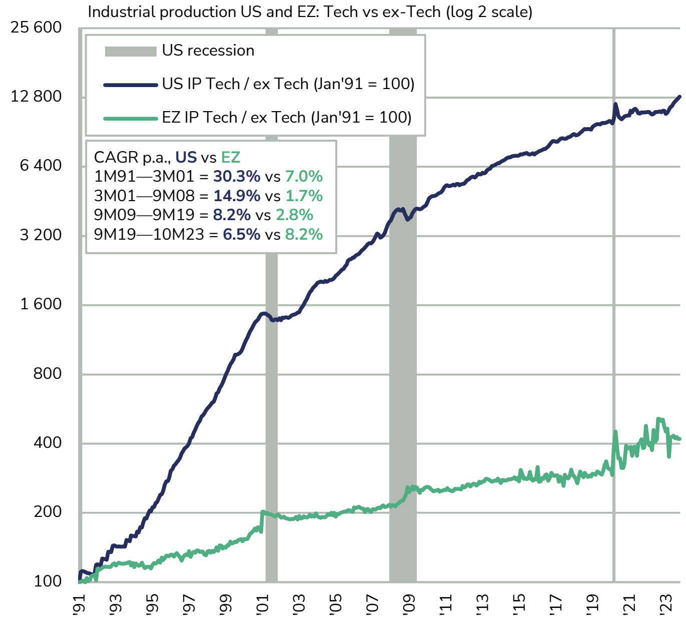


Outlook 2024
The most important charts

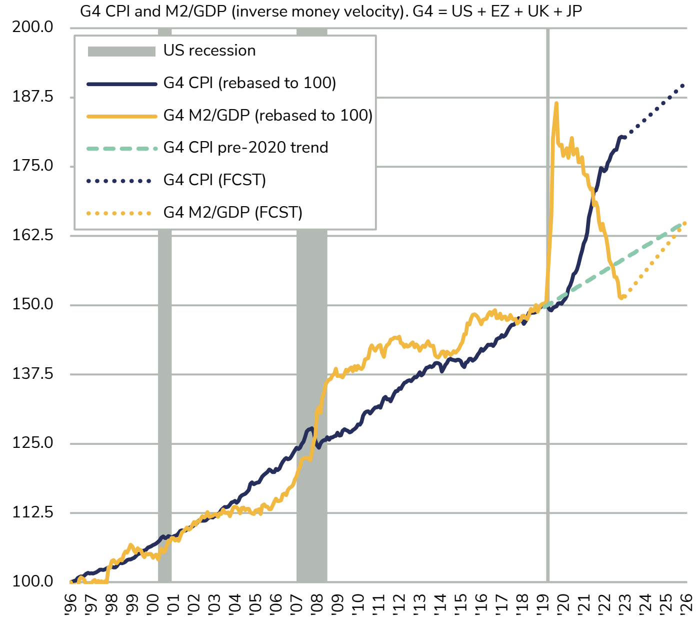
1. Signs of global business activity acceleration.



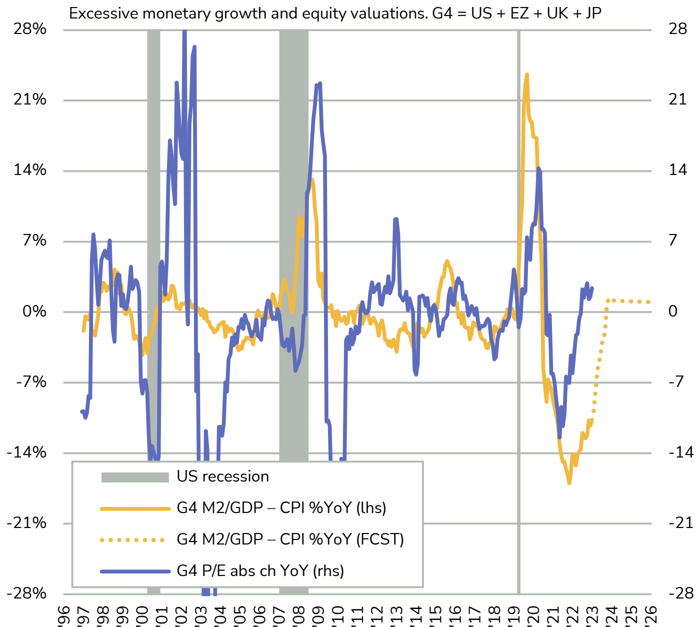
2. Big tech will continue to drive economic growth.



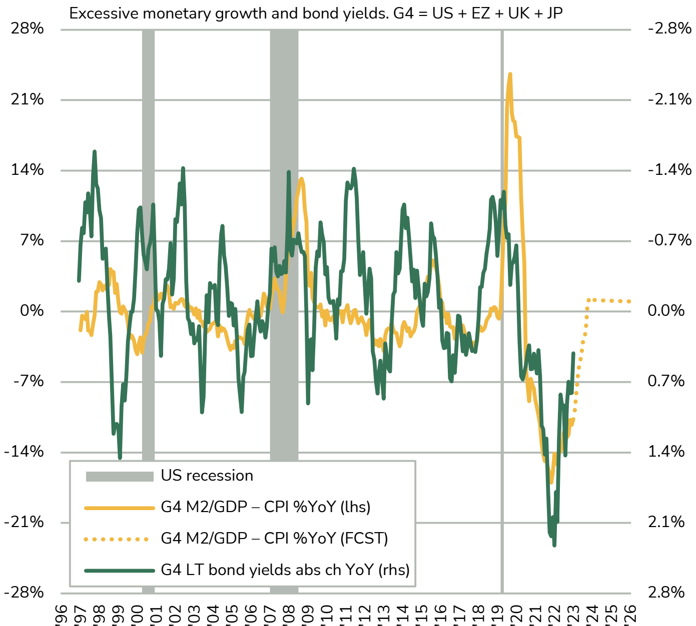
3. Monetary tightening may be over...



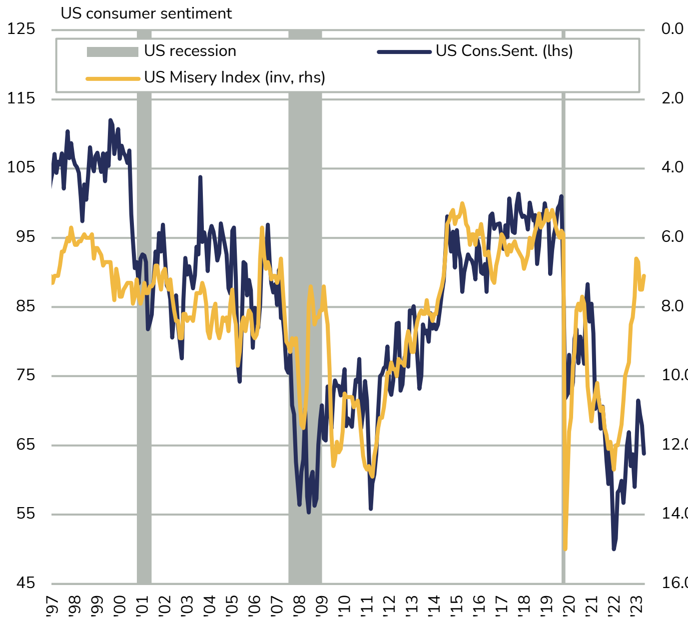
4. ...Which can support equity valuations...



5. ...And decrease bonds yields.



6. Consumers' views are worse than reality.

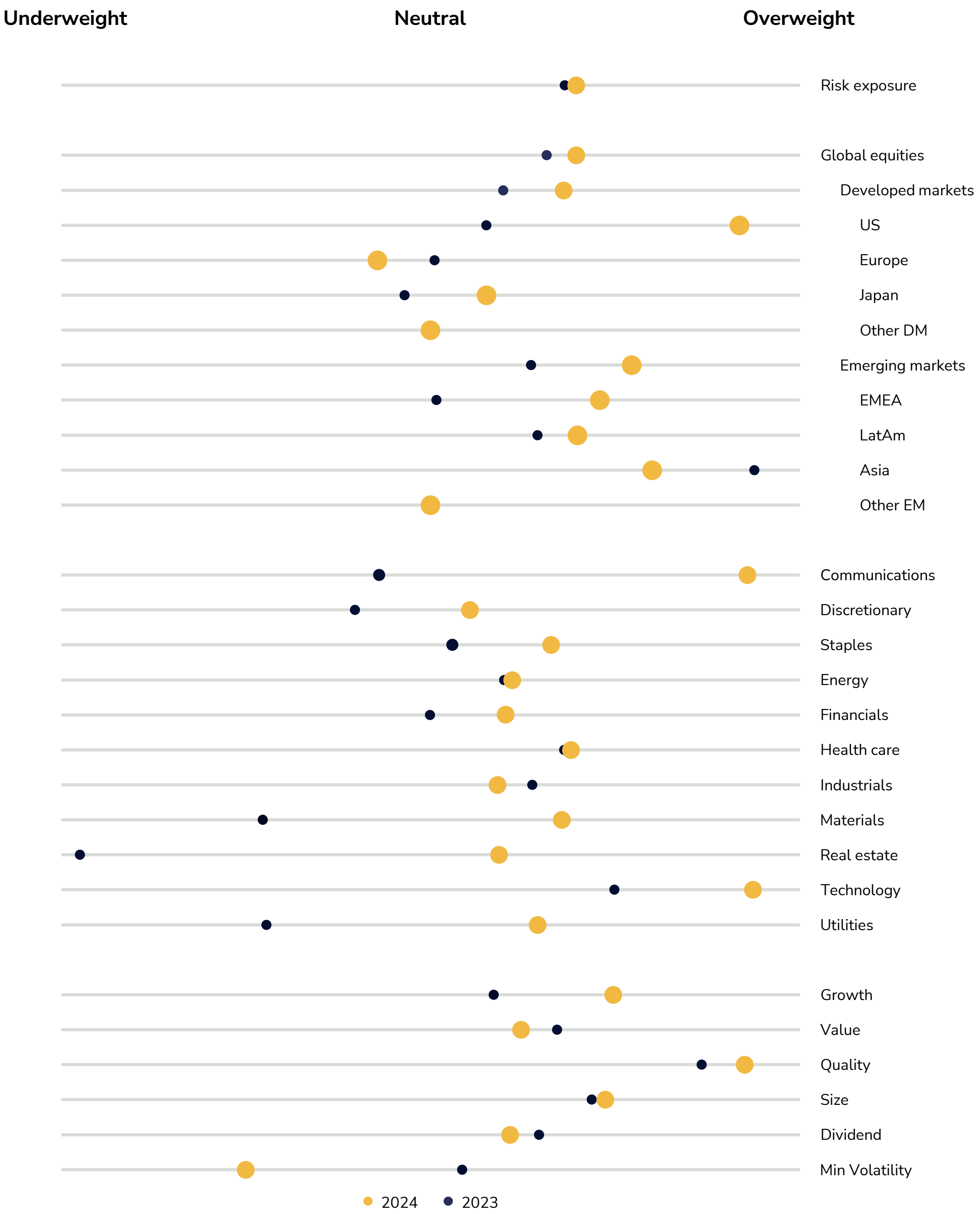


Outlook 2024
Summary

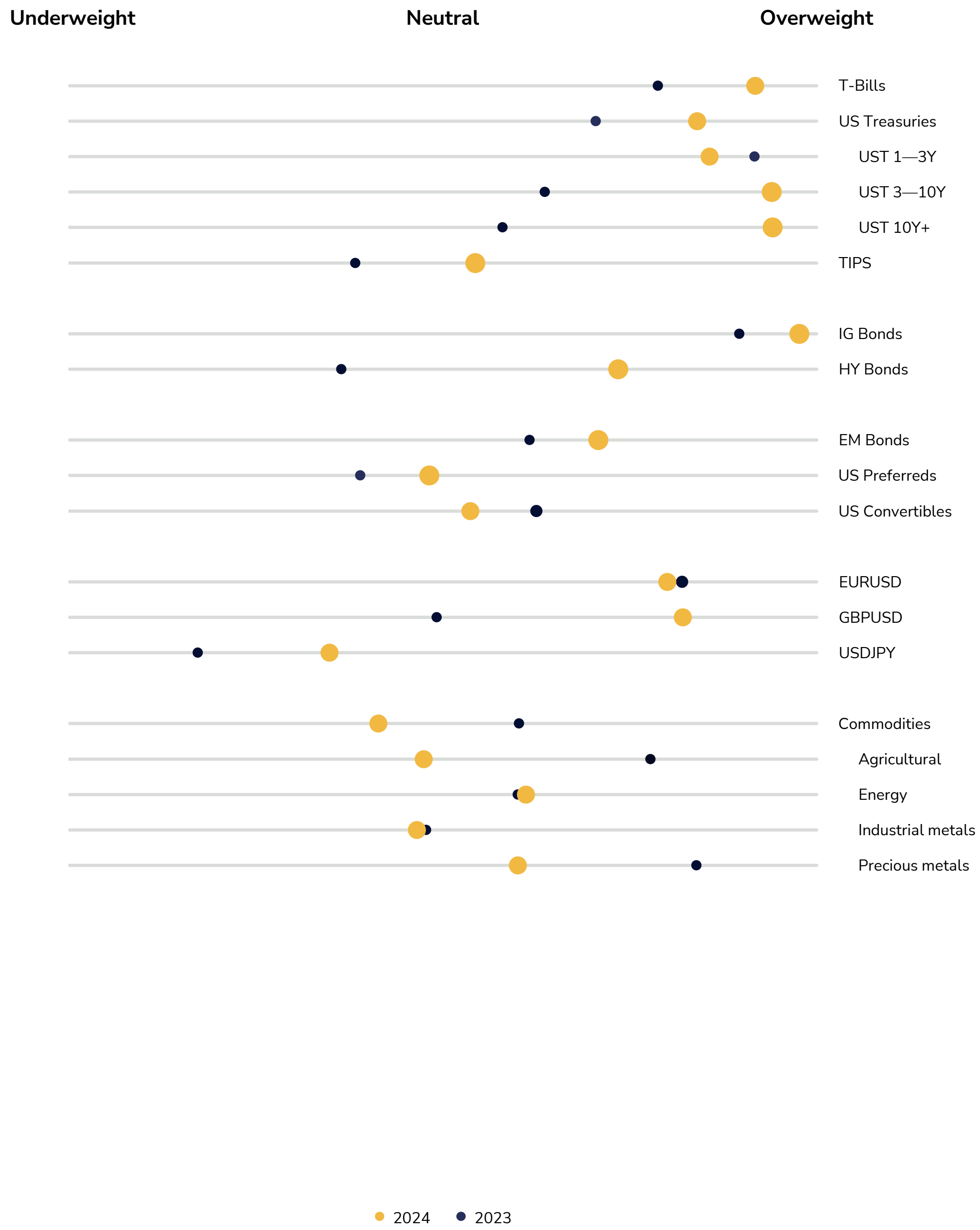
Theme / Asset Class	View	How to play
Economic growth	Positive global economic growth, US economy as a major driver	Investments in equities and investment grade corporate bonds, prefer US over RoW
Inflation	Further deceleration to low single digit levels in the US and the EZ	Prefer medium to long duration fixed income instruments
Central banks	End of excessive monetary tightening, money supply growth in line with CPI	Investments in equities, government and investment grade corporate bonds
	Potential reduction in key base rates in mid-2024	Favor government and investment grade corporate bonds. High duration for risk takers
Equities	US: positive low single digit growth in EPS, potential expansion in valuations	Investments in equities
	Acceleration of US business activity	Small and mid-caps may outperform large caps
	Equity volatility close to historical lows	Hedging equity portfolio with cheap options
	Productivity boost led by technological innovations	Favor new economy (technology and communications) over old economy (the rest)
Fixed income	Goldilocks: decelerating inflation, attractive yields	We are positive on fixed income, especially investment grade corporate bonds
	Pick up in economic activity	High yield may perform well
	Key interest rates have likely reached peak levels	Favor medium to high duration
Money markets	High short term base rates may hold till mid-2024	Money market investments for 6—12M
Commodities	Moderate global economic growth	Neutral on energy and base metals prices
	Decrease in USD real rates	Neutral to positive on gold
	Relatively high global temperatures	Negative to neutral on soft commodity prices
Alternatives	End of zero interest rate policy slashed demand for alternatives	Negative on private equity and venture capital
	Public-to-private deals get more and more interest	Focus on public companies that may become a target in buyouts
Currencies	Eurozone lags behind US rate cycle	Neutral to positive on EUR vs USD
	Attractive yields and PPP undervaluation of selected currencies	Constructive view on AUD, NZD, less on GBP. Risk takers may like MXN, BRL, COP
Themes	Cloud technology. The most promising innovation in tech space	Hyperscalers, AI enablers
	Virtual life. Focus to shift from growth to efficiency	Platform providers and hyperscalers
	Digital data. Computing capacity in high demand	Semiconductor design companies and foundries
	Health care. Stable and cash generative	Managed care providers
	Entertainment. New and classic ways to spend time	Restaurant chains with a strong franchise
	Infrastructure. Renovating cities	Construction material companies
	Financial edge. Digitalization in finance	Leading payment processing companies

Outlook 2024
Consensus views of Signet team

Risk exposure, equities by region and sector



Fixed income, currencies, commodities



Outlook 2024
Model asset allocation portfolios

% of portfolio exposure	Ultra low risk profile			Low risk profile			Medium risk profile			High risk profile			Ultra high risk profile		
Asset class and asset	SAA %	TAA %	Diff	SAA %	TAA %	Diff	SAA %	TAA %	Diff	SAA %	TAA %	Diff	SAA %	TAA %	Diff
Cash and money markets	**50.0**	**52.1**	**2.1**	**20.0**	**19.7**	**-0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short term government bonds	50.0	52.1	2.1	20.0	19.7	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fixed income	**50.0**	**47.9**	**-2.1**	**80.0**	**80.3**	**0.3**	**70.0**	**74.8**	**4.8**	**50.0**	**53.8**	**3.8**	**10.0**	**12.4**	**2.4**
Government bonds	50.0	47.9	-2.1	30.0	26.8	-3.2	20.0	20.7	0.7	10.0	11.4	1.4	10.0	12.4	2.4
Inflation-protected government bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment grade corporate bonds	0.0	0.0	0.0	50.0	53.5	3.5	30.0	36.0	6.0	10.0	12.7	2.7	0.0	0.0	0.0
High yield corporate bonds	0.0	0.0	0.0	0.0	0.0	0.0	20.0	18.1	-1.9	20.0	20.1	0.1	0.0	0.0	0.0
Emerging market bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.0	9.6	-0.4	0.0	0.0	0.0
Hybrid	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**20.0**	**14.6**	**-5.4**
Convertible bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.0	14.6	-5.4
Preferred securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equities	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**30.0**	**25.2**	**-4.8**	**50.0**	**46.2**	**-3.8**	**70.0**	**73.0**	**3.0**
Developed market equities	0.0	0.0	0.0	0.0	0.0	0.0	30.0	25.2	-4.8	50.0	46.2	-3.8	60.0	61.3	1.3
Emerging market equities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.0	11.7	1.7
Commodities	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Agricultural products	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Energy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Industrial metals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Precious metals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Alternatives	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Real estate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hedge funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Venture capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Volatility	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**100.0**	**100.0**	**0.0**	**100.0**	**100.0**	**0.0**	**100.0**	**100.0**	**0.0**	**100.0**	**100.0**	**0.0**	**100.0**	**100.0**	**0.0**

SAA — Strategic asset allocation. TAA — Tactical asset allocation, Diff — absolute difference between TAA and SAA.
The TAA weights represent SAA weights adjusted for the results of the survey on full year 2024 asset outlook made by the investment team of Signet. Actual SAA and TAA may be different from the model allocations. Please refer to the investment manager for further details.

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