GLOBAL EQUITIES OUTLOOK: 2024 IS LIKELY TO GIVE A DOUBLE-DIGIT RETURN, AS WE NAVIGATE THE UNCERTAINTY...

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In 2024, economic growth, interest rate, inflation, and election will be the main drivers of global equities. Unlike 2023, whereby reining in inflation and the US Federal Reserve's policy hike were the primary focus. The Fed is anticipating a slower economic growth in 2024, due to its tightening of its monetary policy. Thankfully, the Fed has recently modified its economic projections, and it is no longer anticipating recession. While the risk of a severe recession has declined in 2023-24, economists and analysts anticipate that interest rates will remain higher-for-longer than the market had earlier projected.

The US GDP is poised for a lower growth as we head into the election year – The focus of policy makers remains not only on avoiding a recession, but also on maintaining the current level of PMI and employment rate. As per the Fed's latest projections, GDP growth is expected to be 2.1% in 2023, while in 2024, growth is expected to slow down to 1.5%, which is a modest, and a positive number. With an unemployment rate of 3.8%, the labor market remains resilient. According to the Federal Open Market Committee (FOMC), the U.S. unemployment rate will rise slightly and average 4.1% in 2024, still far below its long-term average of around 5.7%. However, some of the market experts are skeptical if the US can maintain its projected economic growth, given such a high interest rate, rising US household debt, and declining pandemic savings.

Inflation remains the ringing bell - The Fed's preferred inflation measure is the core personal consumption expenditure price index, or core PCE. The core PCE measures the change in prices of goods and services for US shoppers, excluding prices of volatile food and energy sectors. The Fed's long-term core PCE inflation target is 2%. However, the core PCE has surged as high as 5.3% in February 2023, before it came down to 3.0% in October 2023. Having said that, it is still higher than the Fed's 2% target. Looking ahead, the FOMC is forecasting that the core PCE inflation will continue to decline, with an average of 2.6%, and 2.3% in 2024 and 2025 respectively.

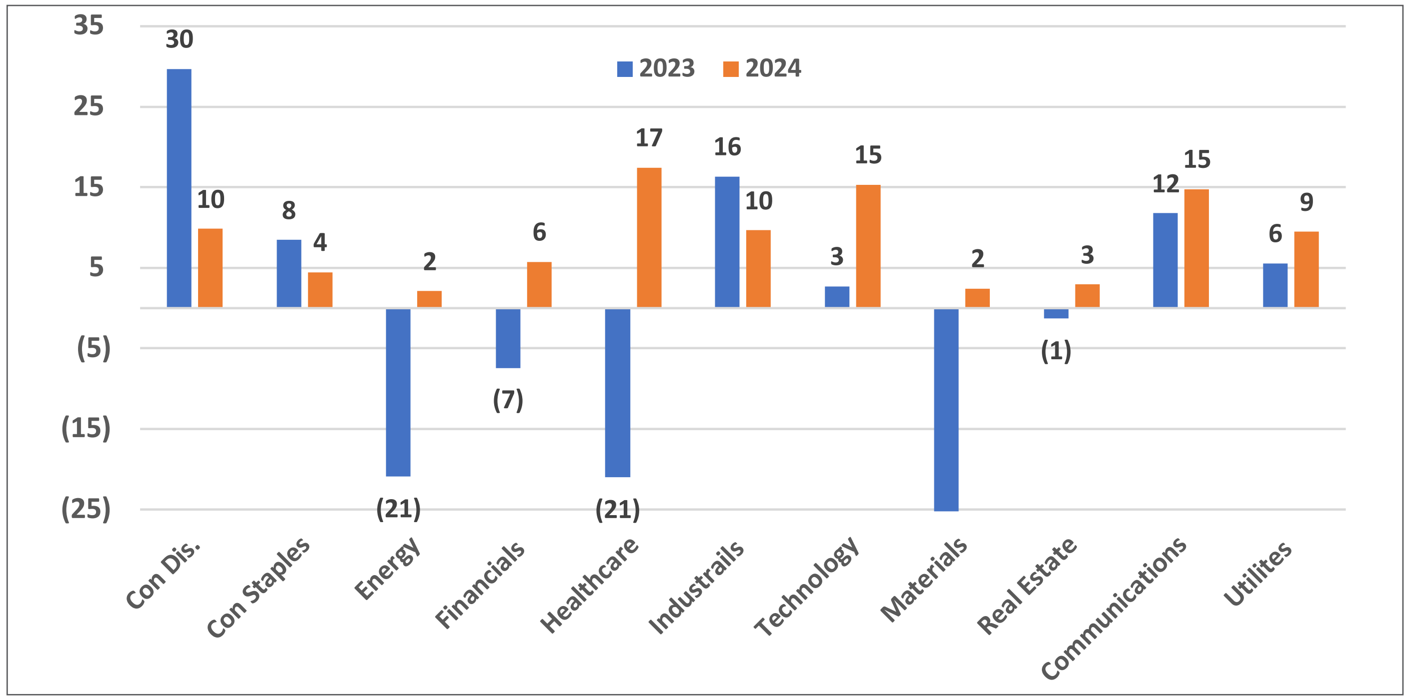
Navigating 2024 with possible scenarios – In 2024, we expect investors to navigate the uncertainty marked by one of the highest inflation rates, and the sharpest monetary policy tightening, with two possible scenarios. We have taken a probabilistic approach to analyze the possible scenarios, referred as base case (soft landing), and extreme case (hard landing). In our **base case scenario**, we assume that economic growth will slow down in early 2024, and inflation will fall but it still remains above the Fed's 2% target rate. In this scenario, we expect the Fed to ease policy measures by the middle of the next year, and growth to pick up in the second half of the year. In the second scenario, referred as the **extreme case**, we assume a hard landing for the economy. We expect the Fed to have gone too far in tightening the interest rate cycle, leading to a recession and a rapid deflation. In such circumstances, we think the Fed will be aggressive in cutting interest rates, resulting in high market volatility. We are giving the second scenario a low probability. The base case is assigned higher probability.

China, the second largest economy, saw quite a dismal comeback as a global economic driver. The worsening debt and property market have aggravated the disappointment over Beijing's response to issues surrounding the post-pandemic recovery. In 2023 and 2024, the GDP growth is expected to be around 4.5% and 5.0%, which is far less than the long-term average of 8.9%. The controlled growth since the pandemic is due to Beijing's shift from its previous high debt-fueled supply-expansion model to a slower growth regime with a lesser supply-expansion. We are cautious on the Chinese market.

Japan could see another year of moderate economic expansion with real GDP growth expected around 1% in 2024. Growth is supported by the government's fresh fiscal stimulus, consumer recovery, and corporate capex spending. The recent Tokyo Stock Exchange reforms to incentivize the listed companies to boost their valuations and earnings while judiciously using their capital have supported the Japanese market rally. Japan was one of the best performing markets in 2023, supported by the foreign fund inflows and domestic appetite. We remain positive on the Japanese market.

Positive earnings growth expectations for 2024 – In the US market, earnings growth is expected to be positive across the sectors. Better profit margins will drive earnings. The expected surge in economic growth and the cooling of inflation will be instrumental in boosting profit margins. Among the sectors, earnings growth for technology, communications, and healthcare sectors is expected to grow at a higher rate (please refer to the chart below).

S&P 500 Sectors EPS Forecast (%)



Source: Bloomberg/FAB Asset Management

Sector positioning

Technology, healthcare, real estate, and consumer discretionary are our preferred sectors for 2024, while we closely keep track on the energy sector. The technology sector continues to remain the main driver of growth, and also acts as an enabler for growth in other sectors. The technology sector is continuously revolutionizing at a great speed, and now the same saga is being continued with the launch of ChatGPT, an open Artificial Intelligence's (AI) platform. ChatGPT has pushed AI into the mainstream spotlight; its impressive broad applicability is set to drive innovation and creative destruction in the years ahead. Also, the semiconductor sector has been garnering a lot of attention from both corporates and countries as it is crucial for the future success of technological applications.

In the healthcare sector, research and development, and technology-enabled devices are revolutionizing the space. The focus remains on preventive healthcare solutions. The new AI applications can rapidly screen millions of images and detect anomalies with significantly higher accuracy than a human doctor. Non-invasive treatments and robotic surgeries are gaining popularity and gradually changing the landscape of the medical field. Companies with an edge in the technology to predict the efficacy of drugs and speed up the trial in a testing phase will have an advantage over peers in the healthcare industry.

In the real estate sector, we prefer quality companies with solid balance sheets that will benefit from lower policy rates.

In the consumer space, we are very selective in our positioning. Consumer savings are waning, and higher interest rates are having an inevitable effect on demand, both for goods and services.

Energy transition efforts have ramped up over the past decade, and which were further expedited with the recently concluded UAE COP28 summit. Energy and utility companies are facing near-term challenges to the rollout renewable energy infrastructure as complex regulatory pathways have converged with persistent inflation to pressure the economics of various projects. However, existing policy incentives should allow the industry outlook for certain renewable energy investments to remain attractive over the next few years.

Within our preferred sectors, our focus is always on quality and growth factors. The quality criteria are defined as companies with a strong balance sheet, less leverage, more durable profitability, and higher return on equity. We think quality will remain the key growth driver as higher inflation, peak policy rates, and reduction in monetary support from central banks may hamper global growth.

Between mid-cap and large-cap companies, we prefer mid-cap companies. Currently, mid-cap stocks are trading at a significant discount to large-caps, a relative value not seen since 2009, which makes the case for mid-caps more compelling. The growth stocks as measured by the Russell Large Cap Index have clearly outperformed the Russell Small Cap Index. Between growth and value stocks, growth has outperformed value over the recent market cycle, with technology being the leading sector.

Market Performance (%)					
	2019	2020	2021	2022	2023*
S&P 500 INDEX	31	18	29	(18)	25
RUSSELL 1000 GROWTH INDX	36	38	28	(29)	41
RUSSELL 1000 VALUE INDEX	27	3	25	(8)	10
SPX 500 Sector Performance (%)					
Con Dis.	28	33	24	(37)	42
Con Staples	28	11	19	(1)	(1)
Energy	12	(34)	54	65	(2)
Financials	32	(2)	35	(11)	11
Healthcare	21	13	26	(2)	(0)
Industrials	29	11	21	(6)	16
Technology	50	44	35	(28)	57
Materials	25	21	27	(12)	11
Real Estate	29	(2)	46	(26)	11
Communications	33	24	22	(40)	50
Utilities	26	1	18	2	(7)

*Source: Bloomberg/FAB Asset Management, *as of 10th Dec,2023*

Upside potential of 11% to 17% expected for the S&P 500 Index

The consensus earnings per share forecast for the S&P 500 Index in 2024 stands at USD 244.09 per share, a growth of 10.26% over 2023. We expect the S&P 500 Index to trade in the range of 21x to 22x price to earnings multiple, based on its long term average historical multiple range. Based on these assumptions, we expect the S&P 500 Index to trade in the range of 5,125 – 5,370 points, providing a return potential of 11% to 17% from the current level of 4,604 as on 10th December, 2023.

However, given the higher possibility of rate cuts and inflation heading lower in 2024, we might see a higher re-rating of multiples for the US market, and returns could be closer to the upper end of the range.

Despite the upside potential, we are cognizant that economic circumstances could change between now and then. The key macro risks to be closely monitored in 2024 includes slower than expected economic growth, stickier inflation, delayed negative impact from high interest rates exceeds expectation, the upcoming US election, and the strained US – China trade relations.