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2024 Capital Market Outlook

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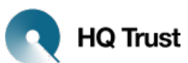

PITCAIRN

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The Wigmore Association is a group of five family offices from around the globe. They serve similar clients – generally families of wealth – and all are committed to helping those families achieve their financial and life goals.

Wigmore members are a diverse group with their own individual investment methods and philosophies who come together to talk about strategies, share information and exchange ideas with a goal of serving their clients better.

As 2024 begins, leaders from the Wigmore Association offer their perception of the current market environment and their outlook for the coming year.

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Global Economy Expected to Grow at Slower Positive Rate with Diverging Results in Countries and Regions

Wigmore CIOs share a conviction that the global economy should continue to grow in 2024, but at a slower pace than 2023. They attribute weakening growth mainly to the delayed effects of global interest rate hikes aimed at controlling inflation. Most major institutions, including the World Bank, International Monetary Fund, and the UN forecast slower global GDP growth, with estimates ranging from 2.4% to 2.7% in US dollar terms, lower than the pre-pandemic trend of 3.0%.

Simone Rouse, Head of Investment Solutions for Mutual Trust in Australia points out that slowing will not be felt equally. "We expect the US to slow from a position of strength, while Europe, already showing early signs of stagnating growth, is not expected to improve significantly. Meanwhile, China may struggle to sustainably reignite its economy, given the challenges facing the debt-laden property sector".

Michael Heise, Chief Economist at HQ Trust based in Germany agrees that the US economy has remained robust despite interest rate increases, while the euro area has been more or less stuck in stagnation for many quarters. "We believe the euro region is likely to recover moderately in 2024, but the overall growth rate will hardly be much above 1%."

In Australia, according to Rouse, inflation, including wage inflation, remains more elevated than other developed markets and interest rates are expected to remain higher for longer. "Our mortgage market relies more on variable rates compared to US fixed rates, which is driving pockets of pain and negative sentiment across some segments and sectors of society. However, our country is also experiencing record immigration which has been supporting demand, particularly for residential property and the overall Australian economy."

"In the absence of supply shocks, we agree that a soft landing for the global economy is possible as inflation continues to abate,"

says Nelson Abrahão, Investment Strategist for Turim in Brazil. He anticipates Brazil's economy growing by about 1.5 to 2%, a number that aligns with consensus estimates. "We expect the Brazilian Central Bank to reduce rates to 9% by the end of 2024, down from 11.75% at the beginning of this year. Our projection leans toward a downside asymmetry for this rate adjustment."

"In Mexico," says Edmundo Recio of Promecap, "there is a large federal election in June 2024 where we will elect a new president and both houses of congress. We anticipate a strong first half spurred by a large fiscal impulse before the elections." Recio expects economic momentum to decelerate during the second half, closing the year with growth slightly below 2%. "Inflation is likely to exceed our central bank target, but Banxico will start cutting Rates once the economy shows signs of deceleration."

Amid the challenging global economic environment, the US economy is projected to grow in the range of 1.4% to 2.0%.

"Expected growth is still positive but lower than the 2.5% growth in 2023," explains Nathan Sonnenberg, CIO of Pitcairn in the US. "While there are risks of a more pronounced downturn, there is also potential for a gradual recovery."

Sonnenberg and the firm's Chief Global Strategist Rick Pitcairn acknowledge potential downside risks that include escalating geopolitical conflicts, severe supply disruptions, or financial market turmoil. Among the potential upside catalysts, they cite faster easing of geopolitical tensions, mitigation of inflationary pressures, and proactive policies that drive a stronger-than-expected economic rebound.

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Developed Central Banks are Likely to Ease Policy with Data Guiding the Timing and Magnitude of Cuts

Predicting central bank decisions is always a tricky business as it depends on complex and constantly evolving economic data and interpretation of that data. Leaders of Wigmore members firms seem to be aligned with overall market sentiment and believe central banks in developed economies are likely to start reducing interest rates in 2024.

Though multiple central banks are expected to implement rate cuts in order to maintain the current monetary policy stance and respond to falling inflation, Turim believes "the extent of these cuts will be contingent on the dynamics of inflation and growth, leading to some divergence between countries."

HQ Trust's Heise concurs that rates will be cut but also thinks central banks are likely to continue the gradual reduction of their balance sheets. Smaller balance sheets could be a counterweight, softening the effect of rate cuts. He also believes "the size of interest rate reductions may be a disappointment for markets that are presently quite optimistic regarding inflation and a loosening of monetary policy." Heise sees the most probable scenario for inflation as a stabilization of headline figures somewhere around 2.5% to 3% in the next months. "This will not entice central banks to venture into aggressive rate cuts, in my view."

"The unprecedented simultaneous global monetary tightening does appear to be working to reduce inflation," says Rouse. "However, the experiment is ongoing. Near-term success may not imply success over the medium term if the US Federal Reserve is unable to maintain its dual mandate of maximum employment and keeping prices stable."

"No doubt central banks face a delicate balancing act in 2024," says Pitcairn.

"While markets expect rate cuts, the timing and magnitude will depend on economic data, thus creating navigation challenges for global central banks."

In the US, the Fed is forecast to deliver multiple cuts, potentially starting in the first half of the year and reaching a range of 3.75% to 4% by year end. Rouse is not convinced the Fed will meet such an early start date. She thinks Fed cuts may materialize in the second half of 2024, lagging the market's expectations.

Beyond the US, Pitcairn's Sonnenberg thinks the European Central Bank is likely to start easing as soon as March or April, although cuts may come at a slower pace than the Fed. In Australia, persistent inflation is likely to see the Reserve Bank of Australia keep rates on hold during 2024, according to Rouse.

"This is contrary to current market pricing which indicates rate cuts by the RBA starting September 2024."

Central banks may need to be both data-dependent and adaptive in the coming year. As Recio notes, elevated interest rates have already started to impact consumer spending and corporate growth. As central banks navigate an end to their tightening efforts, Recio believes "the effectiveness of these strategies will hinge on balancing economic growth and managing inflation."

What are the key risks investors should be focused on in 2024?

Inflationary pressures, caused by labor costs and continued robust growth, could pressure central banks into further rate hikes or keeping interest rates high for longer, says Recio Mexico's Promecap. "Inflation does stand out as a critical risk," agrees Turim who notes that disinflation mainly came in the goods sector and commodity prices. Abrahão also cites the inflationary side effects of geopolitical factors, such as oil prices and freight rates. "This is especially noteworthy since fixed income markets currently price in a very benign inflation environment."

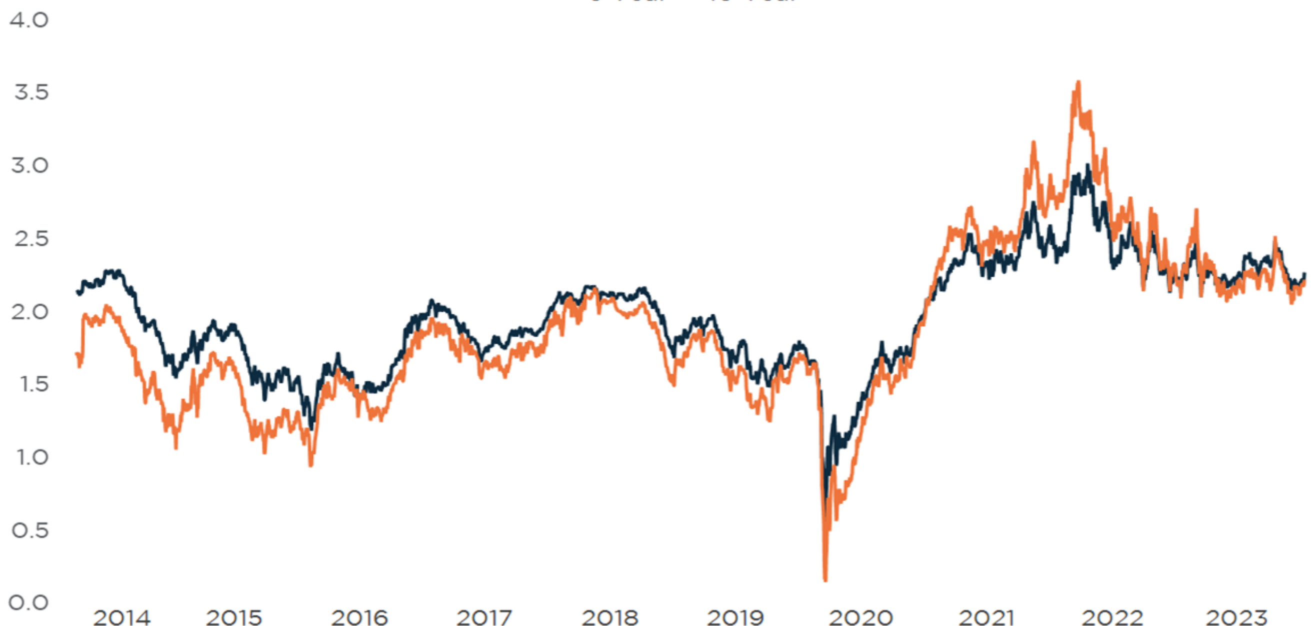
"Service inflation may prove stickier at a level higher than central banks are comfortable with."

Heise agrees that reacceleration of inflation would oblige central banks to reverse a softening tendency and return to a tightening mode.

"Oil and commodity prices could certainly be behind such a risk scenario. These have contributed to declining inflation lately but could easily U-turn in the case of further geopolitical tensions in the Middle East. Therefore, I believe, inflation is the number one fact for investors to keep an eye on."

Mutual Trust's Rouse also believes that focus remains on the balance between cooling inflation and slowing economic growth, with a heightened risk of a second inflation wave if the Fed cuts rates too quickly.

Wigmore's investment leaders are wary of other potential risks as well. "Geopolitical tensions and the rewiring of global partnerships and supply chains will remain a source of volatility for investment markets and commodity prices," says Rouse. Like her colleagues, Rouse is also closely watching elections across the globe as more than 46% of the world's population, representing 80% of global market capitalization, goes to the polls this year.



Source: Macrobond

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What are the key risks investors should be focused on in 2024?

"Over 40 elections, including those in Taiwan, India and the US, could potentially increase market volatility and impact economic outcomes."

Pitcairn and Sonnenberg are also cognizant of political risk and note that the US presidential election could inject volatility into the market, particularly if the result is contested or a controversial figure wins.

The Pitcairn team is also watching the risk of recession in the US, which has moderated in recent months, but is still present. "There is also risk of interest rate volatility and a market correction," says Sonnenberg. "We think the risk of an equity correction in the US is heightened due to valuation concerns."

Rouse notes risks for the Asia-Pacific region as well. "China property market concerns remain high, including consequences for the country's financial system broadly. In Australia, while the energy transition presents many opportunities, it also sits as a lurking risk for energy supply security as pressure on the grid sees a rising demand-supply imbalance in future years."

Technological disruption and climate change present some level of risk in 2024 and going forward, but geopolitical risks seemed to be a more pressing worry. Escalation of the ongoing war in Ukraine, Middle East tensions or China/Taiwan conflict could disrupt global supply chains, spark energy price spikes, and trigger investor panic. "Geopolitical factors continue to be unpredictable elements that can disrupt economic expansion and/or financial markets," says Recio.

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Non-US Assets and Alternative Investment Strategies Spark Interest in 2024

"Diversification is key," says Sonnenberg, "we always recommend our clients spread their investments across multiple and various asset classes to mitigate risk. I believe our Wigmore colleagues share a commitment to this fundamental principle."

Recio says Promecap is focusing on quality, particularly companies with stable cash flows, high profitability and resiliency. One of the firm's favorite regions for equities is Japan due to structural shifts, improving profitability and earnings growth expectations.

Similarly, Sonnenberg says Pitcairn is focused on value and resilience. "We are looking at assets offering stability and upside potential along with reasonable valuations." In a period when US markets might face headwinds, Pitcairn notes that his firm and many analysts see potential in international investments, particularly in undervalued markets like the UK, emerging markets, or specific sectors like Chinese technology.

Among emerging markets, Turim is optimistic about Brazilian assets. "We deem Brazil undervalued on both an absolute and relative basis. The currency has potential for appreciation due to an improved trade balance and given Brazil's favourable position in the global macro environment, it is likely to attract portfolio flows." Turim believes the Brazilian central bank's conservative approach to the rate cut cycle, the country's growing economy, and lower interest rates should also attract flows to Brazil's equity market.

"Fixed income still provides good opportunities to generate stable returns given that rates are expected to start coming down and correlations with equities could normalize."

Recio continues, "We are focusing on quality with a preference for investment grade securities." Also looking at fixed income opportunities, the Pitcairn team believes short-term corporate bonds could be an attractive option for income seekers given their higher yield and lower risk compared to longer term bonds, particularly amid a potential volatile market. "We also see opportunity in fixed income offering positive real yields, that is returns that could outpace inflation, with US Treasuries potentially preferred over some riskier corporate bonds.

Wigmore members are also focusing significant attention on alternative assets. "We continue to selectively increase exposure to alternative asset classes – predominantly long-term, illiquid, unlisted assets," says Rouse. Her firm Mutual Trust favors adding new capital toward Private Credit, with a preference for Australia over international, given supportive structural drivers, including the more immature but growing market. Rouse also believes Australian unlisted Commercial Property and Global Venture Capital Secondaries strategies offer selective buying opportunities for long-term investors but cautions that choosing experienced active managers is important for exposure in these areas. Heise agrees that opportunities should evolve in the area of illiquid assets, like private equity, private debt, and real estate. "Prices of these assets have declined considerably and are still under pressure in some segments," he notes.

"New investment vintages may therefore be quite profitable in the long run."

On the alternatives side, we like infrastructure to protect against the risks of sticky or higher inflation," says Promecap's Recio. Private credit has also been gaining in relevance, according to Recio, given that the traditional banks are taking a step back, yield spreads are attractive, and companies need tailor-made financing solutions.

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Non-US Assets and Alternative Investment Strategies Spark Interest in 2024

The Pitcairn team is looking beyond traditional assets as well. “While enthusiasm for artificial intelligence has focused on the established giants, we think there is promise among less well-known companies applying AI in creative ways,” says Pitcairn.

“With interest rates still elevated and ongoing uncertainty, diversifying into real estate, private credit and commodities should offer stability and solid potential returns.”

Rouse agrees there is potential among commodities. “Within the focus on critical minerals, we see long-term opportunity for copper – supported by a global supply imbalance as the electrification of everything gathers momentum, though we do acknowledge that cyclical drivers may drive near-term volatility.”

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Resilient Global Markets, Falling Inflation and Technological Advances Drive Optimism for 2024

"Global investment markets, over the long-term, consistently prove relatively resilient," states Rouse. "While the future environment appears complex, we believe investors should remain mostly invested in risk assets (as part of a well-balanced portfolio) over the long term. It is important to remain disciplined and patient, while also taking advantage of attractive investment opportunities to help build long-term wealth.

"Rapidly declining inflation and the improving purchasing power of wages and other income contributes the most to my optimism," says Heise. "If the process of disinflation continues and does not stall, for example due to oil price risks, then consumer confidence and real consumer spending, which have been battered by high inflation, will increase and prevent recessionary tendencies in our economies."

Rouse points to technological advancements and the global focus on a greener planet as significant transitions that may support economic growth, productivity, and new industries. As for her home country, "Australia is supported by a growing population, an envious endowment of natural resources critical to the global energy transition, and a comparatively stable political landscape, while being relatively geographically isolated from geopolitical tensions." In Mexico, Recio notes there is optimism that nearshoring will continue to drive demand and interest for Mexican assets. He explains that investment is surging at a strong pace, which suggests promising prospects for both the economy and companies. Banxico's monetary easing is expected to begin this year and should help the economy rebound, leading to a cyclical shift for stocks going forward, Recio concludes.

"Mexico is also likely to benefit from potential positive spillover emanating from a strong US economy and markets."

Our best case scenario envisions a soft landing, with mild upward movement in unemployment rates helping to bring inflation down toward central bank targets. Looking ahead, we are excited about AI applications that are expected to boost productivity, a key factor for long-term wealth creation.

Sonnenberg sees several factors fueling optimism for 2024 and beyond including economic recovery as global GDP growth continues, job markets show resilience and evolving industries like renewable energy, biotechnology, and tech promise further advancements, offering investors avenues for potential growth.

Several of the Wigmore leaders specifically cited technology and artificial intelligence as a source of optimism, including Turim, Rouse, Recio and both Pitcairn and Sonnenberg.

Among the scope of imminent technological advances, Sonnenberg cites artificial intelligence, with immense potential across industries from healthcare to finance, automation and robotics, with optimized processes and higher productivity driving economic growth, and digitalization across various sectors, which opens new markets and opportunities for innovative companies. Turim notes that technology, specifically AI applications, are expected to boost productivity, a key factor in long-term wealth creation.

Pitcairn is also optimistic that increased collaboration on global challenges like climate change and pandemic preparedness could foster global stability and confidence, helping to de-escalate conflicts and benefit long-term investments. Despite ongoing trade disputes, global trade volume is expected to continue growing, potentially benefiting export-oriented companies and related investments.

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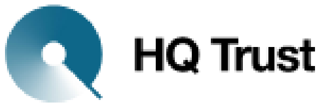

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We thank you for taking the time to read our 2024 Capital Market Outlook.

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