GLOBAL LONG-TERM UNCONSTRAINED

Global, US and European Outlook 2024

MARTIN CURRIE
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DECEMBER 2023 For institutional, professional and wholesale investors only.

A challenging macroeconomic backdrop, but a supportive monetary policy outlook is rearing its head

Summary

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With 2023 drawing to a close, and with 2024 fast approaching, we provide an outlook on the year ahead. We give our thoughts on the inflation outlook, monetary policies, macro-economics, earnings growth prospects, valuation opportunities, style leadership, thematic opportunities, and risks.

Overall, 2024 is likely to be a year with a lower degree of forecast and prediction error than 2023. This is due to the probable shift to synchronised interest rate cuts in the second half of 2024. We forecast stickier, longer-lasting inflation, with slowing economic growth both globally and in the US and China, and ongoing stagflation in Europe and the UK. Corporate earnings growth is likely to be pedestrian across regions.

Despite this muted growth outlook, the global synchronised pivot in central banks policies towards rates cuts, which we predict to occur in the second half of 2024, has the potential to be supportive for equity markets and in particular for quality growth style leadership in 2024. Geopolitical risks have flared up however, so there is potential risk of ongoing volatility. The election cycle is also going to be an important focal point, related to the US presidential elections towards the back-end of the year.

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Our key thoughts are summarised in the bullets below, with details on each in the report:

Inflation

- Inflation could end up being more elevated and longer lasting in 2024, despite general easing in pressures coming through
- Wage inflation, deglobalisation, technological and geopolitical fragmentation, and the energy transition have the potential to keep inflation structurally more elevated in the medium-term

Monetary policies

- Monetary policies have peaked or are close to peaking, but we do not expect any pivot towards cuts in western central bank rates until the second half of 2024
- Central banks have become data dependent, which will likely fuel market volatility around upcoming inflation prints

Macroeconomics

- Macroeconomic momentum is at risk of weakening, leading to ongoing stagflation in Europe and the UK in 2024, and slowdown in the US and China economies
- Rising risks of recession given rapid rate hikes in 2022-23, even if still not our central scenario for the US
- China is facing a slowdown and structural headwinds, with the absence of additional policy initiatives

Earnings growth

- We forecast top-down corporate earnings growth to remain pedestrian and weak in 2024, with low-mid-single digit growth across geographies
- Ongoing risk of earnings downgrades, given optimistic consensus earnings growth
- Monetary policies shifting towards cuts in H2 should be supportive for equity markets in 2024, and for the Quality Growth style leadership within that

Valuations

- Equity valuations remain more supportive in Europe and Asia, although a selective approach remains key, given specific geographic and geopolitical risks

Style leadership and quality growth equities

- Focus on companies with resilient earnings growth, exposed to long term structural growth themes, that have pricing power and solid balance sheets given the uncertain macro and inflation environment, and low growth prospects

Thematic opportunities

- Thematic opportunities for long term investors still abound, notably in the areas of energy transition, ageing population and artificial intelligence
- Disruption rates for corporates are likely to accelerate given the seismic shift brought by artificial intelligence across all areas of the economy and all sectors

Risks

- Plenty of risks for investors to take into account in 2024. Notably ongoing fiscal and monetary policies risks, the still uncertain inflationary backdrop, style leadership and equity markets volatility, margin pressures, higher tax rates, low structural growth and geopolitical tensions
- An ever more disruptive decade is accelerating in 2024 and beyond given the developments in Artificial Intelligence

Wishing our readers and investors a joyous festive period, and a happy, healthy and prosperous new year 2024.

Zehrid Osmani

Head of Global Long-Term Unconstrained

Lead Senior Portfolio Manager

Outlook 2024

A challenging macroeconomic backdrop, but a supportive monetary policy outlook is rearing its head

2024 could bring the risk of persistent inflationary pressure to the forefront

- Inflation could be stickier and longer lasting in 2024, despite some ongoing easing in pressures
- Wage inflation remains the key focal point to assess the risk of longer lasting inflation. Deglobalisation, technological and geopolitical fragmentation, and the energy transition all have the potential to keep inflation structurally elevated in the medium-term
- Western central banks are unlikely to hit their inflation targets in 2024, although they will be coming nearer to them

Despite the expectations of easing inflationary pressures in 2023, we predicted a stickier inflationary backdrop. That is higher and longer lasting inflation levels. Although inflation is set to continue to ease in 2024, there is the risk of more persistent pressure in the medium term. This is the result of four factors:

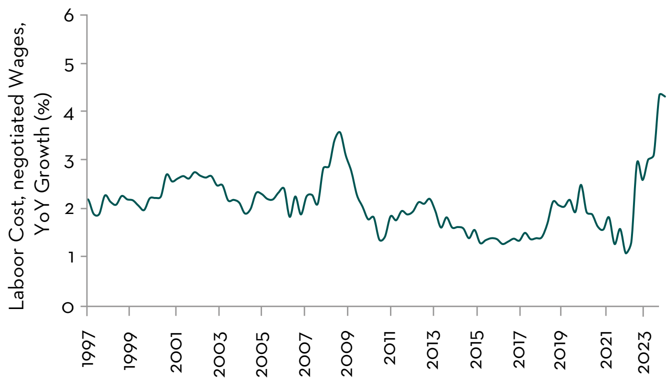
(i) wage inflation
(ii) deglobalisation
(iii) technological and geopolitical fragmentation, and
(iv) energy transition.

Wage inflation is the predominant contributor to inflationary pressures in the medium term, and risks fuelling structural inflation. Although wage inflation is easing in some geographies, it remains elevated and has the potential to persist. This is because wages need to continue to catch up with the elevated Consumer Price Index (CPI) levels seen across most regions.

Wage inflation

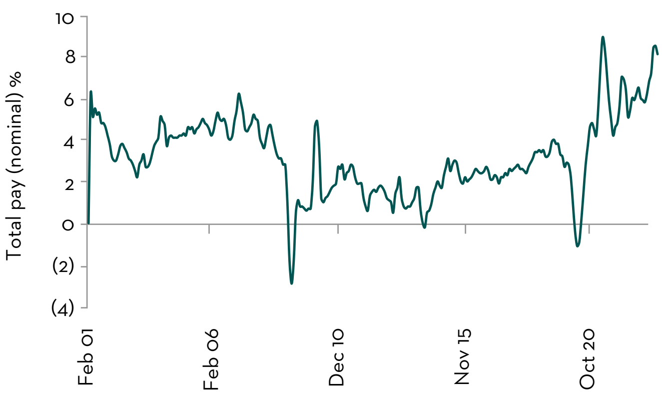
US (Atlanta Fed wage tracker)

Eurozone negotiated wages



Japan cash earnings

UK wage inflation



Source: Martin Currie and FactSet as at 30 June 2023.

Deglobalisation trends, notably the trend towards near-shoring, on-shoring, and friendly-neighbour-shoring. The result of companies focusing on ensuring they make their product lines more resilient, and their supply chains more robust. This is likely to also bring inflationary pressures, through the diseconomies of scale that these trigger.

Technological and geopolitical fragmentation, is also likely to bring some diseconomies of scale across the globe, therefore fuelling the structural inflationary narrative. As geopolitical tensions in the South China Sea grow, it is triggering geopolitical and technological fragmentation, for example the US ban on China accessing leading-edge semiconductor technology. It is also leading to the proliferation of semiconductor production sites in territories friendly to the west, which is in turn leading to further diseconomies of scale. This could result in different technological approaches and standards over the longer term, exacerbating technological fragmentation and amplifying the diseconomies of scale, further fuelling structural inflation.

The ongoing focus by governments and companies on the **energy transition** and tackling climate change in a sustainable manner is also likely to bring some inflationary pressures. This is to both energy costs, and to sustainable capex programs, notably in electric transportation and energy-efficient infrastructure.

We do not expect western central banks to manage to hit their inflation targets in 2024. Rather we expect this to happen in 2025. Although we note that the last US Federal Reserve (Fed) projections only have them hitting their inflation target in 2026.

Investment implications

Focus on companies with pricing power

A more persistent inflationary backdrop, notably fuelled by wage inflation, is likely to put more downward pressure on corporate margins. It is therefore critical to focus on companies that have pricing power and are better able to protect their margins.

Deglobalisation and technological fragmentations are leading to diseconomies of scale. So, it is important for investors to focus on companies that can benefit from such trends, or that can limit the negative effects.

Monetary policies to shift towards rate cuts in 2024, with the potential for global synchronised rate cuts

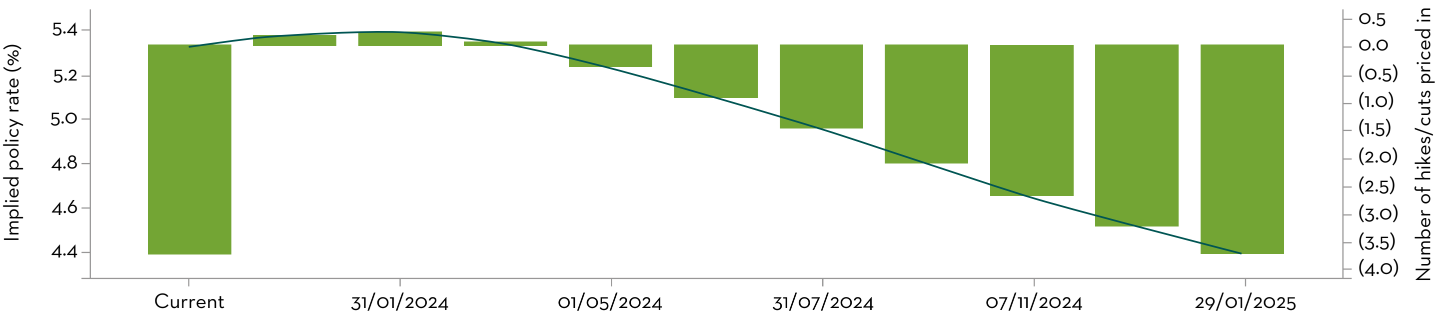
- Western central bank interest rates have peaked or are close to peaking
- We do not expect a pivot towards interest rate cuts from the European Central Bank (ECB) and the Fed until the second half of 2024 given the inflationary backdrop
- The central banks shift towards data dependency is likely to bring ongoing market volatility around any inflation prints
- An environment of global synchronised rate cuts in the latter half of 2024 should be supportive for equity markets

We predicted in 2023 that interest rates would continue to rise and stay at elevated levels due to stickier inflation. In 2024, we believe rates will need to remain elevated, with a pivot towards rate cuts from central banks unlikely until the second half of 2024. Our view, although unchanged since our 2023 outlook has become more consensual with the market adjusting it expectations towards ours.

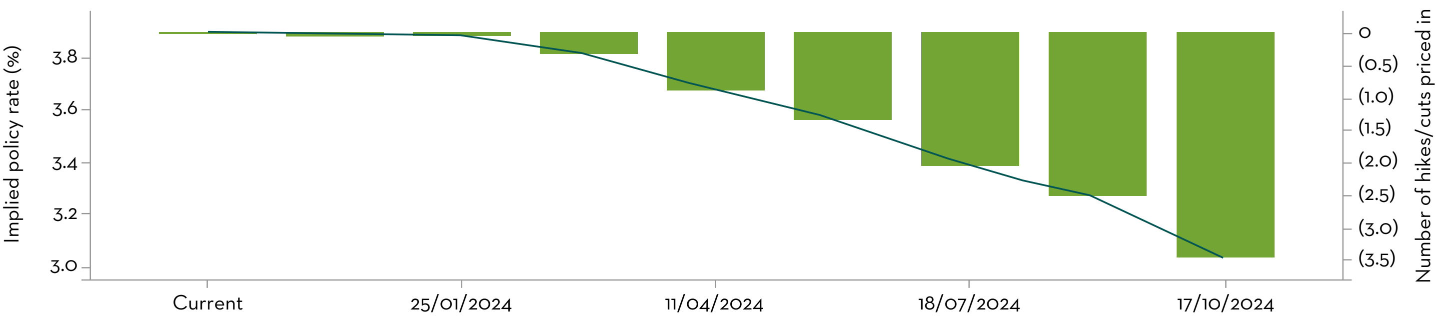
Both the European and the US central banks have shifted towards being data dependent, and reactionary in their policies. This can create ongoing volatility, as markets speculate about central bank policies with the release of every data point deemed relevant to forecasting inflation. Nearer term, we are of the view that both the Fed and the ECB are within zero to two rate hikes from reaching peak interest rates in this tightening cycle. This range captures the potential for a renewed hawkish stance from the central banks, should inflationary pressures resume in the first half of 2024.

Central Banks market-implied policy rates projections

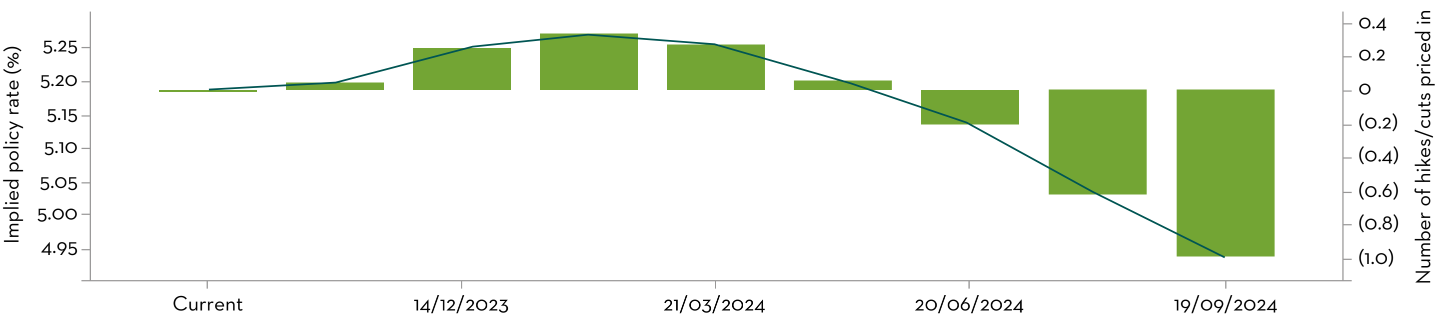
US Federal Reserve



European Central Bank



Bank of England



Source: Bloomberg Finance L.P, 1 November 2023.

One point to note is our view that the yield curve is now a less reliable compass for predicting recessions. There has been a lot of speculation around longer-term yields, with hedge funds shorting some maturities of US treasuries. With volatility along the yield curve becoming very elevated, this has lead to a reduction in its predictive power.

For longer term investors, the more important aspect to focus on is that monetary policies are at or close to peak. They are within 8-14 months of reversing towards rate cuts, which in our view should be supportive for equity markets generally, in particular the quality growth segment.

It is difficult to time when the market will shift its focus from short term considerations of monetary policy to anticipating central bank pivots. But we believe it will be an important catalyst for markets to find renewed upwards momentum. 2024 should also end up being a year of synchronised rate cuts across major central banks, again providing support for the equity market.

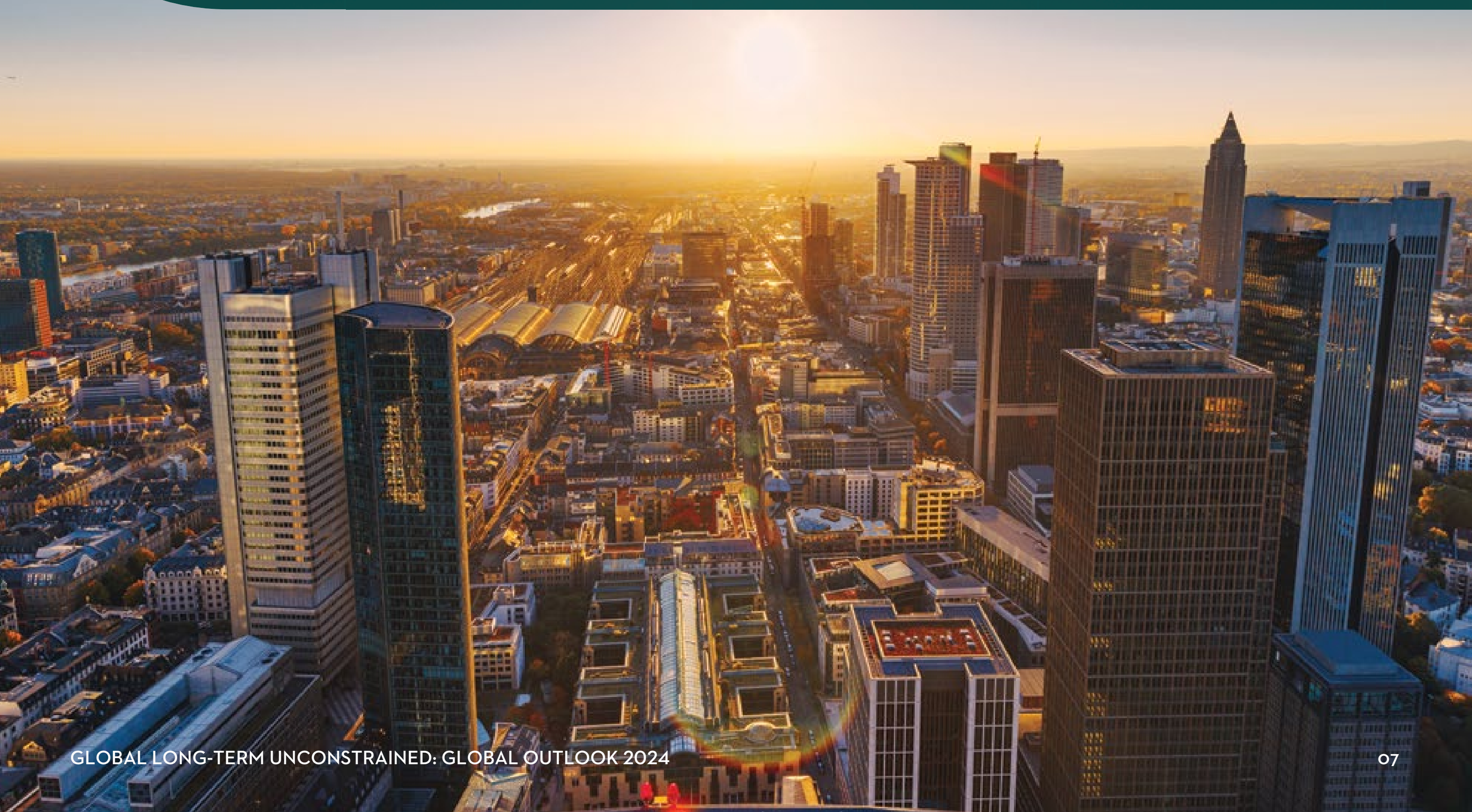
> One point to note is our view that the yield curve is now a less reliable compass for predicting recessions.

2024

Investment implications

Focus on the broader picture with rates peaking, and potential rate cuts in the second half of 2024 as a supportive catalyst for equities and the quality growth style

Elevated interest rates highlight the importance of continuing to focus on companies that are profitable, with solid balance sheets, and therefore have less refinancing needs. Equally when we approach the time for central banks to pivot towards rate cuts this will provide more support for risky assets, in particular quality growth stocks. So we advocate that investors should look at the broader picture. The moment when the market finally moves away from short term speculation on reaching peak rates will be an important driver in 2024. Here we are really highlighting the importance of staying invested and not trying to time the market.



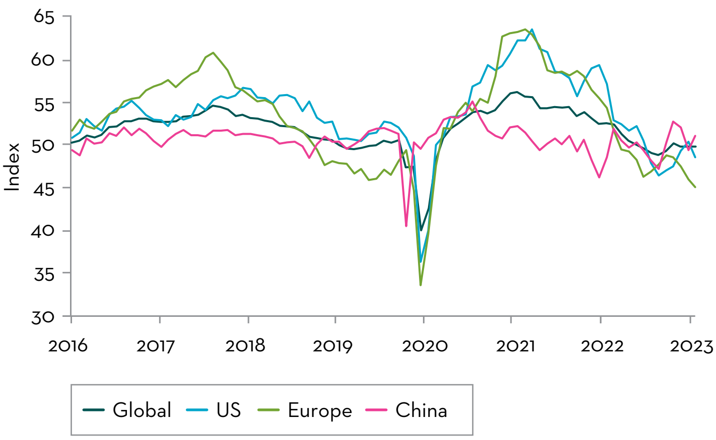
Slowing economic growth, higher risk of stagflation and recession in 2024

- Leading indicators are losing momentum globally
- Global economic growth likely to slow down in 2024
- US and China will also see a slowdown in economic growth
- Europe and the UK to remain in stagflation
- Rising risks of recession in the US even if still not our central scenario

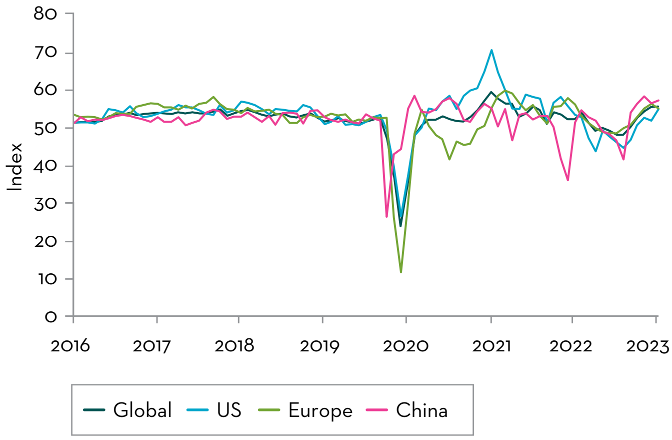
In 2023, a resilient US economy and China's reopening supported the global economy, avoiding a recession. However, in Europe, our central scenario of stagflation came through. In 2024, we believe that there are growing risks of stagflation and recession across more regions, given the slowing economic momentum. This is due to 2023's rapid global interest rate rises which are now likely to take their toll on economic momentum in 2024. Fiscal momentum is also likely to be less supportive, and the global economy could be hampered by less supportive Chinese economic momentum.

Purchasing Managers' Index (PMIs)

Manufacturing PMIs



Service PMIs



Source: Martin Currie, FactSet and OECD. As at 30 November 2023.

For the second consecutive year we maintain our core scenario of stagflation in Europe, assigning a probability of 60-65%. European leading indicators continue to be weak both on the manufacturing and the services side. The region is facing more headwinds being more cyclically sensitive to both the Global and the Chinese economic cycles, both of which are losing momentum. 2024 consensus GDP growth for Europe currently sits at +1.1%[1]; but there is a risk that this is too optimistic. We believe growth which is closer to c.0-0.5%, given Europe's cyclically sensitivity to global growth.

Leading indicators are also weak in the UK, and the risk of structural inflation is more elevated. Here we assign a probability of stagflation at 65-70%. Consensus GDP growth for 2024 sits at +0.4%[1]; again in our view a range of -0.5%-0% is more plausible.

> In 2024, we believe that there are growing risks of stagflation and recession across more regions, given the slowing economic momentum. This is due to 2023's rapid global interest rate rises which are now likely to take their toll on economic momentum in 2024.

[1]Source: Bloomberg 30 November 2023.

In the US, the economy was remarkably resilient in 2023. It was supported by fiscal momentum, and asynchronous economic momentum across manufacturing, technology, and consumption. US leading indicators are more mixed now, notably on the manufacturing front, although services are also sluggish and losing momentum. In 2024 our core scenario is one of a sharp slowdown from the predicted c.2% GDP, the US could achieve in 2023. We assign a 50-55% probability of a slowdown, and have increased our probability of recession to 35-40% (from 30-35% previously). This is due to the growing risk that the rapid increase in interest rates will take their toll on the US consumer, the largest engine of the US economy. This will be further exacerbated by the fact that the US consumers have now depleted their increased savings built up during the pandemic, leaving them more exposed to an economic slowdown. Consensus estimates GDP growth of +1.0%[1] in 2024; but this could end up coming in closer to c.+0.5-1.0%.

In China for 2023 we predicted a recovery in GDP with c.5-6% growth, we now believe it will be closer to the lower end of that range. In 2024 we believe we will see a slowing GDP growth with the absence of any economic stimuli from policy makers. We expect 4-5% GDP growth without stimuli, given the structural headwinds faced by the economy. Consensus GDP for China is c.4.5%[2].

We believe that the Chinese authorities will likely deploy some additional stimuli, but we do not want to assume until we see evidence of such action. We put a probably of policy action to support the Chinese economy in 2024 at 60-70%.

[2]Source: Bloomberg 30 November 2023.

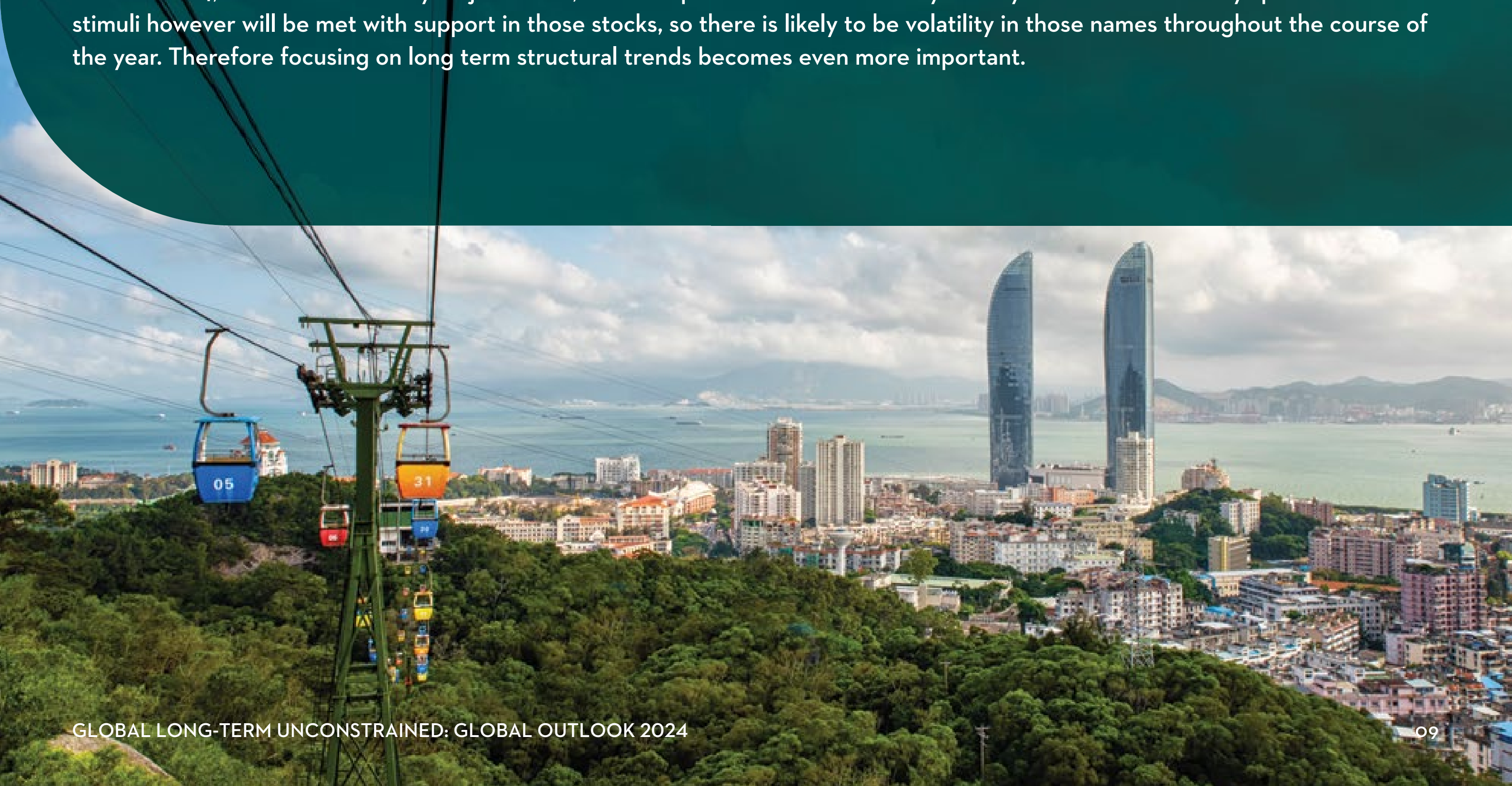
Investment implications

2024

Focus on companies with structural growth, and be selective on consumption exposure

As a result of slowing economic growth prospects in 2024, and the rising risk of recession, there will be an apparent lack of growth opportunities for investors. We believe that focusing on companies with structural growth opportunities, i.e. companies that can generate their own weather, in an environment of low growth, will be an important focal point for investors. There are some important themes with attractive long term structural growth prospects, which investors should continue to look to harness, as we detail in the thematic opportunities section.

Finally, the magnitude of rate increases will likely bite the consumer, particularly in mass-market rather than high-end consumption. So it will be important to remain selective on consumer names, with a preference for the high-end price points of well-established brands, or mass-market brands that currently have strong momentum, notably in sports apparel. Downtrading and private label consumption will be growing trends in this environment. Finally, with Chinese economic momentum likely to slow down in 2024, with absence of any major stimuli, stocks exposed to China will likely face cyclical headwinds. Any speculation of stimuli however will be met with support in those stocks, so there is likely to be volatility in those names throughout the course of the year. Therefore focusing on long term structural trends becomes even more important.



Corporate earnings outlook remains bleak - another year of muted corporate earnings growth

- Corporate earnings growth is likely to be weak in 2024, after an earnings recession in 2023
- We forecast low to mid-single digit growth in earnings across Global, US, Europe, UK and Asia
- Consensus is at risk of being too optimistic, e.g. 11% growth a global level
- As a result the risk of earnings downgrades and negative earnings momentum remain

With weakening economic momentum and certain regions facing either a sharp slowdown or a stagflationary environment, we believe we face another year of weak corporate earnings growth. This follows the corporate earnings recession we saw in 2023.

The table shows our own and consensus earnings growth estimates for 2023 and 2024. Consensus estimates have come closer to our own, for example at the end of last year, global earnings growth for 2023 was estimated at +4%. As we look at the picture for 2024, we note that consensus estimates seem too high already, bringing the additional risk of downgrades to earnings estimates.

Earning growth estimates 2023 and 2024

Earnings growth (year on year)		2023		2024
	Martin Currie (%)	Consensus (%)	Martin Currie (%)	Consensus (%)
Global	0	(1)	4	11
Europe	(5)	2	3	6
US	(1)	0	5	12
Asia Pacific ex Japan	5	(7)	5	16
Japan	–	–	6	8

Source: Martin Currie and Bloomberg as at 30 November 2023.

Our own estimates do not show an outright corporate earnings recession for 2024, but we are looking at very pedestrian growth. We therefore argue that 2024 will be a second year of low to no earnings growth in a row. 2024 earnings growth could also potentially be exacerbated by the risk of downward pressure on corporate margins from an environment of persistent inflation. With ongoing wage inflation potentially putting margins at risk.

Investment implications

Favour companies with resilient earnings, given the risk of downgrades

With consensus appearing too high, and implying ongoing negative earnings momentum, it will be important to focus on companies with resilient earnings. These are companies that can either:

1. **Resist downward revisions, even if not always immune from them, in the case of more cyclically sensitive companies**
2. **Companies that can actually positively surprise, helped by exposure to structural growth drivers**

Valuations are more supportive in Europe and Asia, although stock specific assessment remains critical

- Equity valuations are mixed, with Europe and Asia remaining supportive versus history, unlike the US
- European equities are supportive versus US both on a headline level, and a sector-neutral basis
- Stock specific valuation assessment remains paramount

In terms of valuation, European and Asian equities continue to provide an attractive opportunity versus their long-term historic averages, when looking at the cyclically adjusted price earnings (PE) ratios. European and Asian equities also appear more attractive relative to the US market versus the historic average. Although some of this is related to the difference in average returns on equity and returns on invested capital generated by the different global indices. Some of this differential in returns can be explained by the higher weighting of the technology sector in the US index.

On a sector-adjusted basis though, Europe and Asia remain more attractive than the US equity market versus historic levels, albeit the valuation differential is not as pronounced at the headline index level.

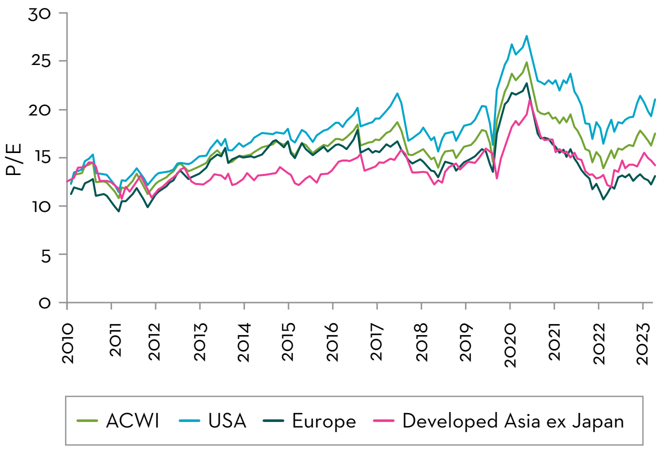
US equities appear to have less valuation support versus historic levels. Although it is worth highlighting that there is an outsized influence from the so-called magnificent seven[3], these are contributing to pulling the US equity market valuation's multiples higher.

As we highlighted earlier, European indices are more cyclically sensitive, and the slower growth environment could be a headwind during the first part of the year. Notably, Europe is more cyclically sensitive to the Chinese cycle, so a loss of momentum in the Chinese economy in 2024 could weigh negatively on that region.

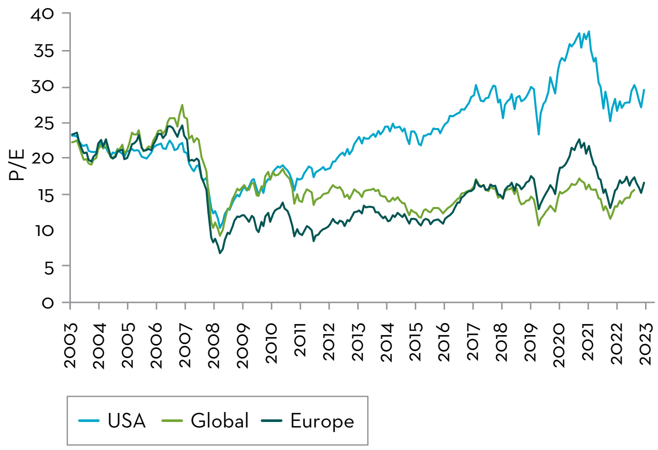
In general, given the anticipated pivot in western central banks towards rate cuts in the second half of 2024, this should support equity markets.

[3]The magnificent seven US tech stocks are Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Telsa.

Forward P/E (FY1) of given equity markets



Schiller P/E



Source: FactSet as at 30 November 2023.

Investment implications

2024

Valuation discipline remains critical; more valuation support in Europe and Asia versus US

There is valuation support in European and Asian equities, but it is important to remain disciplined in terms of valuation approach, as we always are. We use a long-term interest rate assumption of 5%, which anticipates the higher rates for longer view that we expressed. We remain consistent in this approach all along, even when rates were close to, or at zero.

Valuation attraction is something that we always assess on a stock specific level, rather than at the broader market level. But at this stage we still find more attractively valued stocks outside of the US.

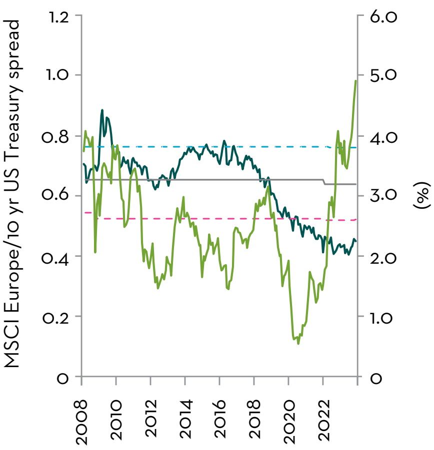
Quality growth style should be more supported in 2024 and beyond

- Quality growth stocks provide a more supportive investment proposition in our view, given the weakening macro-economic outlook
- Quality growth stocks should be supported by the prospect of central banks pivoting in 2024

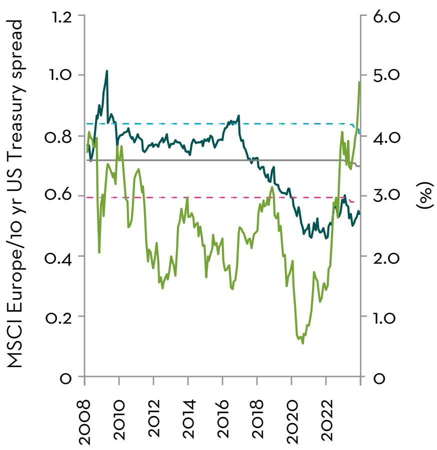
With the uncertain macroeconomic conditions we face, the quality growth style should be supported in 2024 and beyond. There remains a lot of uncertainty both on the economic and the corporate profits cycle fronts, and inflation could remain unpredictable. The latter could fuel renewed volatility in terms of monetary policies expectations.

In our view quality growth stocks, i.e. profitable growth stocks, generating high returns on invested capital, and with strong balance sheets, should fare well with the ongoing elevated uncertainty. If inflation remains elevated, quality growth stocks typically have stronger pricing power, and therefore should be able to protect from margin pressure better than other companies. Additionally, monetary policies are getting closer to peaking, which means less headwinds for long duration stocks such as the quality growth companies. The likely pivot in central bank policies towards rate cuts in H2 2024 will provide further support to the quality growth segment of the market in our view, given the strong correlation between bond yields and quality growth stocks, as can be seen in the chart below. On the macro-economic cycle, if we are heading into a recession, we believe that quality growth stocks should be able to weather that economic storm better than other companies. Finally, in an environment of an ongoing corporate earnings recession, where growth becomes more scarce, quality growth stocks, exposed to structural growth opportunities, have a superior growth profile that should make them stand out.

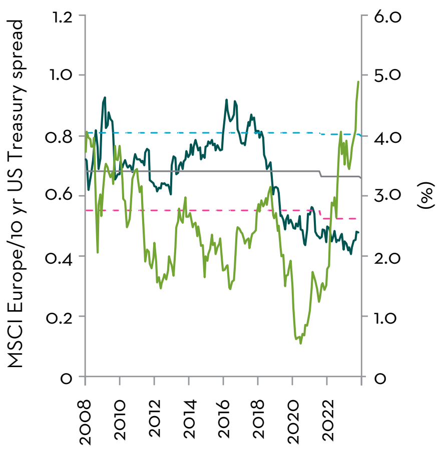
MSCI Europe



MSCI USA



MSCI UK



Relative price — Average — +1 Standard deviation — -1 Standard deviation — US 10yr bond yields (RHS)

Source: FactSet as at 31 October 2023.

2024

Investment implications

Focus on quality growth stocks at this stage in the economic and monetary cycles

All in all, we believe it remains important, in an uncertain macroeconomic and inflationary environment, to continue to focus on companies with:

(i) earnings resilience, given the risk of ongoing earnings downgrades,

(ii) pricing power, in order to protect margins in this stickier inflation environment,

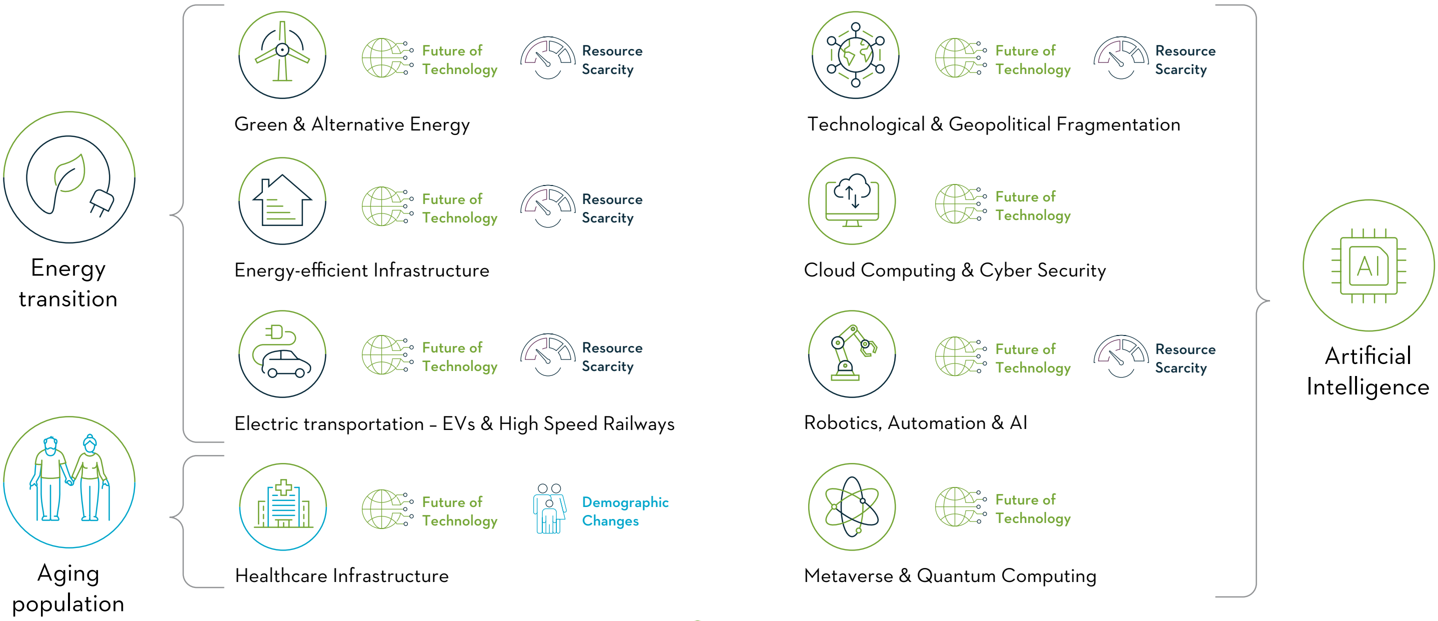
(iii) solid balance sheets, to give better protection in case of recession, and

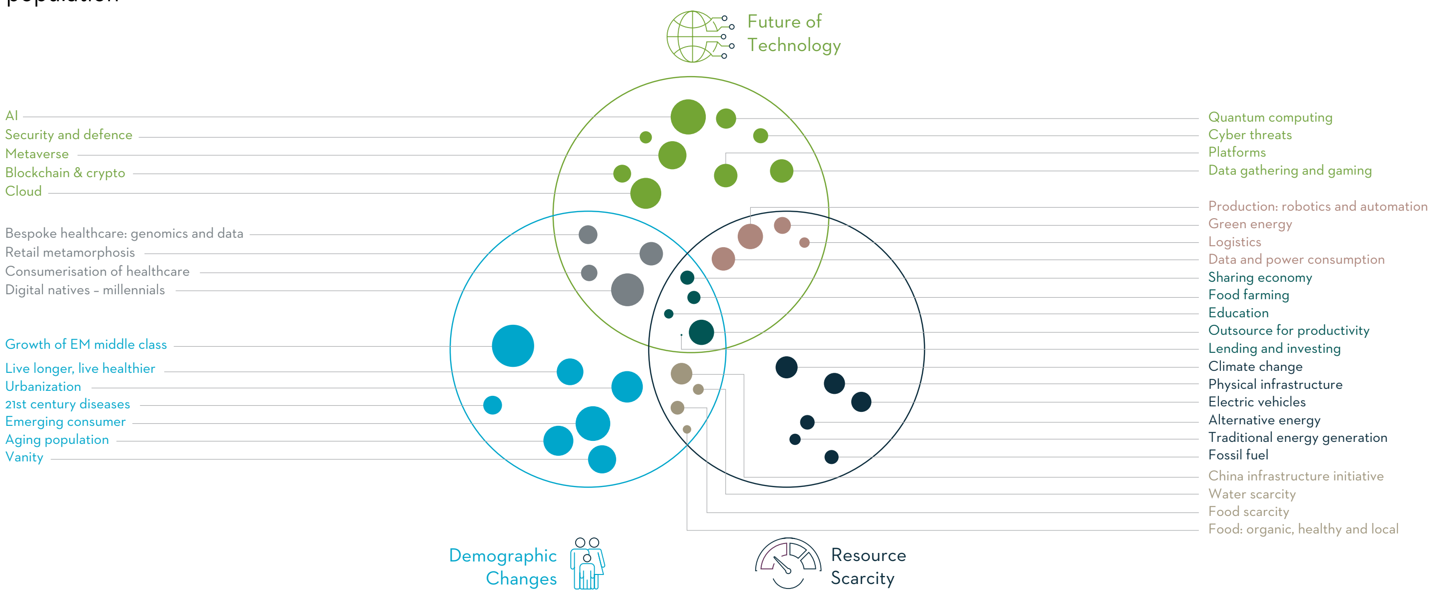
(iv) structural growth opportunities, given the low growth environment we are facing.

Thematic opportunities still abound within our three mega-trends

As we look into 2024 and beyond, we continue to see many attractive thematic opportunities for long term investors to harness. We continue to focus on eight mid-term thematic opportunities, which sit within our three mega-trends of **(1) Demographic Changes**, **(2) Future of Technology** and **(3) Resource Scarcity**.

These eight mid-term themes are bundled into three broad thematics: Energy transition, Ageing population and Artificial Intelligence. We detail each of the eight thematic opportunities below:





2024

Investment implications

Three areas of focus: Energy transition, Ageing population and Artificial Intelligence

The eight medium-term thematic opportunities highlight the importance of focusing on long-term structural growth opportunities. These themes have sizeable long term drivers, and are facing an important investment cycle. Looking across the whole ecosystem of companies that are exposed to these themes is way to capture the most attractively valued opportunities, that fit our requirements as quality growth investors.

Risks remain in 2024 - nine key risks to watch out for

There are still plenty of risks to watch out for in 2024. Even if we are entering a year where monetary policies will become more supportive for financial markets. Below, we list the nine risks that remain key for investors to watch out for. These risks will likely lead to periodic flare ups in volatility, as they come to the forefront. Once again, geopolitical risk remains the most important and unpredictable one in our view, so we have a dedicated section below specifically focusing on this.

Key risks to watch out for in 2024

Monetary policy risks: the risk of over-tightening interest rates creates the higher potential for policy mistakes for both markets and economies.

Fiscal policy risks: the risk of lack of follow through in stated infrastructure spending programs could put more downside risk to economic momentum.

Persistence in inflation: given higher wage inflation, the risk of stronger and longer lasting inflation could fuel a need for more tightening in monetary policies.

Corporate Margins pressure: more persistent and elevated inflation could lead to further corporate margin pressure for companies lacking pricing power.

Market and style leadership volatility: shifting expectations in monetary policies could lead to ongoing volatility in markets, and in style leadership between Value and Growth.

Lower long-term growth: growing indebtedness is likely to lead to ongoing low long-term growth in our view, with more scarcity in growth opportunities.

Higher taxation: given higher indebtedness, there is a high likelihood of higher tax rates, both for households and for Companies.

Climate disasters risk: climate change related disasters are likely to continue to take their toll on various regions. This has the risk of negative impact on societies, but also on companies in terms of risk to productive capacities and to assets in general.

Geopolitical risks flare ups: The Israel/Hamas conflict has opened another military conflict, in addition to the Russia/Ukraine war. Escalation and the risk of the conflicts broadening are key areas to watch. Other geopolitical hotspots to watch out for are Taiwan/China, North Korea, Iran/Israel, and China/Rest of World (RoW). Some of these geopolitical risks will be military, others will materialise into ongoing technological conflicts, such as China/US. Cyber-attacks could also be part of that risk. At this stage, the outcome of the US presidential elections remains highly uncertain. Both in terms of running candidates for the Republicans, and the ultimate outcome. This will bring an element of uncertainty as the market focus shifts to that event in the second half of 2024.

2024

Investment implications

With plenty of risks in 2024 volatility is likely to periodically flare up

Volatility will likely flare up, as some of these risks come to the forefront. Geopolitical risks are an important element to watch out for. The US election and the ongoing China-US-RoW geopolitical tensions are likely to remain the most important events for market volatility, although we need to continue to bear in mind the risks of military conflict escalation and broadening on the current two fronts of Ukraine/Russia and Israel/Hamas.

Geopolitical risks will continue to contribute to volatility

- Israel/Hamas is opening an additional military front which could escalate or broaden
- Iran will also be an important potential hotspot to watch
- Russia/Ukraine conflict will remain a focal point, and still has the risk of escalation and expanding
- China/Taiwan geopolitical risk likely to remain omnipresent, given stated intentions by China to unify its territory
- China/RoW and China/US could lead to ongoing tensions, already spilling over into technological conflicts, with potential regulatory implications for corporates
- North Korea also remains important to monitor given strengthening ties with Russia
- Rise of political extremism in various geographies could be a risk, given the macroeconomic challenges, potentially leading to a rise in nationalism

Unfortunately, there are plenty of geopolitical risks to take into consideration in 2024, some of which are tragically military conflicts.

The ongoing Russia/Ukraine conflict remains an important focal point, with both the risk of escalation and the broadening of the conflict to the NATO bloc. Related to that, it will be important to continue to monitor the ongoing energy supply risk for Europe. Although the European Union bloc has made significant progress towards eliminating its dependence on Russian gas supplies.

The China/Taiwan geopolitical risk is likely to remain omnipresent for years to come, given the Chinese leadership's stated revendications to unify the Chinese territory. Timing of any flare up in tensions is very difficult to predict, but this would have broader implications globally.

China/RoW and China/US tensions are another important source of geopolitical risk. This is spilling over into technological conflicts, with the current US administration taking significant regulatory steps to cut off China from access to leading edge semiconductors technology, and to chips related to Artificial Intelligence (AI). This will clearly have implications for companies exposed to these regulatory changes.

The geopolitical risk in Iran, both from within, and from that regime's potential intentions to nuclearize, could have implications for tensions within the region.

Potential risk of rising political extremism is another important geopolitical risk. There is a tendency for rising nationalism in periods of economic challenges, which could lead to deglobalisation policies being taken by various ruling parties globally. The Inflation Reduction Act in the US could potentially have ongoing negative implications for EU competitiveness as well, which could lead to further nationalistic tensions between blocs.

2024

Investment implications

Investors need to incorporate the geopolitical risk dimension

A notable angle of China's geopolitical uncertainty is whether China is seen as less investable by some investors. At the same time, Chinese authorities could take measures to either ease geopolitical tensions. Or to the contrary, could take inflammatory measures to offset some of the restrictions put in place by the US, which could lead to escalation. Volatility around Chinese related stocks is therefore likely to remain high whilst we have this climate of elevated uncertainty.

An ever more disruptive decade likely to go into overdrive in 2024 and beyond

With the ongoing focus on investing for a transitioning world towards net-zero, innovation rates are likely to continue to increase, and with it, disruption risk to traditional businesses is likely to continue to rise.

AI has brought a seismic shift to the disruption rate faced by companies throughout the world. At the same time, AI is likely to lead to a significant acceleration in innovation potential, and breakthroughs across many fields of the economy. AI has the potential severely disrupt some established businesses.

For long term investors, this opens up good areas of opportunities. But it also highlights the need to be vigilant in terms of disruption risk on established business models, and to ensure disruption risk is assessed in a detailed and structured analytical approach. Equally important is the ability for companies to remain innovative across the board, but also through embracing and harnessing the AI potential to the full. This can allow companies to both fend off competitive pressures, and to stay ahead of the disruptive trends that could challenge their market positioning.

We predict an acceleration in innovation and disruption in 2024, which will bring both opportunities and challenges for companies, and for investors alike.

Wishing our readers and investors a joyous festive period, and a happy, healthy and prosperous new year. We are looking forward to the ongoing stimulating engagements with our investors and companies in 2024.

Zehrid Osmani

Head of Global Long-Term Unconstrained
Lead Senior Portfolio Manager

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- This strategy may hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the strategy's value than if it held a larger number of investments.
- Smaller companies may be riskier and their shares may be less liquid than larger companies, meaning that their share price may be more volatile.
- Emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. Accordingly, investment in emerging markets is generally characterised by higher levels of risk than investment in fully developed markets.
- The strategy may invest in derivatives Index futures and FX forwards to obtain, increase or reduce exposure to underlying assets. The use of derivatives may result in greater fluctuations of returns due to the value of the derivative not moving in line with the underlying asset. Certain types of derivatives can be difficult to purchase or sell in certain market conditions.

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