GLOBAL LONG-TERM UNCONSTRAINED

2024 Outlook

DECEMBER 2023 **For institutional, professional and wholesale investors only.**

A potential pivot for quality growth

Five key points for 2024

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In 2024, we foresee inflation to be stickier and longer lasting with slower economic growth, particularly in the US and China. In Europe and the UK, we continue to forecast ongoing stagflation. Despite the muted growth outlook, the expected pivot by the western central banks has the potential to be supportive for equity markets and quality growth stocks in particular. European and Asian equities also offer more valuation support relative to history and other developed market equities. We see opportunities for long term investors in structural growth themes such as Energy Transition, Ageing Population and Artificial Intelligence. An ever more disruptive decade is likely to bring accelerating challenges for corporates, but also plenty of opportunities for innovation.

Below we cover our five key points for 2024 and summarise the nine key risks investors need to be aware of.

Zehrid Osmani
Head of Global Long Term Unconstrained
Senior Portfolio Manager

1. Stickier inflation means an ongoing focus on pricing power

In 2023, we predicted higher and longer lasting inflation. While inflation is likely to continue to ease in 2024, there remains the risk of persistent inflationary pressures in the medium term.

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

Wage inflation is the predominant contributor and this could fuel structural inflation. Whilst easing in some geographies, wage inflation remains elevated. It has the potential to persist, as wages need to continue to catch up with the elevated Consumer Price Index (CPI) levels seen across most regions.

Deglobalisation and technological fragmentation 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.

Finally, the ongoing focus by governments and companies on the energy transition and tackling climate change in a sustainable manner is likely to also bring some inflationary pressures to both energy costs, and to sustainable capex programs. The latter notably in electric transportation and energy-efficient infrastructure. Whilst these are necessary, they will likely further contribute to inflationary pressures.

This sticky inflationary backdrop is likely to put more downward pressure on corporate margins. It is therefore, in our view, critical to focus on companies that have pricing power and are able to protect their margins effectively.

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2. Monetary policies becoming supportive for quality growth stocks

Monetary policies have peaked or are close to peaking, but we do not expect any cuts from the western central banks[2] until the second half of 2024. We think that it is more likely that they will not hit their inflation targets before 2025. Central banks have shifted towards being data dependent and reactionary in their policies. This can fuel further volatility, as the markets speculate on central bank policies each time new inflation data is released.

Given this environment it is important for investors to look at the bigger picture. When the time comes and central banks do pivot towards rate cuts, we believe this will provide more support for long-duration equities, particularly quality growth stocks.

[2]Notably the US Federal Reserve (Fed), European Central Bank (ECB), the Bank of England (BoE)

3. Focus on resilient earnings given downside risks to corporate profits

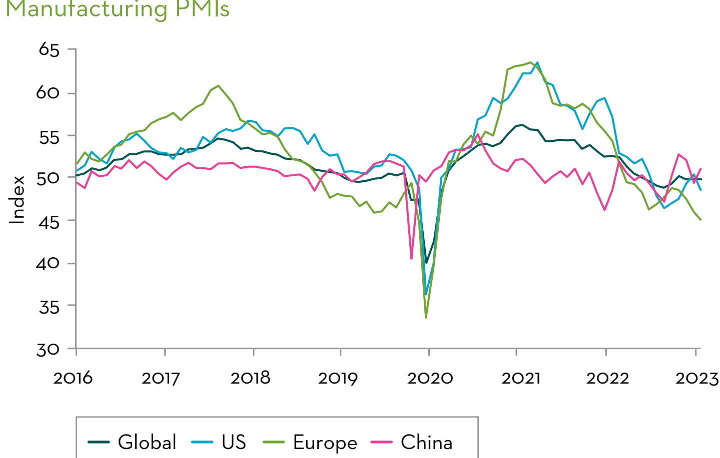
In 2023 a resilient US economy and China's reopening supported the global economy. However in Europe, our central scenario of stagflation came through, and in 2024 the region's leading indicators point to an ongoing backdrop of stagflation. The region is more cyclically sensitive to both the global and Chinese economic cycles. These show signs of losing momentum, as the impact of last year's rapid interest rate rises take their toll, US economic growth slows (with the potential risk of recession), and China's post-lockdown reopening tailwind dwindles.

Given the structural headwinds faced by the Chinese economy we expect Gross Domestic Product (GDP) growth to be more muted. There is the possibility (c.70%) that the Chinese authorities may deploy additional stimuli to tackle this. Any such stimuli would be positive for consumer stocks, particularly European ones.

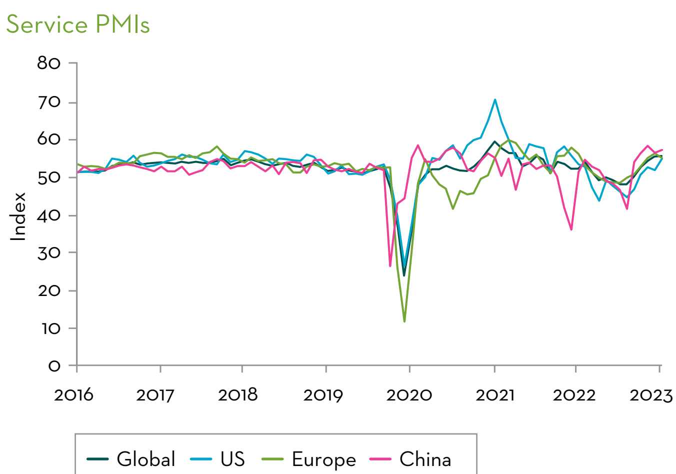
The Inflation Reduction Act in the US could potentially have ongoing negative implications for European competitiveness as well, which could lead to further nationalistic tensions between blocs.

Purchasing Managers' Index (PMIs)

Manufacturing PMIs



Service PMIs



Source: Martin Currie, FactSet and OECD. As at 31 October 2023.

We forecast corporate earnings growth to remain pedestrian and weak in 2024, with the ongoing risk of earning downgrades due to optimistic forecasts. Consensus year-on-year earnings growth forecasts are World +11%, US +12%, Europe +6%, Asia +16% and Japan +8%. Given weakening economic momentum, or stagflationary environments, our top-down forecasts are more conservative, with Global (or World) +4%, US +5%, Europe +3%, Asia +5%, Japan +6%.

Investors need to focus on companies with resilient earnings that can resist downward revisions, or that can actually surprise positively, notably if helped by exposure to structural growth drivers.

When the time comes and central banks do pivot towards rate cuts, we believe this will provide more support for long-duration equities, particularly quality growth stocks.

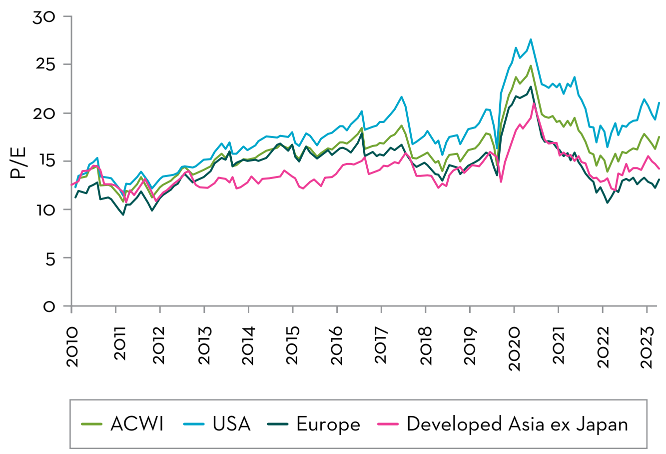
4. Remain disciplined on valuations – European and Asian equities at supportive levels

European and Asian equity valuations continue to provide an attractive opportunity, trading at a discount to both their cyclically adjusted ten-year averages and to US equities. This can partly be explained by the outsized influence of the so-called 'Magnificent Seven'[1] technology stocks on the US index. Even adjusting for the prominence of technology stocks in the US index, both European and Asian equities still have supportive valuations versus the US.

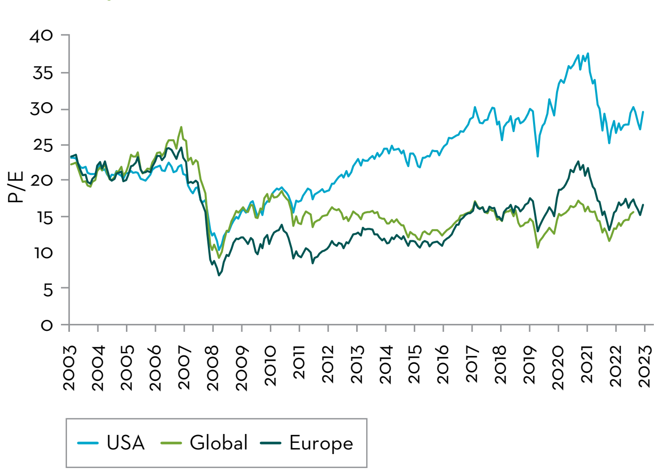
It is in any case important to remain disciplined in terms of valuation approach. We always assess valuation on a stock specific basis rather than at the broader market level. But it is the case that we still find more attractively valued stocks outside of the US at this stage.

[1]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



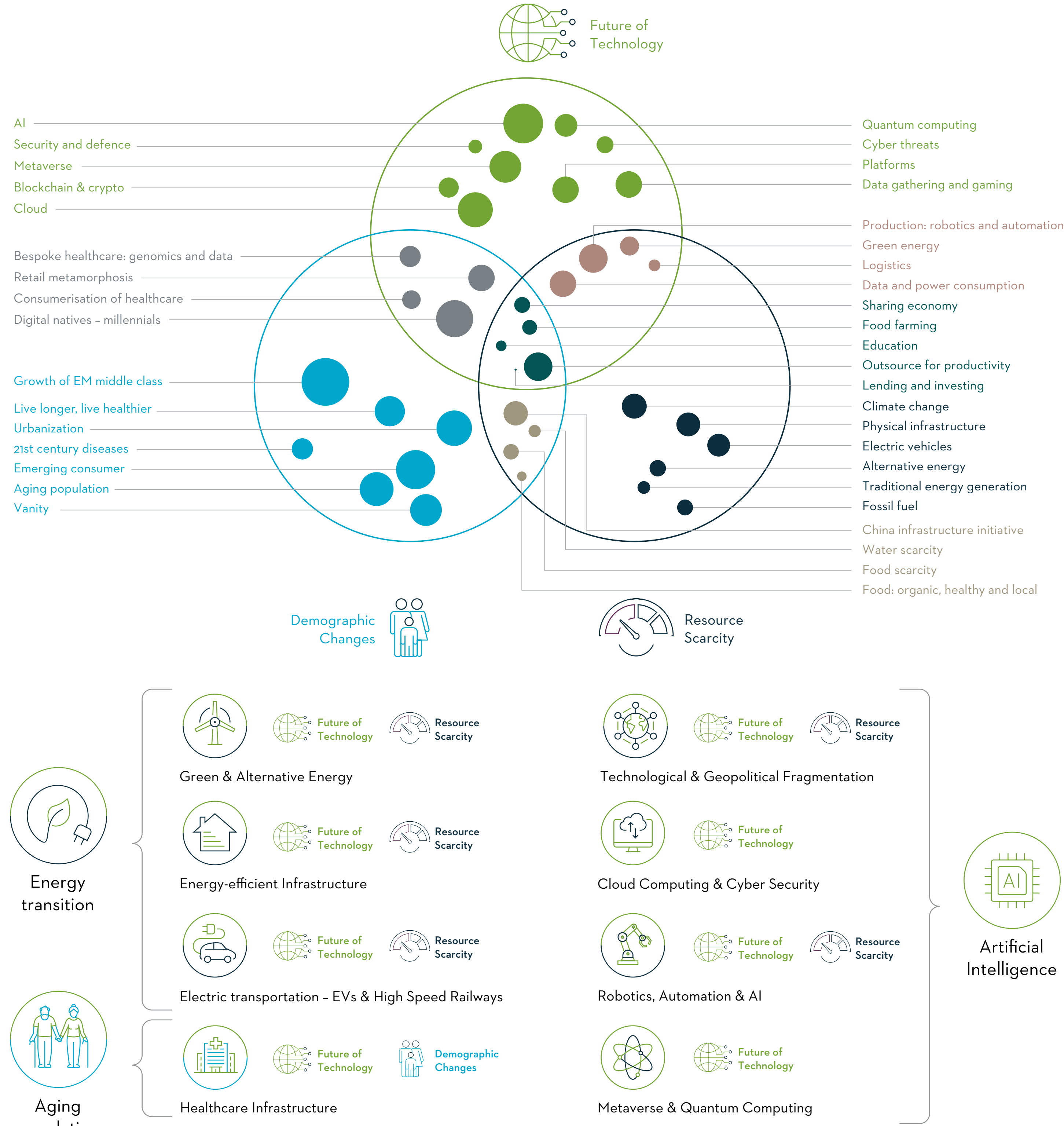
Source: FactSet as at 30 November 2023.

5. Focus on structural growth opportunities in a low growth environment

We believe investors need to focus on companies with strong structural growth opportunities. We highlight three areas of focus: Energy Transition, Ageing Population and Artificial Intelligence.

There is an ongoing focus on investing for a transitioning world towards net-zero and the seismic shift brought on by Artificial Intelligence. The rate of innovation is likely to continue to increase, and with it, disruption risk to traditional businesses is also likely to continue to rise.

These themes have sizeable long term drivers and are facing an important investment cycle. Looking at these themes across the whole ecosystem of companies that are exposed to them is the way to capture the most attractively valued opportunities that fit our requirements as quality growth investors.



Source: Martin Currie and FactSet as at 30 November 2023. Data presented is for the Martin Currie Global Long-Term Unconstrained representative account.

Risks remain plentiful in 2024

Even if we are entering a year where monetary policies will become more supportive for financial markets, risks remain plentiful. We show the nine key risks we predict below. These risks will likely lead to periodic flare ups in volatility as they come to the forefront. Once again, geopolitical risk and flare ups remain the most important and unpredictable in our view. These include the US and EU elections, US/China tensions, and the ongoing conflicts between Russia/Ukraine and Israel/Hamas.

Monetary policy risks

Corporate margin pressure

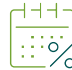
Higher taxation

Fiscal policy risks

Market volatility and style leadership volatility

Geopolitical risk flare ups

Persistence in inflation


Lower longer term growth

Climate disaster risk

Even if we are entering a year where monetary policies will become more supportive for financial markets, risks remain plentiful.

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- Smaller companies may be riskier and their shares may be less liquid than larger companies, meaning that their share price may be more volatile.
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