RATHBONES

READY, STEADY, GO INTO 2024

INVESTMENT VIEW
DECEMBER 2023

THE FITS AND STARTS MAY NOT BE OVER, BUT WE'RE LOOKING FORWARD TO A MORE SUSTAINABLE RECOVERY BEGINNING IN 2024.

Investors have much to cheer as we near the year's end. Following a terrible October, in which most of the year's gains were eradicated, global equities have rallied strongly. Returns through the year have been unusually concentrated, with the majority of companies underperforming the key benchmark indices, but large technology leaders doing well.

We've been cautious through 2023, and remain so, but can look ahead to 2024 with more confidence. Given a fundamentally weak profit environment, another one or two large dips wouldn't be surprising, but inflation, that huge source of uncertainty for investors last year, is much improved. With many attractively priced opportunities out there, there's much to look forward to.

Where have we come from?
This time last year we said that what happens in 2023 would be determined by the answer to two questions: will the world's major economies fall into recession? And how far will central banks continue to tighten policy? That second question was, of course, conditional on a third, how quickly will inflation recede?

At the start of the year markets were expecting substantial rate cuts, but our research suggested that they were unlikely to come that soon and that kept us cautious on bonds. As the year went on, the market came around to our way of thinking, and by September longer-dated (more rate sensitive) bonds were looking attractive, particularly east of the Atlantic. Indeed, bond markets have rallied strongly as they look ahead to rate cuts in 2024 following a plunge in key measures of inflation, most dramatically in the UK and Eurozone.

Resilience underestimated
While we got those second and third deterministic questions correct, we underestimated the potential for economic resilience in 2023. In hindsight, we could have advocated taking more risk. But recessions really matter because they are invariably accompanied by sizeable equity market falls. There is a very strong correlation between global GDP and global profits and in 2023 global profits stagnated. The US was an outlier, but even there profits weakened.

Where are we going from here?
The various 'goldilocks' scenarios, to which many investors subscribe, could be summed up as "it's different this time." Statistically, it's important to acknowledge that it could be different this time. But tying it all together, the long leading indicators from bond yields, changes in rates and bank lending conditions have continued to signal recession.

Investing in 2024
Valuations in many areas of the market are looking attractive, particularly among smaller and mid-market companies. We're taking a close look at investments that would tend to do well when the economic environment becomes a little more certain. Inflation uncertainty is much reduced compared to last year. We just need a surer outlook for corporate profits.

One risk that we that expect will get over exaggerated next year is the general election. Our analysis suggests that elections rarely change pre-existing market trends, which are typically determined by factors outside a government's direct control, unless they bring in a radically different economic model, which is not something we see happening in major economies next year.

To sum up, after taking a sober look at the challenges that still lie ahead, we believe investors do have good reasons to ring in the New Year with a toast to the opportunities it will bring.

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