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MARKET *view*

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Prof. Dr. Jan Viebig
Global Co-CIO ODDO BHF

2024 outlook for the financial markets

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As 2023 draws to a close, inflation in Europe and the USA has fallen noticeably. This has raised expectations on the financial markets that the Fed and ECB will cut interest rates for the first time in 2024. While we do not forecast a severe recession, the overall economic growth outlook for 2024 will cloud over following 10 interest rate hikes in Europe and 11 key rate adjustments in the US. As in 2023, the US economy should outperform the eurozone slightly. The OECD, which released its latest forecasts at the end of November, now projects growth in the US to slow to around 1.5 per cent and growth in the eurozone to recover slightly to around 0.9 per cent.

If these predictions materialise, there could indeed be room for the first interest rate cuts in both Europe and the US later in the year. Market participants, who often swing between extremes, are currently predicting interest rate cuts of 1.25 percentage points in the US and 1.5 percentage points in the eurozone next year. We find this projection somewhat overly aggressive, given the persistently high core inflation (4.0% in the US in October 2023 and 3.6% in the eurozone in November 2023) on the one hand, and the significant rise in labor costs (4.3% in the US in the third quarter of 2023 and 4.6% in the eurozone in the second quarter of 2023) on the other. Nevertheless, monetary policy is likely to change course in the new year.

Despite recent declines, bond yields in Europe and the US remain at levels not seen in many years. We are convinced that anyone investing at these levels will secure an attractive return over the long term. Therefore, we generally tend to favour bonds with longer maturities or, in the portfolio context, a slightly above-average duration. In addition, key interest rate cuts could provide opportunities for price gains.

The recovery in yields also means multi-asset portfolios are regaining their appeal. The era of zero and negative interest rates is over. Given the recent uptick in yields, we are once again investing more in long-dated bonds. With the changing yield landscape, these instruments should take on a greater role in investors' portfolio strategies going forward. This is particularly true as the correlation between equities and bonds is expected to normalise. We believe the positive correlation between equities and bonds, which has risen sharply due to the supply shock, will decrease again. As a result, the diversifying, i.e. risk-reducing, effect of adding bonds to a mixed portfolio will increase once more. 2024 could therefore be a successful year for multi-asset solutions.

At the beginning of November, we raised our positioning on the equity market from slightly underweight to neutral. Given the strong price gains in November, this move proved a good decision. The neutral positioning reflects our perception that equity markets currently exhibit a relatively balanced mix of risks and opportunities. On the one hand, growth prospects are limited.

Furthermore, tighter financing conditions are weighing on companies and weaker demand is making it more difficult to pass on rising interest and labor costs. Pressure on margins could therefore increase. On the other hand, equity markets should benefit from the end of interest rate hikes and the likelihood of falling interest rates next year.

Analysts also believe that earnings growth (earnings per share) will accelerate in 2024. Valuations are not high across the board. For instance, the price/earnings (P/E) ratios for the S&P 500 or the Euro STOXX are currently close to their long-term averages and are quite attractive in some market sectors.

However, investors should remain selective when picking stocks next year. We recommend avoiding cyclical names, which are particularly vulnerable to economic cycles. We prefer to focus on defensive, quality, and growth stocks. Furthermore, we favour companies with high capital efficiency, moderate debt levels and that are engaged in long-term growth trends, among other factors. Specifically, our attention is drawn to 3 sectors: the technology sector, with a keen interest in artificial intelligence; the healthcare sector, which is benefiting from demographic factors; and the luxury goods sector, currently driven by rising incomes in emerging markets.

Along with an uncertain economic landscape, there are several exogenous factors to consider for 2024. The war in Ukraine and the conflict in Gaza remain key risk factors. The elections in Taiwan in January 2024 could lead to renewed tensions with China. Finally, an exciting election year awaits in the US. Within the Democratic Party, indications suggest that President Joe Biden may seek re-election. On the Republican front, polls currently show Donald Trump with a substantial lead, despite his ongoing legal challenges. Trump's potential re-election in November 2024 could lead to further polarisation in the US and an end to American support for Ukraine. Greater European integration may appear as a sensible response to these growing geopolitical risks, which will determine market volatility in 2024.

ODDO BHF
12, boulevard de la Madeleine - 75440 Paris Cedex 09 France - Phone: 33(0)1 44 51 85 00 - Fax: 33(0)1 44 51 85 10 –
www.oddo-bhf.com ODDO BHF SCA, a limited partnership limited by shares with a capital of €70,000,000 - RCS 652 027 384 Paris –
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