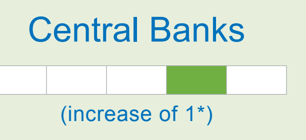
ARGUS Wealth Management

Macro & Market Outlook

as at December 31, 2023

Central Banks



(increase of 1*)

- The U.S. Federal Reserve (“the Fed”) held the federal funds rate steady at 5.25-5.50% at its December meeting, a widely expected move marking the third consecutive hold.
- The Fed also released its quarterly long-run projections for interest rates; the median forecast was 4.6% at the end of 2024 and 3.6% at the end of 2025. These projections are slightly more dovish than they were in September, a downward shift due to a continued cooldown in inflation.
- Along with the decision to stay on hold, the U.S. policymakers also agreed that it would be appropriate to maintain a restrictive stance “for some time” while pencilling in at least three rate cuts in 2024, assuming a quarter-percentage-point decrease each time for a total of 75 basis points in predicted cuts. However, there is no guarantee that these will occur.
- The timing of the first rate cut and how many cuts there will be in 2024 are uncertain and will be data-dependent. A further weakening in the labour market, below-trend economic growth, and on-target inflation would be required for the rate cuts to begin.
- Nevertheless, we expect the policy rates to be at or near their peaks for this tightening cycle, and with rate cuts likely to occur in the next 12-18 months, we improved our rating from neutral to positive.

Liquidity & Credit

(increase of 1*)

- We are likely at the end of this interest rate hiking cycle, but financing conditions will stay tight in real terms in the next 12 months. Borrowers across all asset classes will have to adjust to tighter financial conditions than in the last 20 years.
- Credit risk remains moderate in aggregate. Corporate spreads are slightly below their 10-year averages and near their 1-year lows. However, there could be credit deterioration in 2024 as the economy slows, largely at the lower end of the rating scale (below-investment-grade bonds). Investment-grade credits should generally continue to show resilience, with the exception of the real estate sector.

Economics

(unchanged*)

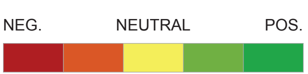
- 2023 will go into the history book as a year of resilience. Developed economies have managed to withstand significant monetary tightening for nearly two years. 2024 will be the year we watch whether this resilience could persist and whether the Fed cements a soft landing.
- According to the OECD’s projections[1], the growth rate of the global economy is expected to slow down to 2.7% in 2024. A modest improvement is predicted in 2025, with the growth rate increasing to 3%.
- GDP growth in the United States is projected to be 1.5% in 2024 and then picking up slightly to 1.7% in 2025 as monetary policy is expected to ease.
- While we expect economic growth to slow down, the Federal Open Market Committee projects the U.S. unemployment rate will average a healthy 4.1% in 2024, which is higher than the current rate of 3.7%. However, it remains significantly lower than its long-term average of about 5.7%.
- Weaker consumer spending will be a key ingredient in slowing down U.S. growth, with excess savings set to be drawn down by mid-year. Many households increasingly feel the pinch from high inflation and rate increases and are likely to become more cautious in spending.
- The U.S. Treasury curve has steepened during the second half of 2023 as the long-term yields rose faster than the short-term yields, although the curve is still inverted – the 2-year yield is higher than the 10-year yield. This so-called ‘bear steepening’ was mainly because investors demanded a higher ‘term premium’ to compensate for the risk of holding long-term debt.
- Finally, geopolitical risks are always a wild card. Events such as the ongoing conflict in Ukraine, the war between Israel and Hamas and the U.S. presidential election in 2024 create uncertainty and may increase market volatility.

Valuations

(unchanged*)

- Valuations of the overall equity market are still well above the long-term average. Longer-term valuation measures (such as the Shiller P/E, Buffet Indicator, and Tobin’s Q) continue to be at unattractive levels.
- The number and percentage of S&P 500 companies issuing negative EPS guidance for Q4 2023 are above their 5-year and 10-year averages. However, as we look ahead to 2024, the financial landscape appears cautiously optimistic, with analysts predicting an upswing in U.S. corporate earnings and expectations of an 11.1% rise in 2024.

Legend:



[1] https://www.oecd.org/newsroom/economic-outlook-a-mild-slowdown-in-2024-and-slightly-improved-growth-in-2025.htm

* Change from the previous 12-month outlook.

** The weights to calculate the Overall rating are determined by Argus Wealth at its discretion.

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Valuations *(cont.)*

(unchanged*)

- The market leadership has stayed very narrow, with just a handful of mega-cap AI-related stocks accounting for 62% of the total return of the S&P 500 in 2023. We have seen the market leadership begin to broaden throughout the end of 2023, and the broadening of market leadership could continue in 2024. There are still opportunities outside the U.S. and in attractively valued companies with solid cash flow and growth potential.
- Fundamentally, the overall market is overvalued, but the stock market could run higher due to the soft-landing narrative and the expectation that central banks will sharply cut rates soon. However, the bloated technology sector and geopolitical uncertainties could create some volatility in the market.

Sentiment

(increase of 1*)

- U.S. consumers had a surge in confidence at the end of 2023 and restored optimism for 2024, according to the Conference Board Consumer Confidence Index[2]. Consumers are generally more confident about future business conditions, job availability and income.
- The American Association of Individual Investors Sentiment Survey showed excessive optimism in the latest Survey[3]. Bullish sentiments and expectations that stock prices will rise over the next six months were 48.6%, well above the historical average of 37.5%.

Technical

(US Large Cap)

(increase of 1*)

- The S&P 500 Index is assessed as technically positive for the medium-long term.
- The S&P 500 Index is in a rising trend channel in the medium to long term. Rising trends indicate that the market is experiencing a positive development and that buy interest among investors is increasing.

Overall

(increase of 4**)

Conclusion: Our overall score for this quarter has increased, namely for Central Banks, Liquidity & Credits, Sentiment and Technical, compared to the last quarter, as we expect most developed market central banks have likely reached the end of their hiking cycles.

The global economy exceeded our expectations in 2023, with both stocks and bonds providing positive returns for investors. As we start the new year, there are several reasons to be optimistic. Inflation continues to moderate, consumer spending has increased, and corporate earnings are expected to improve as the year progresses. Investors also hold high conviction that the Fed will soon achieve a soft landing and start to cut interest rates. However, we believe that 2024 may bring its own twists and turns, especially with elevated geopolitical risk and the coming U.S. election. Timing the market is almost impossible. Instead, we will continue being cautious and humble about the macroeconomic uncertainties, following a diversified and risk-conscious investment approach across all asset classes.

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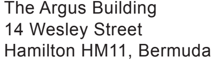

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