Cantab
ASSET MANAGEMENT

Outlook for Investments - Navigating uncertain waters

23 November 2023

As we approach the end of 2023, the global economy has outperformed expectations and core inflation has fallen substantially. While central banks around the world continue their efforts to reduce inflation with restrictive monetary policy, the future direction for interest rates looks to be downward albeit not as steep as many would have hoped.

Hints of peak rates in recent weeks have led to optimism that the worst of the volatility may now be behind us, but a disciplined approach to selection in both asset allocation and underlying strategies remains important for long-term planning.

Against this backdrop, the outlook for investment markets in 2024 appears to be one of cautious optimism. There are upsides, such as a successful soft landing for the global economy, but there are also downside risks, such as a deeper-than-expected recession or a resurgence of inflation.

Key themes likely to shape the 2024 investment landscape

1. **Monetary policy and interest rates:** The trajectory of interest rates will continue to be a major focus for investors. Central banks will need to strike a delicate balance between curbing inflation and avoiding a significant recession. Thus far, the impact of rising rates has been felt more acutely in asset markets (particularly bond and related asset classes) than in underlying economic fundamentals. However, the current 'higher for longer' narrative may have more persistent economic implications, should it play out.

2. **Economic growth and inflationary pressure:** The pace of global economic growth is expected to slow in 2024, but the extent of the slowdown is uncertain. Labour markets remain relatively tight, with wage pressure continuing to hinder efforts to tame inflation. We expect inflation to continue to ease through 2024 as the effects of monetary policy take hold. However, the path back to target inflation levels is unlikely to be completely smooth, with pockets of inflationary pressure likely to persist in some sectors.

3. **Geopolitical tensions:** The ongoing wars in Ukraine and the Middle East, together with other geopolitical tensions, could disrupt supply chains and increase market volatility. Of particular note is the potential impact on energy prices – a significant risk factor for both inflation and growth around the world.

Investment strategies for 2024

In light of these themes, we continue to consider the following strategies as particularly important for clients in the year ahead:

1. **Diversification:** Diversifying across asset classes, geographies, and sectors can help mitigate portfolio risks. While some shocks (e.g. around energy prices) are likely to have global implications, there remains a benefit to maintaining exposure to markets at different stages of the economic cycle.

2. **Active management:** 2023 has been a very difficult year for active management. Global equity returns have been dominated by a very small number of companies in a highly concentrated US and Global index. We continue to believe that active managers should be able to navigate the challenging market environment and identify opportunities in undervalued or mispriced assets.

3. **Focus on long-term goals:** During periods of heightened volatility, human nature tends to shorten perceived time horizons. While some changes to long-term portfolios may be rational in response to an altered opportunity set, our experience is that carefully considered and gradual moves usually have better long-term outcomes than knee-jerk reactions. Although we have seen significant challenges in recent years, we remain optimistic that future returns for balanced portfolios will be attractive and in line with long-term averages. Below we have aggregated the long-term expected returns across a range of asset classes, as estimated by leading global research institutions.

Asset Class	JPM	Invesco	TR Price	BlackRock	Average (p.a.)
Cash	2.80%		3.9%	3.8%	3.5%
Global Government Bonds	4.00%	4.8%	4.3%	4.2%	4.3%
Global Credit	5.30%	5.4%	5.4%	4.5%	5.2%
UK Equity	7.20%	7.0%		7.3%	7.2%
Overseas Equity	6.20%	6.9%	10.5%	6.9%	7.6%
Emerging Market Equity	7.20%	9.5%	11.7%	9.2%	9.4%
Macro Hedge Funds	3.40%	4.4%	7.2%		5.0%
Commodities	2.20%	6.1%	4.7%		4.3%
Gold	2.50%	0.3%	-2.4%		0.1%

Conclusion

The investment landscape in 2024 provides opportunities with potentially under-valued assets in some regions and in stocks below the mega-caps. Investors should carefully consider their risk tolerance, investment goals, and time horizon before making any decisions. By adopting a diversified and long-term approach, investors should be better equipped to navigate the uncertainties ahead and potentially reach their financial objectives.

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