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“Goldilocks” or “The Sirens” ?

January 2024

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If someone had told you at the beginning of 2023 that during the year:

- The Federal Reserve will repeatedly announce its intention to keep interest rates 'higher for longer' and warn of the economic pain that this will cause
- The China reopening story will not materialize and the economy will struggle with challenges in its property sector
- 3 of the largest bank failures in US history will happen within weeks of each other
- The US debt-ceiling impasse will continue without resolution, while US federal debt balloons to ~ 130% of GDP and deficit to ~ 6% of GDP
- Strikes and protests – both wage related and political – will erupt in major economies all over the world
- The US will see its credit rating downgraded
- The Russia-Ukraine conflict will continue through the year
- Another war will start in the Middle East

Would you have expected the S&P 500 and the Nasdaq to record their best performance in years with gains of 24.2% and 43.4% respectively?

Yet this is what happened.

Looking ahead, the dominant narrative in the market is of a 'goldilocks' economy – "not too hot or too cold but just right" – with steady economic growth to prevent are cession, but not so hot as to push it into inflation.

Federal Reserve officials have penciled in three rate cuts for 2024. Markets are pricing in double that amount, beginning as soon as March. There are expectations that massive productivity gains from AI will goose up corporate earnings, while consumer spending will remain resilient. Emboldened by all this and driven by FOMO, investors have piled into all manner of financial assets – from equities and bonds to gold and cryptocurrency.

The Greek epic "The Odyssey" mentions mythical creatures known as the Sirens. These are winged monster women who are part bird and part human, and their goal is to lure sailors off course and to their deaths. **Their Siren song can hypnotize sailors, causing them to crash their boats into rocks and land.** Odysseus, the captain of the Greek ship in the epic, instructs his sailors to plug their ears with beeswax to prevent their hearing the Siren song. Odysseus himself straps his body to the mast of the ship to be able to listen to the song of the Sirens without steering the ship toward danger. Thanks to this, the crew sails safely through the straits and narrowly avoids an untimely death.

So, which of the two myths, Goldilocks or The Sirens, is likely to play out in 2024?

CIO Speaks

Let’s look at the current situation.

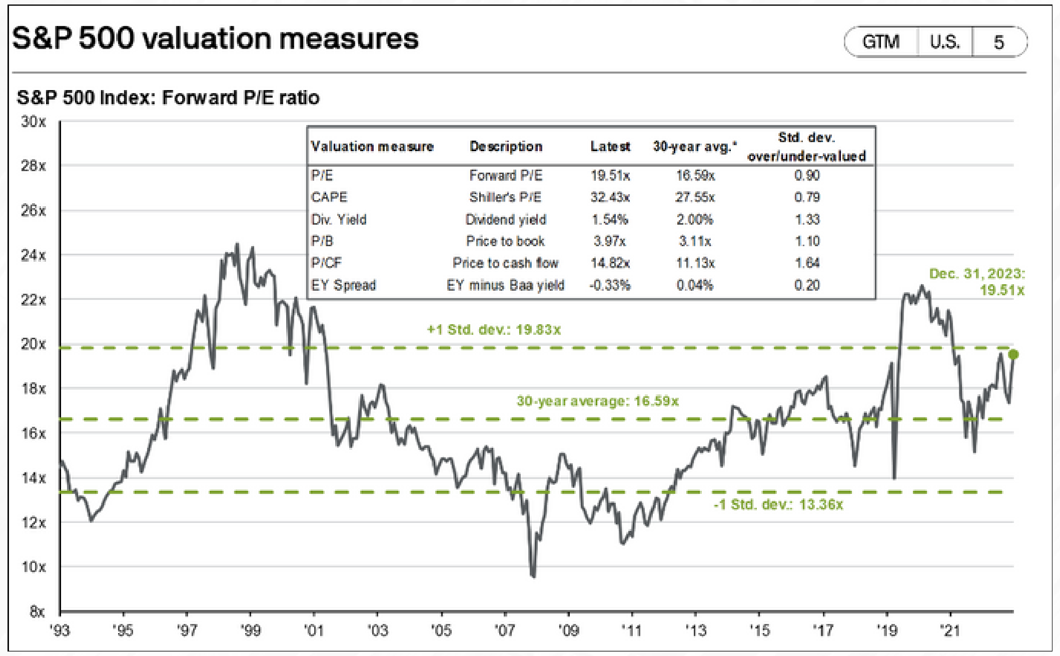
As per JP Morgan Asset Management, **the 12-month forward P/E ratio for the S&P 500 is at 19.51. This is about 17.6% higher than the 30-year average, but within 1 standard deviation of that number.** In other words, somewhat expensive but not excessively so.

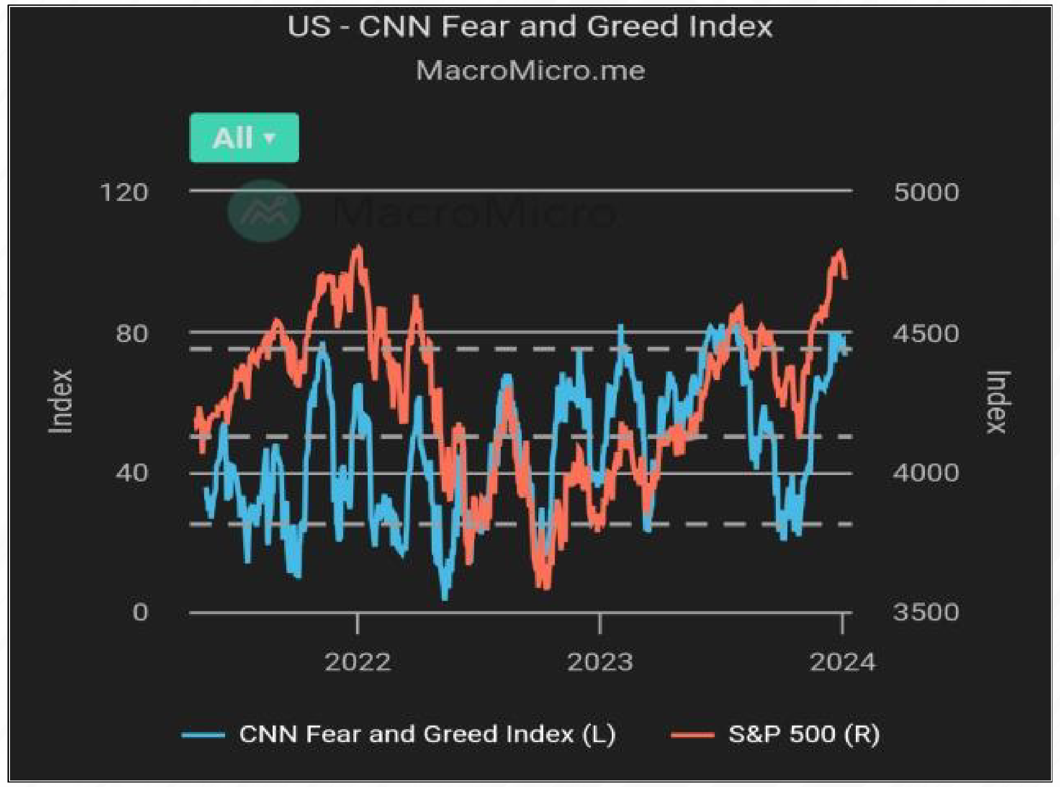
Other valuation metrics present a similar picture.

Investor sentiment has swung massively into positive territory, with the **CNN Greed & Fear Index flirting with “Extreme Greed’ levels.** This is usually a contrarian signal and, in this instance, reflects an excessive amount of optimism among investors

In the face of this sea of positivity, what could go wrong?

Scenarios	Outcome
Interest rate cuts do not happen as expected	Prompts a decline in bond and stock prices, raising concerns about inflation and creating market volatility
Interest rate cuts happen, but do not play out as expected	The historical data on interest rate cuts implies unpredictable stock market responses, urging investors to consider broader economic conditions, while falling interest rates may benefit bonds, necessitating vigilance and diversification.
Interest rate cuts happen, but Treasury yields remain elevated	Steepening yield curve, impacting borrowing costs and signaling market uncertainties about economic conditions and inflation.
The economy goes into recession	increased unemployment, reduced consumer spending, and corporate earnings decline, impacting both the equity market with heightened volatility and the bond market with potential credit stress.





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Scenario 1 : Interest rate cuts do not happen as expected

With bond markets predicting rate cuts and equities priced for continued expansion, one risk is that a hot US economy and stickier than expected inflation prevents the Fed from cutting rates as expected, forcing both bond and stock prices down.

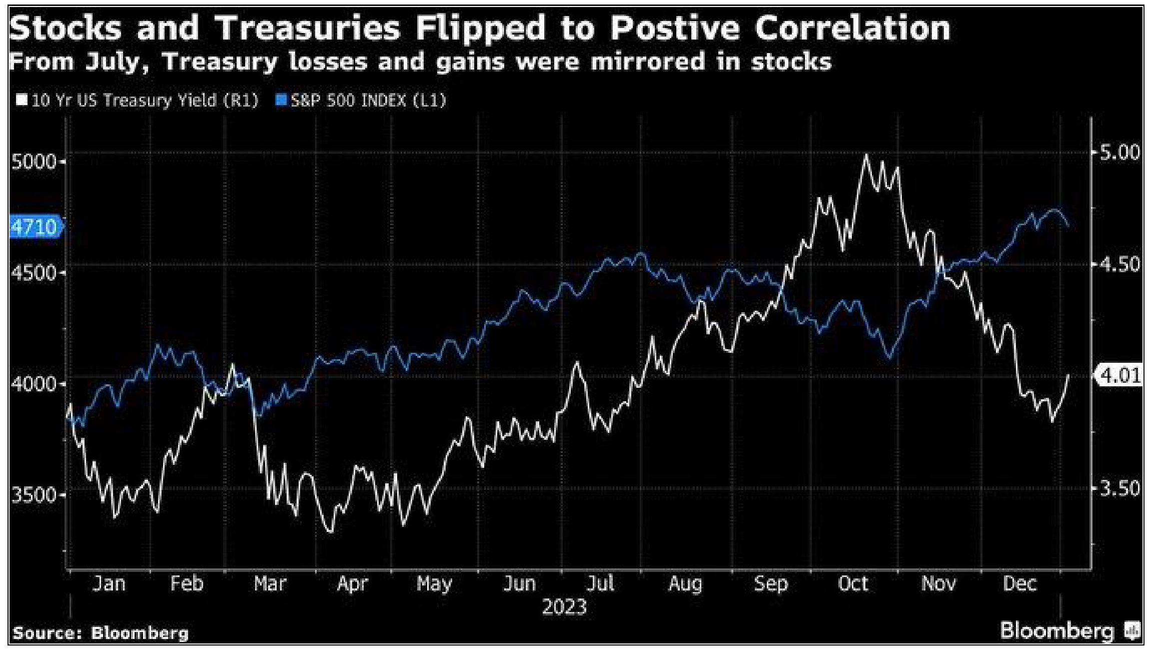
Underscoring this risk, Treasury yields extended their rebound this week after December job creation greatly exceeded forecasts, sparking a further paring of expectations that the Fed will cuts interest rates as soon as March. **The labor market continued to show signs of resiliency in the face of higher Fed interest rates, as the economy added 216,000 jobs in December, easily surpassing expectations of 170,000. The U.S. unemployment rate held steady at 3.7%, the lowest since July, compared to expectations for an increase to 3.8%, and wage growth accelerated for the first time in months, rising at a 4.1% pace.**

Scenario 2 : Interest rate cuts happen, but do not play out as expected

The Federal Reserve has indicated the likelihood of 3 interest rate cuts in 2024.

One common perception among investors is that the stock market will perform well once the Fed starts cutting interest rates. **History tells us this is not necessarily always the case. In fact, over the past nine initial interest rate cuts, more than half of the Fed's first cuts were followed by declines in the S&P 500 Index ranging from -22.6% to -55.5%.** The Technology bubble in the early 2000s and the Great Financial Crisis proved to be the worst scenarios, with the Fed cutting interest rates at two different times during the secular bear market of 2000–2009. On the other hand, four of the nine occurrences were followed by minimal weakness and achieved strong 6-month returns. On balance, over the past nine initial interest rate cuts, the S&P 500 Index had an average decline of 20.5% and an average 6-month return of 3.4%. So, while the market has experienced both bull markets and bear markets following the first rate cut, **history does not indicate that the Fed's accommodative policy will simply carry the market higher.**

Valuations matter too. When the market had a decline of at least 20% after the Fed's first cut, the average S&P 500 trailing PE ratio was 18. On the other hand, when the S&P 500 had a decline of less than 10%, the average PE ratio was 11.4. **The current much higher P/E ratio could be another reason to be more cautious once the Fed makes its first cut.**



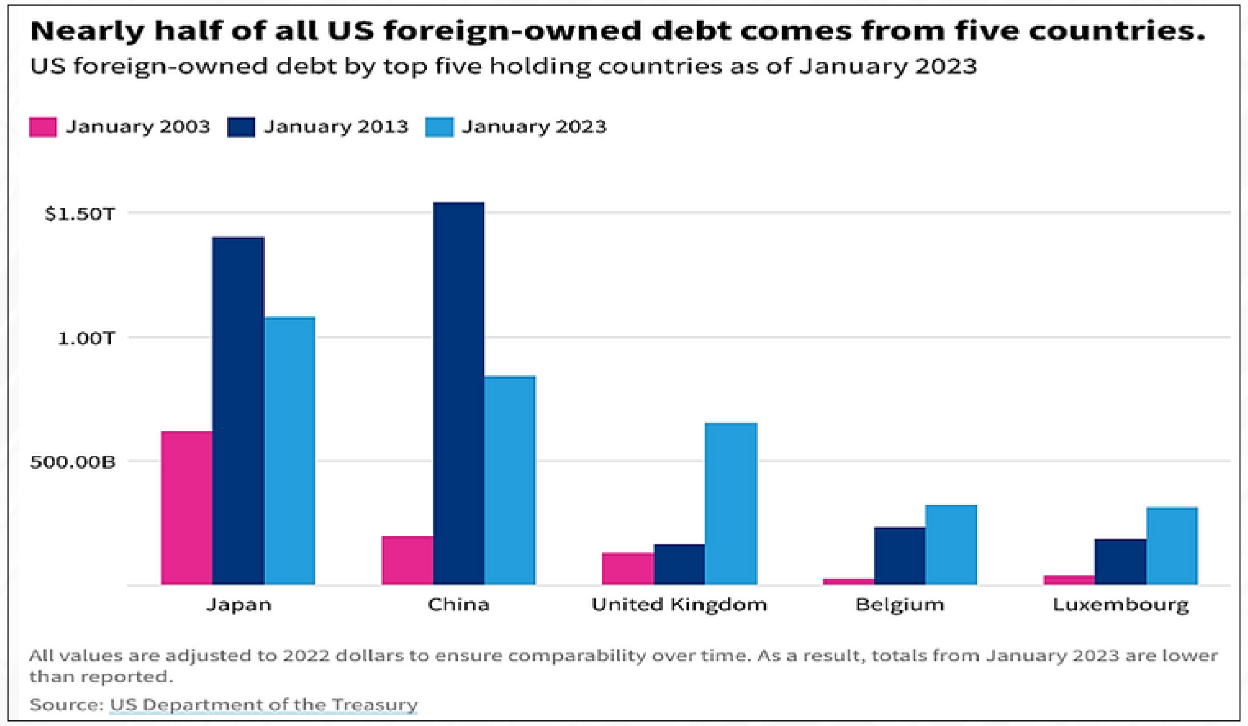
1ST CUT DATE	S&P 500 P/E RATIO* ON 1ST CUT DATE	MARKET LOW DATE	# OF DAYS	S&P 500 DECLINE TO LOW	6-MONTH RETURN AFTER 1ST CUT
7/1/1974	8.7	10/3/1974	94	-27.6%	-18.2%
4/1/1980	7.1	4/21/1980	20	-2.3%	26.1%
6/1/1981	8.7	8/12/1982	437	-22.6%	-2.0%
10/2/1984	10.0	10/9/1984	7	-1.2%	13.3%
6/5/1989	12.6	10/11/1990	493	-8.3%	10.9%
7/6/1995	16.0	7/19/1995	13	-0.5%	12.6%
1/3/2001	30.1	10/9/2002	644	-42.4%	-7.7%
9/18/2007	19.4	3/9/2009	538	-55.5%	-15.1%
8/1/2019	22.0	3/23/2020	235	-24.2%	10.3%
AVERAGE			276	-20.5%	3.4%

*Trailing 12-month Price to Earnings Ratio

CIO Speaks

Scenario 3 : Interest rate cuts happen, but Treasury yields remain elevated

Another surprise for long duration bonds in 2024 could be the yield curve inversion steepening as the Fed cuts rates while long rates stay elevated due to **concerns around high Treasury issuance, lower international demand and high cost of servicing debt.**

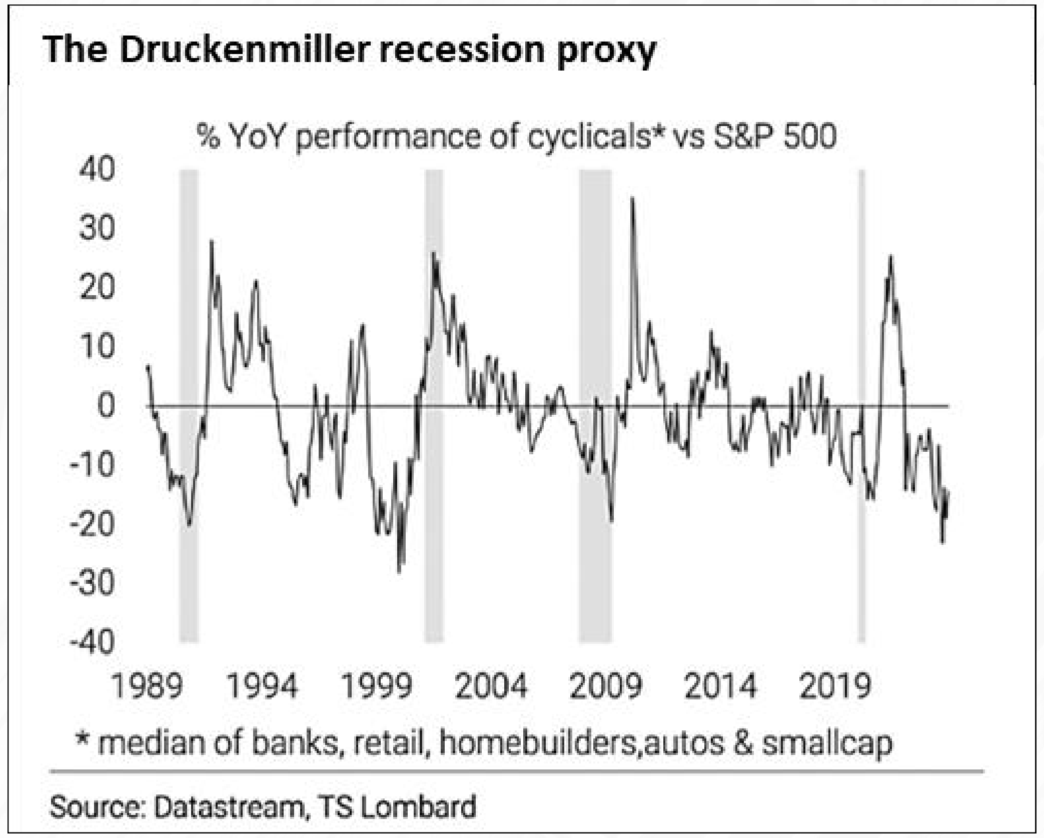


Scenario 4 : The economy goes into recession

The much-anticipated recession did not materialize in 2023, defying the myriad indicators pointing in that direction. The markets now expect that the US economy will manage a 'soft landing', i.e., a period when economic growth slows down, but the economy does not enter recession.

History, however, is not on the side of this narrative. **Never since 1945 has annual inflation, measured by CPI, fallen from above 5% to below 3% without a recession at the time of the fall or within the subsequent 18 months.** There is still the possibility that the lag effect of changes in the interest rate regime will eventually manifest itself in a recession over the next several months.

The chart on the right shows that at least some parts of the market believe that this may happen.



Some other 'known unknowns' are also lurking around. These include expansion of the Israel-Hamas war into other countries, escalation in the China-Taiwan situation and large climate-related disasters.

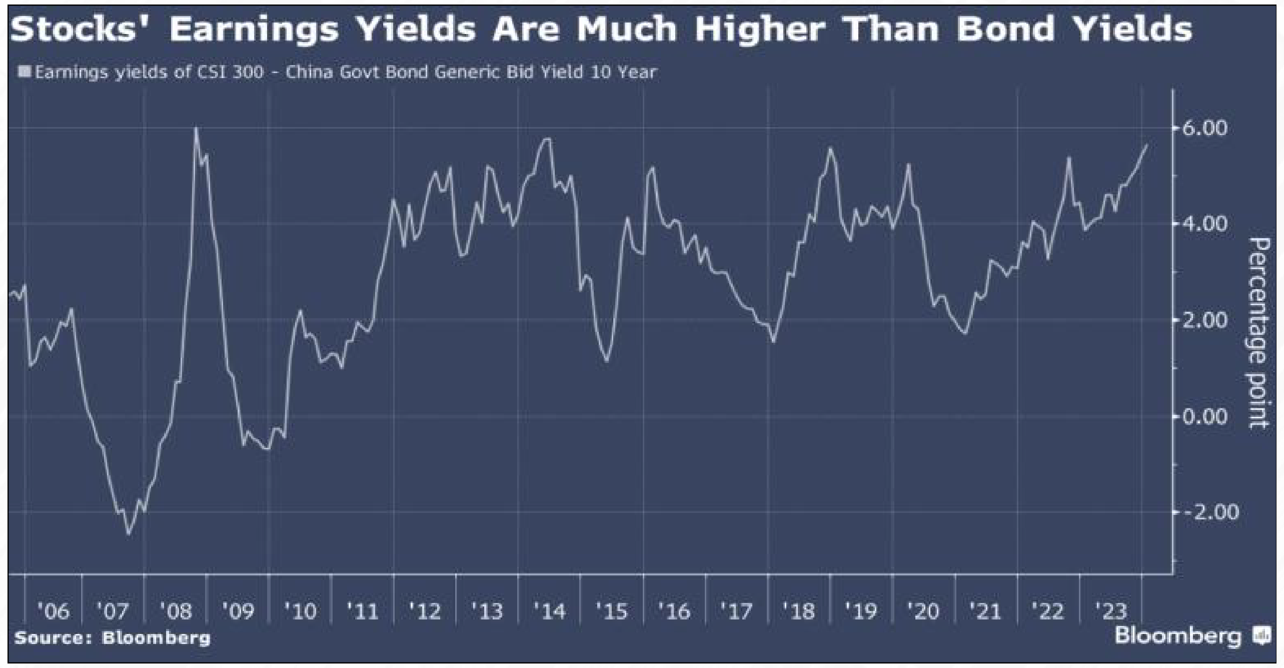
CIO Speaks

European stocks poised to benefit from interest rate cuts in Q2 2024

European stocks have much to cheer about, with the pan-European index seeing a 20% surge and surpassing many expectations at the onset of the year.

A majority of economists polled by the FT predict that falling inflation will prompt the European Central Bank to start cutting interest rates by the second quarter of 2024.

Analysts predict median revenue growth of 6.2% and profit increase of 4.3% among the 1,019 stocks of the MSCI Europe index. The European Real Estate sector in particular is expected to shine, capitalizing on the anticipated reduction in interest rates, with a projected median revenue growth of 10.6% and earnings set to rise by 5.7%.



Chinese stocks offer value, but only for those with strong stomachs

Chinese stocks peaked in early 2021 and have since slumped almost 60% to be languishing in a bear market. The decline reflects a real estate debt crisis, eroding consumer confidence and China's slowing economy. **Now, the country's stocks are among the world's cheapest relative to their profits.** The price-to-earnings ratio based on expected profits for Chinese companies sits below 10 — almost half the global average.

Compared with bonds too, Chinese stocks have rarely been so cheap. At about 8%, the earnings yields of the CSI benchmark is 5.7 percentage points above the 10-year yield. In the past 20 years this was a screaming buy opportunity.

Allocations to China sit near decade low and the country was also the most underweighted Asian market.

China's stocks may get a boost from the Caixin Composite and Services PMIs signaling a recovery with both surprising by coming in above 52. New institutional buyers and more focused purchases in recent months suggest moves to calm volatility and boost domestic confidence.

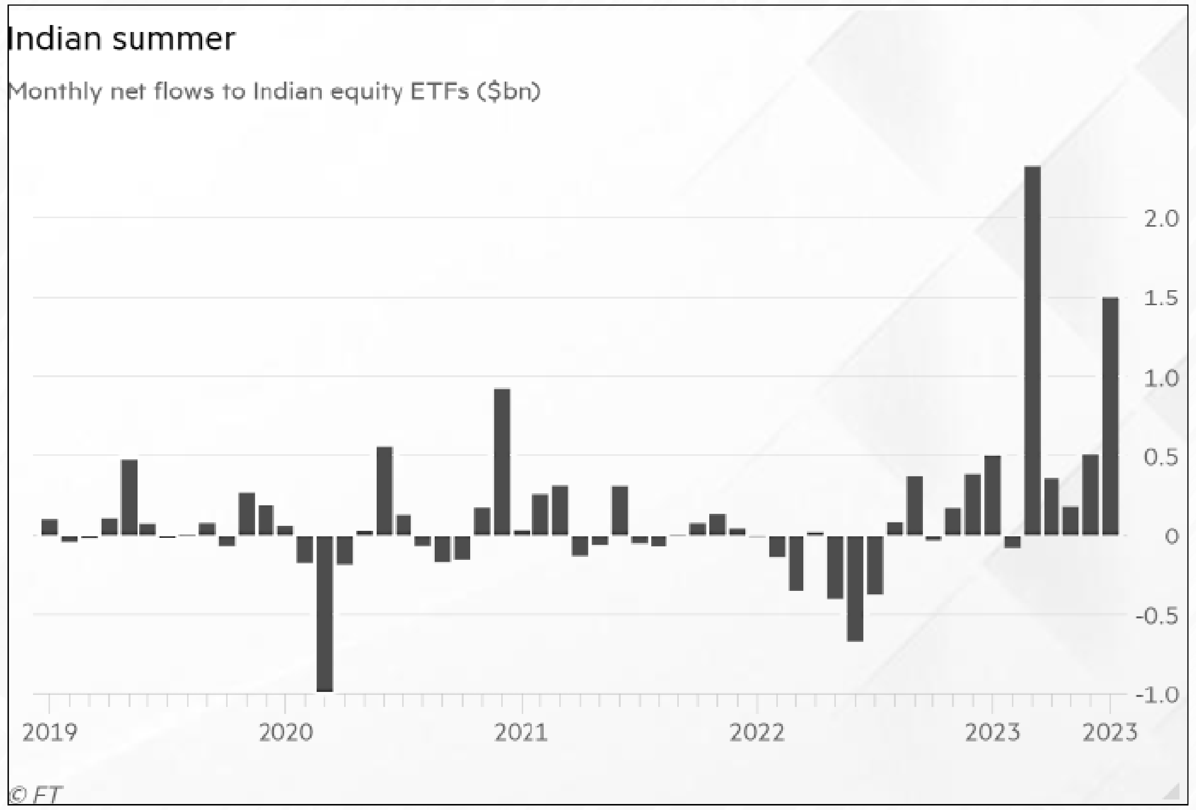
Chinese stocks should do well in the first half of 2024, but this outlook be viewed in the context of high geopolitical and regulatory risk.

Date of gap first above 5.5%	Days staying above 5.5%	1y before	6m before	3m before	3m after	6m after	1y after
10/24/2008	11	-68	-53	-40	15	44	92
3/7/2012	16	-22	-6	3	-2	-11	1
4/30/2014	59	-12	-10	-2	8	14	120
12/25/2018	15	-25	-15	-11	24	26	32
3/23/2020	1	-6	-9	-11	17	32	42
Average		-27	-19	-12	12	21	57

CIO Speaks

India on a High

Almost everything is going well for India. It is projected to be the fastest growing large economy in the world. While general elections are due, judging by the recent state elections the political landscape is likely to stay stable. Macroeconomic data – such as inflation, GST collections, balance of payments – is comfortable. Corporate balance sheets are strong, and earnings are expected to grow. "Made in India" is starting to gather steam. The country's equity market valuation topped $4 trillion and is now the fifth largest in the world. India is benefitting both from its own reform agenda and from broader global trends.



However, **valuations are starting to look a bit stretched.** Companies in the Sensex index are trading at an average of 21.4 times their earnings last year — like the US but almost twice the 11.9 times ratio of the MSCI EM index and the 12.5 times of the Stoxx Europe 600. Since the beginning of 2020, the Sensex has risen more than 60 per cent, even as the broader MSCI EM Index has fallen 12 per cent. While the long-term story for India remains very positive, now may not be the time to be overweight.

GCC : Diverse Performances, Economic Resilience, and Promising Investment Prospects

In 2023, GCC equity performance varied across countries. Dubai Financial Market led with a 21.7% increase, while Tadawul, the Arab world's largest stock exchange, rose by 14.2%. Abu Dhabi Securities Exchange, the second-largest by value, declined 6.2%, primarily due to poor performance of two Index-heavy companies. Both Saudi Arabia and Dubai saw successful IPOs, reflecting strong investor demand.

The UAE and Saudi Arabia are spearheading diversification efforts to reduce oil dependence. Positive economic indicators, such as increased consumer spending and lower unemployment rates, highlight the GCC countries' economic strength. The UAE, accounting for over 70% of GDP from the non-oil sector, presents an attractive investment opportunity, growing at an average of 7% in the past decade.

The UAE aims to attract AED550 billion (USD150 billion) in foreign investment by 2031, with recent policy changes, including 100% foreign ownership and flexible visa programs, supporting this goal. The Dubai International Financial Centre (DIFC) and Abu Dhabi Global Market (ADGM) have seen an influx of foreign capital, and state-owned enterprise privatization has opened new investment avenues. Despite concerns about the Israel-Gaza war, the GCC has, so far, managed to insulate itself from severe consequences.

CIO Speaks

Gold looks well supported

Gold had a very good year in 2023, up around 14%.

If the Fed delivers on the dovish comments it made during their December 2023 FOMC meeting, things are shaping up nicely for 2024 to be a very good year for gold.

Every time the Fed finishes raising interest rates, the gold price shoots up for a few years. This makes sense because gold has no cash flow and interest does. When interest rates fall, gold becomes more attractive than interest rates.

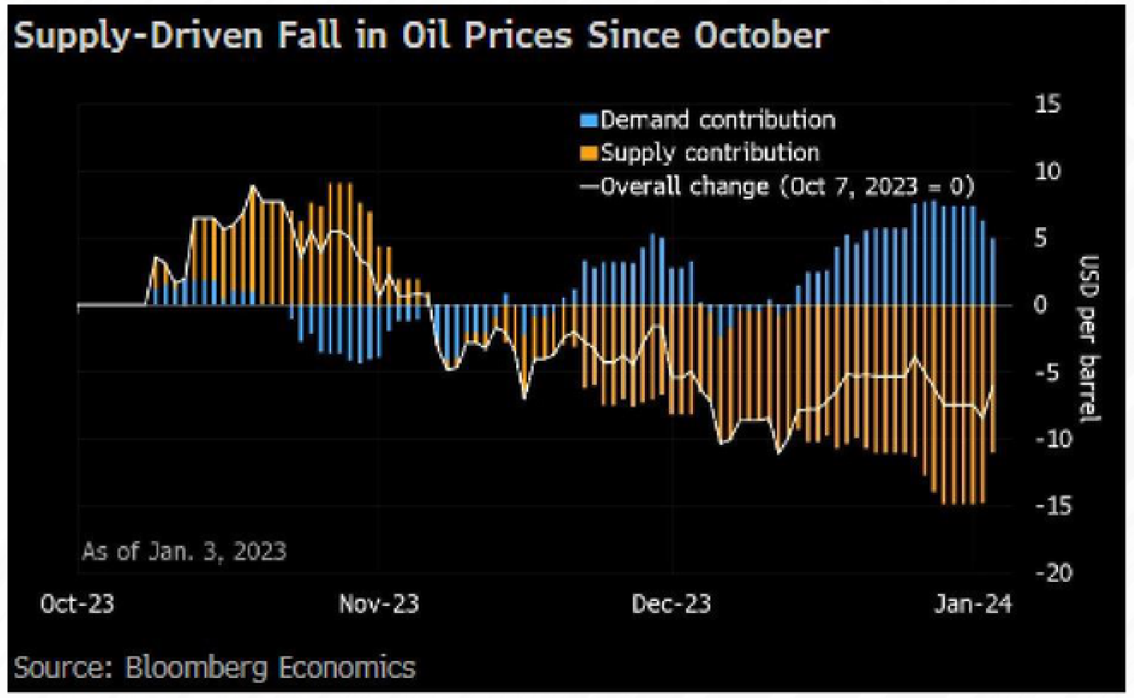
Gold mining stocks, which have not shared in gold's up move and are trading at very low levels compared to history, could be particularly attractive.

Oil likely to stay range-bound

Oil market sentiment turned decidedly bearish in Q4 2023 as non-OPEC+ supply strength coincided with slowing global oil demand growth. The outlook for the oil market largely depends on OPEC+ policy which continues to hold a large amount of supply from the market to support prices.

The market was worried about an impending surplus in 2024 heading into the first quarter of the following year due to seasonally lower demand. OPEC+, however, moved to eliminate this anticipated surplus at their most recent meeting. While a few other members have announced their own additional voluntary supply cutbacks, Saudi Arabia and Russia have decided to extend their voluntary supply restrictions till the end of 1Q24.These reductions total a little less than 2.2M bbls/day.

This supply reduction should be sufficient to eliminate the excess in 1Q24 and cause a slight shortage in the market at the beginning of 2024. Even so, the balance for 2Q24 indicates a slight excess, indicating that the market is roughly balanced for the first half of 24. This may and probably will vary based on how OPEC+ countries proceed with rolling back these voluntary cuts.



Given that balanced market, oil prices are forecasted to remain at the 2023 low levels in the early part of 2024 and move higher in the second half of 2024 when the market should return to deficit.

US oil production has hit an all-time high of 13.2 million barrels daily, dwarfing Saudi Arabia's 9 million per day. They're now producing more than any other country ever has. However, although US supply growth surprised to the upside in 2023, it is forecasted to decline significantly in 2024.

At the same time, worsening fundamentals on closure of one of the largest oil fields in Libya and increased tensions around Israel-Palestine war, kept prices supported.

Next year's market is highly susceptible to supply risk due to sanctions. And this is especially true for Venezuela and Iran. In recent months, the US also seems to have tightened its enforcement of the G-7 price cap on Russian oil.

Conclusion

In conclusion, approaching 2024 demands a strategic understanding of market intricacies. While the US economic landscape appears promising, uncertainties persist in the stock market, marked by high valuations and questions about earnings growth. The upcoming presidential election introduces additional complexities, with historical trends suggesting challenges for equity returns.

Looking forward, we anticipate a potential reassertion of the 60/40 portfolio, with muted returns from developed market equities and select emerging markets presenting more favorable opportunities. In fixed income, preference leans towards investment-grade bonds with a duration of up to 10 years. Security selection and a quality bias will be crucial, especially with expected high-yield spread widening.

Within commodities, a positive outlook is maintained for gold, and oil is expected to stay in the range of $70-85/bbl. As we navigate 2024, a thoughtful and calculated investment strategy will be essential to capitalize on opportunities and navigate the dynamic financial landscape.

2024 Outlook: Equities by Geography

United States

Tailwinds

- As bond prices move up, liquidity could flow from bond and money markets to equity markets.
- Rate cuts & AI investments to support growth
- Consumer Sentiment improved in December after Fed statement, however still below average, leaving room to further growth

Headwinds

- The forward P/E for S&P stands at 19.5 (20 Dec) which is substantially above the 10Y avg. of 17.6 which suggests expensive, but not too expensive
- -Tight labor market and reaccelerating job numbers. The U.S. unemployment rate held steady at 3.7%

Outlook

With steady economic growth to prevent a recession, but not so hot as to push it into inflation. Our outlook is **neutral to mild positive.**

Eurozone

Tailwinds

- Inflation is falling, household income is recovering ,and foreign demand is strengthening. As per ECB, economy is expected to grow by 0.8% in 2024
- Inflation has continued to decline due to -falling energy inflation, the impact of monetary policy tightening and easing of supply bottlenecks
- Export growth expected in 2024 to recoup some of the export market share losses due to Russia –Ukraine war

Headwinds

- Credit supply tightened, loan growth has decreased – will mainly impact businesses and housing
- Export price competitiveness may stay under pressure

Outlook

We believe growth may accelerate from 2024 due to rise in disposable personal income supported by declining inflation, robust wage growth and improvements in foreign demand. Our outlook remains **mild positive** for 2024.

China

Tailwinds

- P/E ratio based on expected profits for Chinese company sits below 10 — almost half the global average
- Reopening story did not play out in 2023 as expected, giving 2024 a chance to do the same

Headwinds

- Domestic demand slowed faster than external demand
- December PMIs were weaker than expected with manufacturing PMI lower and service PMI being flat
- Property developers, local governments and state enterprises have high levels of debt and many face debt service difficulties

Outlook

Low valuations and negative sentiment may present a growth opportunity. Despite regulatory risks in China, bottom-up investing in sectors like AI and clean energy could yield positive results. Our outlook leans towards **neutral to mildly positive.**

2024 Outlook: Equities by Geography

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India

Tailwinds

- FPI inflows may remain supportive in 2024 due to further decrease in US bond yields and interest rates
- Continued high gov spending to entice further investments
- Expectation of favorable election results have strengthened market sentiment
- High valuations in small and mid caps may see profit taking activity
- Nifty 50 is still trading at a slight discount to average historical P/E

Headwinds

- Devaluation of INR: Fluctuations impact inflation and trade balances, necessitating vigilant risk management.
- Elections: Influence economic policies and investor confidence, shaping the business environment and leadership direction.
- Uncertainty in Oil Prices: Affects import bills, trade balance, and inflation, posing a significant impact on India as a major oil importer.

Outlook

- Despite challenges, our outlook for India remains **positive**, driven by resilient economic fundamentals and growth potential

Gulf Cooperation Council (GCC)

Tailwinds

- Strong IPO pipeline to increase breadth of markets
- Moving forward markets are likely to record improvement in corporate profits and increased liquidity
- Strong economic factors and positive outlook for the KSA & UAE non-oil sector could attract FII and FPI flows into the region.

Headwinds

- Weak Oil Prices: Fueled by an upswing in U.S. oil supply, indicating shifts in global energy dynamics.
- Geopolitical Tension -Israel-Palestine War: Ongoing conflict intensifies geopolitical uncertainties, impacting economic landscapes worldwide.

Outlook

- The GCC, particularly the UAE and Saudi Arabia, stand in a robust position for economic growth, reinforcing our **positive outlook** for these key countries in the region.

2024 Outlook: US Equities by Sector

Energy – Most Preferred

Tailwinds
- OPEC+ cuts tighten markets;
- Rising demand supports higher prices.
- Dividend-friendly energy sector; cheap valuation.

Headwinds
- Geopolitical risks bring volatility; asymmetric upside in crude prices.
- Slower US crude growth in 2024 poses sector challenges.

Top Names
Exxon Mobil Corporation, Chevron, ConocoPhillips

Information Technology – Most Preferred

Tailwinds
- Strong IT demand boosts software, promising double-digit growth in 2024.
- Semiconductor sector to rise in 2024 by rapid advancements in AI

Headwinds
- Tech sector faces challenge with over 40% higher valuations.
- AI enthusiasm cools, impacting sentiment despite potential upside estimates.

Top Names
Microsoft Corporation, Apple Inc., Broadcom Inc., NVIDIA Corporation

Financials - Neutral

Tailwinds
- Despite challenges, Tightening regulations bring clarity, aiding capital return strategies.
- lower provisions and market opportunities offer optimism and Lower Valuation

Headwinds
- Persistent high rates impact risk-return balance negatively.
- Adequate liquidity, but risks from high rates, global growth, and elections.

Top Names
JPMorgan Chase & Co., Berkshire Hathaway Inc., Visa Inc.

Communications - Neutral

Tailwinds
- Healthy consumer environment drives positive momentum in digital ad sector.
- AI integration enhances targeting, efficiency, driving positive outlook for companies.

Headwinds
- Digital ad spending's high share faces sensitivity to economic changes.
- High churn, poor profitability, and oversaturation hinder streaming industry growth.

Top Names
Meta Platforms Inc., Alphabet, Netflix, Disney

Consumer Discretionary - Neutral

Tailwinds
- Low unemployment, high job openings boost consumer confidence and spending.
- Doubled household wealth enhances economic stability and consumer spending.

Headwinds
- Discrepancy in goods vs. services limits sector's overall benefit.
- AI integration may bring competition, margin pressure, and investment challenges.

Top Names
Amazon.com Inc., Tesla Inc., Home depot

2024 Outlook: US Equities by Sector

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Healthcare - Neutral

Tailwinds
- Boost from deferred pandemic medical utilization, benefiting sector.
- Post-pandemic, strong demand, innovation in key therapeutic areas driving growth.

Headwinds
- Attractive valuation but hindered by near-term earnings uncertainty in subsectors.
- Limited pressure, but election cycle may impact investor sentiment.

Top Names
UnitedHealth, Eli Lilly and Company, Johnson & Johnson

Industrials - Neutral

Tailwinds
- Reshoring, Defense budgets, infrastructure law, aerospace backlogs drive sustained growth.
- Sector valuation relative to the S&P 500 has become more attractive given cyclicals' underperformance

Headwinds
- Slowing orders pose a risk to 2024 consensus earnings estimates.
- High financing rates, soft EV demand impact capital expenditures.

Top Names
Caterpillar Inc., Union Pacific Corporation, Boeing Company

Utilities - Neutral

Tailwinds
- Capital spending focus on renewable energy, transmission, distribution networks is poised to rise.
- 2024 investments propel EPS and dividends, strengthening utility prospects.

Headwinds
- Slightly elevated regulatory risks pose challenges for utility operations, election in 2024

Top Names
NEXTERA ENERGY INC, Southern Company, Duke Energy Corporation

Real Estate – Least Preferred

Tailwinds
- Attractive Public REIT Valuations, after a challenging 2023.

Headwinds
- Rising rates, low inventory, affordability restrain residential real estate sales.
- Slowed CRE transactions make price discovery difficult for investors.

Top Names
American Tower Corporation, Equinix Inc., Prologis Inc.

Materials – Least Preferred

Tailwinds
- Pockets of growth for Industries aligned with Energy Transition and are supported by government Policy

Headwinds
- Large supply, China's sluggishness; challenges in cyclical chemical sector.
- Excess Capacity and Unresponsive Supply, Softness in Construction and Durables affected by higher rates

Top Names
Linde plc, Sherwin-Williams Company, Freeport-McMoRan Inc.

2024 Outlook: Fixed Income

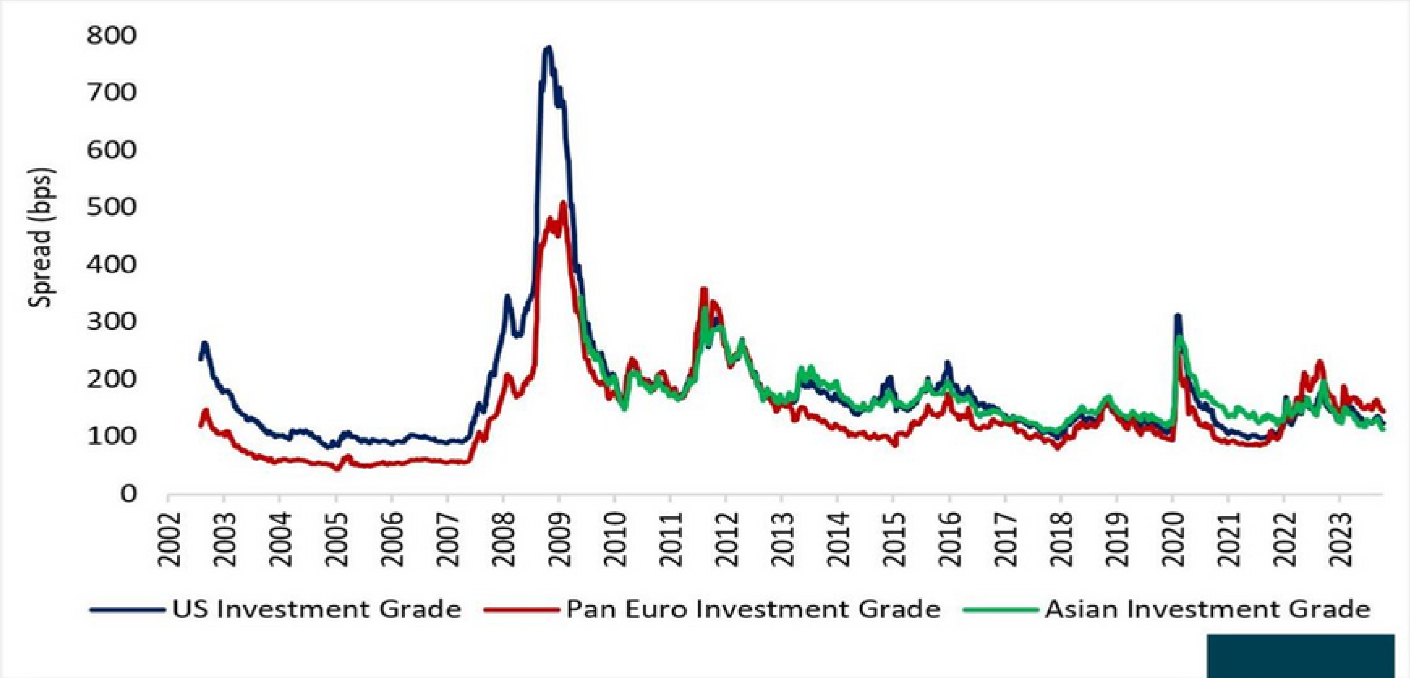
- As of Dec 20, YTD inflows for Gov bonds stood at $177B and inflow for IG bonds stood at $162B, HY bonds saw outflow of $3B
- Spreads on Investment grade (110bps) and High yield bonds (250bps) have tightened in 2023 and are below 20-year averages (IG: 158bps, HY: 550bps) given the strength of corporate balance sheets and low defaults.

Investment Grade Outlook - Preferred

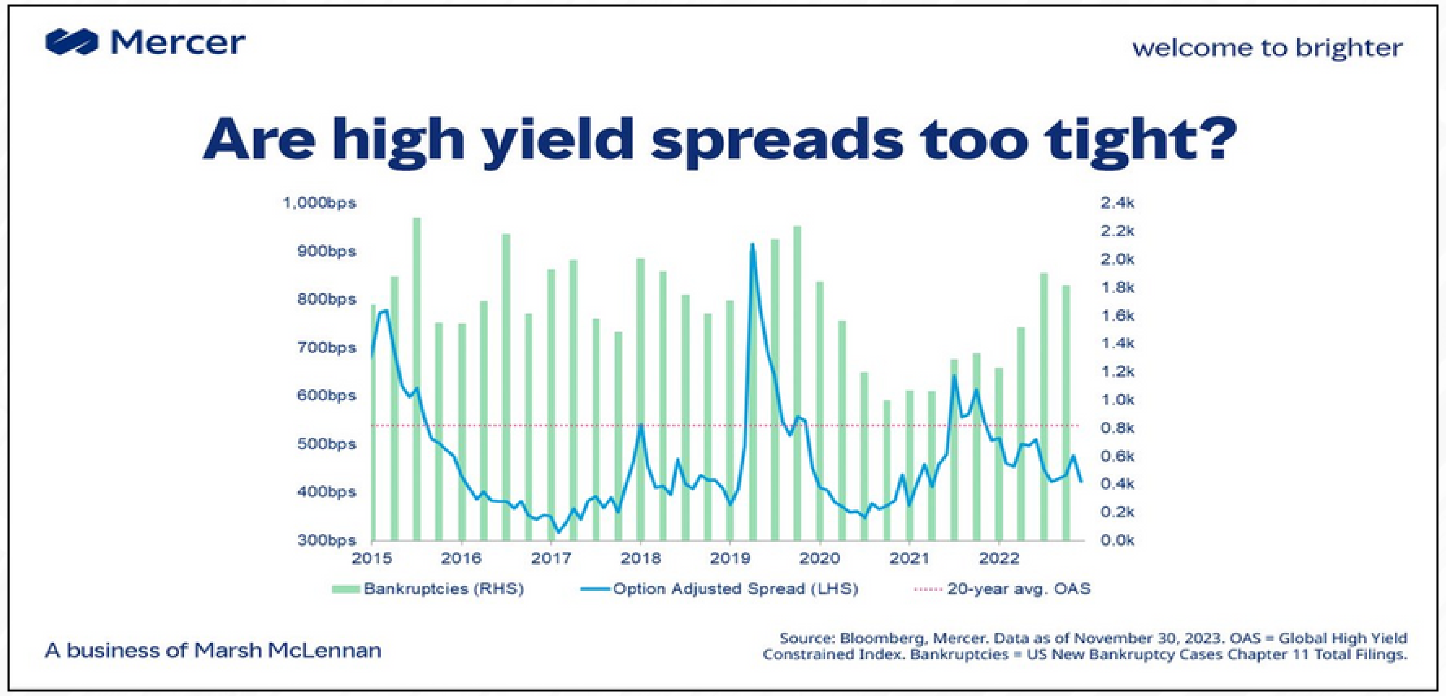
- Yields should fall over the course of the year as heightened rates pressure economies and increases probability of rate cuts.
- Spreads might increase slightly as business conditions will be affected by slowdown; however sovereign names should provide sufficient protection from such risks.
- In terms of duration, long term sovereign issues face some credit risk due to high levels of debt. Long duration corporates remain relatively safer.

High Yield Outlook

- HY bonds could see a fall in yields but at a much slower pace than benchmarks as high interest rate environment does not bode well for companies with lower ratings.
- The longer these conditions stay in place, default risk for these businesses increases. For the same reason HY spreads could see expansion in 2024.
- Both long and short duration issues face considerable risk due to aforementioned factors.



Source: Bloomberg Finance LP, iFAST compilations
Data as at 4 December 2023



2024 Outlook: Gold

Tailwinds

- Global conflicts, elections drive investors; 2023 saw 3-6% added to gold's performance.
- Continued central bank demand supports gold; excess demand added 10% in 2023.
- Historical data indicates gold's strength during recessions; 45% recession probability.
- Gold thrives as hedge; inflation resurgence enhances demand for gold.

Headwinds

- Soft landing' historically results in flat/negative gold returns; soft-landing consensus in 2024.
- Rising interest rates pose challenges for gold; real interest rates impact performance.
- Gold faces constraints if economic growth remains subpar; consumer demand affected.
- Gold often faces headwinds with a strong US dollar; inversely correlated.

Outlook

- Gold's robust 2023 performance, up around 14%, positions it well for 2024, contingent on the Federal Reserve's dovish stance.
- Historically, **gold flourishes** when interest rates decline, making it more appealing than interest-bearing assets; this trend extends to undervalued gold mining stocks, currently trading at historically low levels.

	Econominc Scenarios		
	Soft Landing	Hard Landing	No Landing
	Central bank purchases continue	Central bank purchases continue	Central bank purchases continue
	Commodities down marginally	Commodities down marginally	Commodities down marginally
Gold Outlook	Gold Net positioning rebounds	Gold Net positioning rebounds	Gold Net positioning rebounds

Colour Key (Effect on Gold)

2024 Outlook: Oil

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Tailwinds

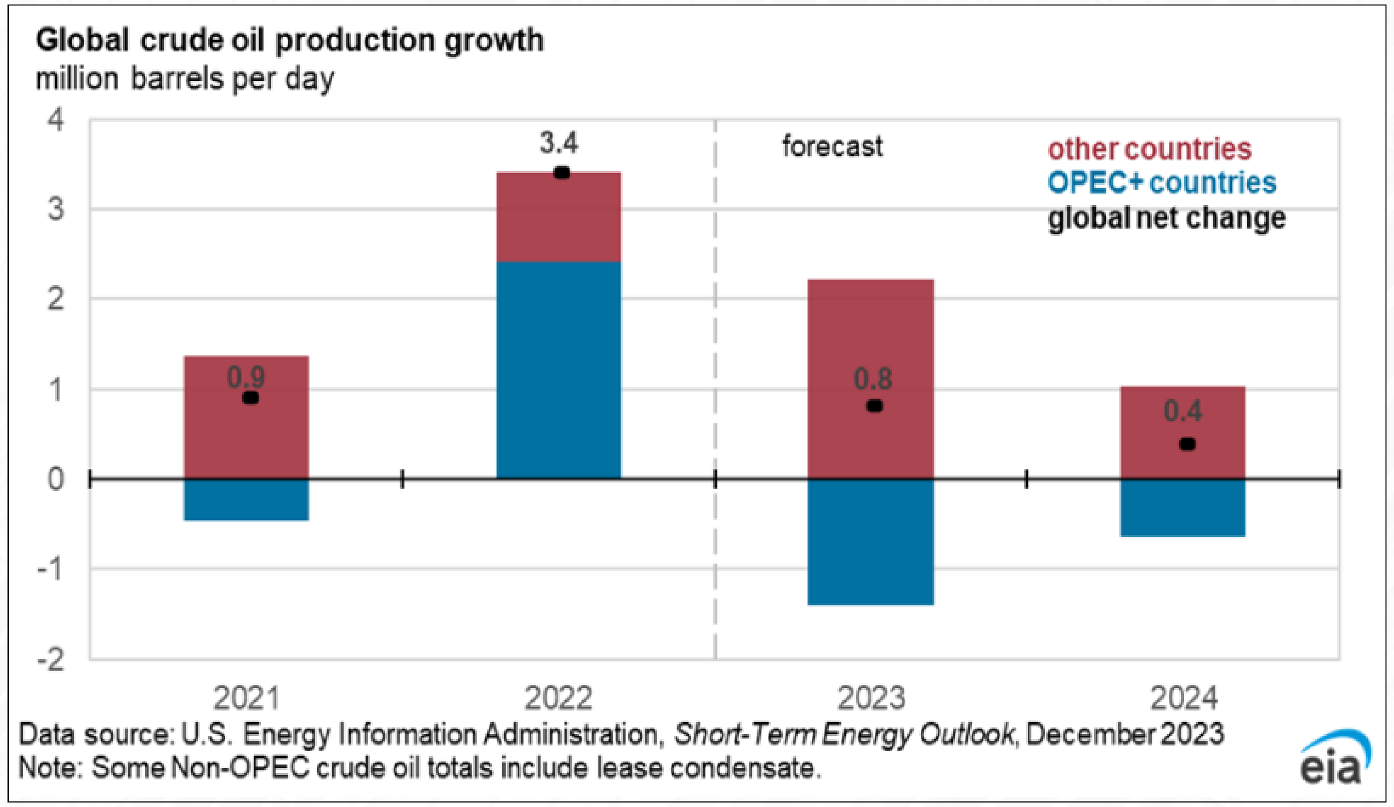
- OPEC+ has recently decided to decrease oil production volumes, impacting the global oil supply.
- Ongoing conflicts, such as the one between Israel and Hamas, and potential risks of a war between Venezuela and Guyana, may lead to geopolitical uncertainties, contributing to higher oil prices.
- If the Federal Reserve manages a "soft landing" for the US economy by easing monetary policies, it could positively impact oil prices.

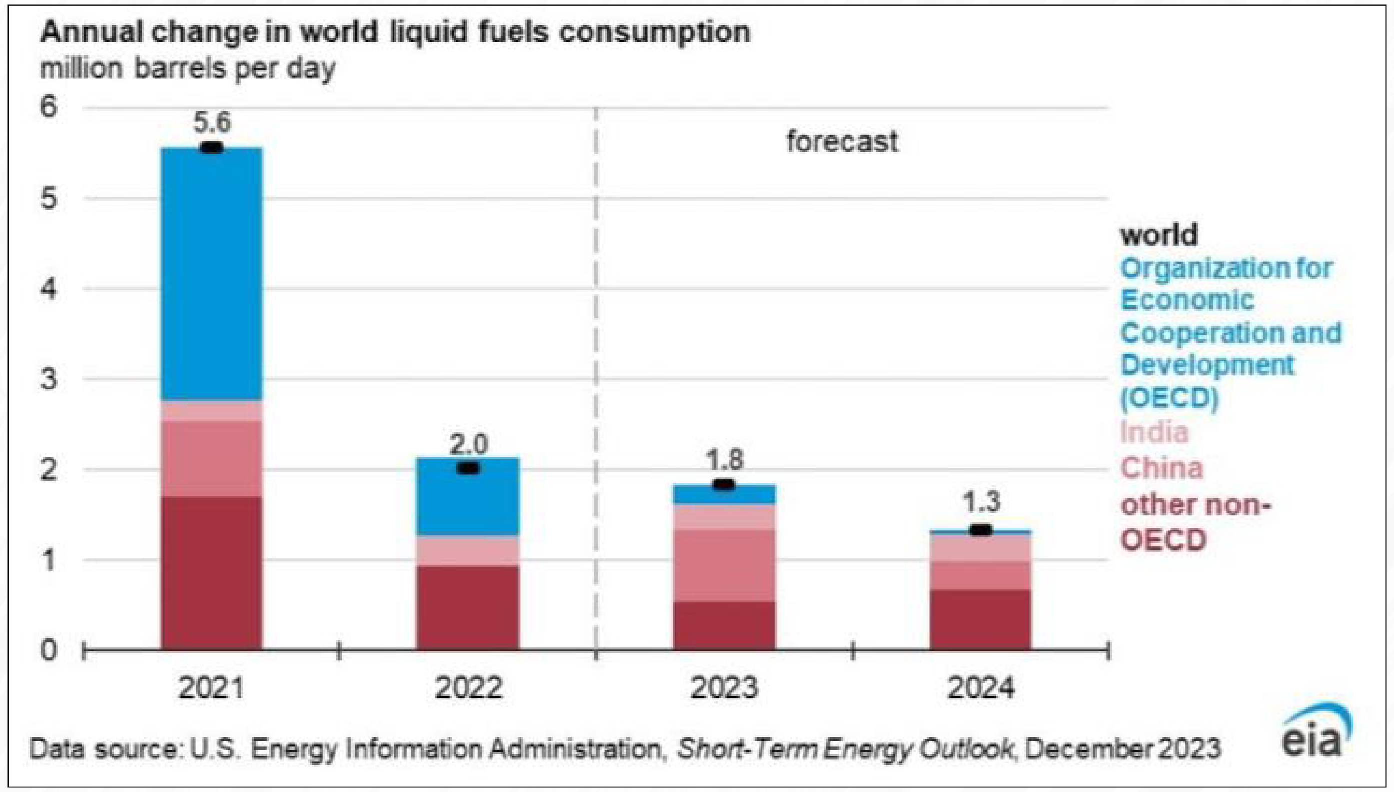
Headwinds

- Surpassing 2007 levels, elevated interest rates may tighten monetary conditions, posing concerns about consumer debt.
- Economic indicators like rising unemployment and declining PMI could prompt a Federal Reserve shift, impacting oil prices.
- The potential for unforeseen events, akin to the Covid-19 pandemic, introduces significant market uncertainty, particularly affecting oil prices.

Outlook

- Amid a bearish Q4 2023 in the oil market, OPEC+ interventions and geopolitical influences are set to stabilize supply in 1Q24, potentially driving prices up in H2 2024. The anticipated oil range is $70-85/bbl, signaling a range-bound trend with a positive bias, reflecting market optimism.





2024 Outlook: Currencies

United States Dollar ↑

Tailwinds

- Superior US company earnings attract global capital inflows
- Positive interest rate differentials attract foreign investment, sustaining USD.
- USD leverages safe-haven status amid global uncertainties. Lower energy prices may impact USD appeal variably.

Headwinds

- Global economic challenges weaken the appeal of the USD.
- Softened US growth and inflation forecasts diminish interest rate optimism.
- Early speculation about rate cuts raises concerns about USD resilience amid falling inflation.

Outlook

The USD maintains strength, bolstered by robust US company earnings and positive interest rate differentials, although global economic challenges and softened growth forecasts warrant **cautious optimism.**

Euro ↓

Tailwinds

- Soft economic data constrains the euro's rate hike potential.
- Political instability grows alongside the ECB's stringent monetary policy.
- Tighter monetary conditions raise concerns about potential bank stress.

Headwinds

- Stable inflation safeguards the euro's purchasing power.
- Trade surpluses boost the euro through increased money inflows.
- Rising hedging of USD investments by European investors drives euro demand.

Outlook

EUR appears **bearish**, as soft economic data limits rate hike potential, political instability accompanies the ECB's strict monetary policy, tighter conditions raise bank stress concerns, while stable inflation, trade surpluses, and rising USD hedging by European investors contribute mixed influences.

Great Britain Pound ↓

Tailwinds

- Attractive undervaluation may draw investors, boosting GBP beyond expectations.
- Positive fiscal surprises possible as BoE responds to inflation.
- Investor interest in undervalued assets may drive GBP strength, defying forecasts.

Headwinds

- Fragile economy hinders GBP despite improved sentiment; BoE caps rates at 5.25%.
- BoE cautious amid sticky inflation, hints at potential surprise rate hikes.
- Political risks (Sunak, Scottish independence), structural challenges (Brexit) introduce uncertainty.

Outlook

GBP outlook marred by a fragile economy, heightened political risks, and structural challenges, as potential positive factors face resistance, leaving the **currency weak** despite sporadic undervaluation-driven strength.

2024 Outlook: Currencies

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Swiss Franc

Tailwinds

- CHF's safety lures investors in uncertain times, driving appreciation.
- Global low interest rates fuel demand, bolstering CHF's value.
- Strong purchasing power and current-account surplus enhance CHF's attractiveness.

Headwinds

- Safe-haven demand may limit export competitiveness, impacting economic growth.
- Negative interest rates pose challenges for banking sector and investors.
- Intervention risks and global economic conditions impact Swiss Franc dynamics.

Outlook

CHF faces **bearish** inclinations as global uncertainties and persistent low interest rates counterbalance its safety appeal, impacting financing attractiveness.

Japanese Yen

Tailwinds

- Japan's net-creditor status draws inflows, bolstering the JPY.
- BoJ's move to end loose policies contributes to JPY strength.
- A 3.6% wage hike indicates economic growth, further supporting the JPY.

Headwinds

- BoJ's cautious stance on inflation hampers JPY strength outlook.
- A 3.6% wage increase signals possible policy hesitancy.
- Abandoning yield control affects JPY as policy divergence lessens.

Outlook

With Japan's net-creditor status attracting inflows, the BoJ's commitment to ending loose policies, a substantial 3.6% wage hike, and despite cautious inflation stance, the outlook for JPY remains **optimistic**, poised for strength and supported by underlying economic growth.

Indian Rupee

Tailwinds

- Balanced current account, eased oil prices, strength services exports boost medium-term optimism.
- Reforms attract foreign investment, bolstering the manufacturing base and enhancing the INR outlook.
- Foreign capital influx, global bond index inclusion, this will attract investments.

Headwinds

- Repo rate remains steady, curbing INR appreciation, with a focus on FX reserves.
- Deteriorating fiscal metrics limit support, shifting the burden to the RBI for economic stability.
- 2024 election uncertainty introduces volatility, influencing the dynamics of the Indian Rupee.

Outlook

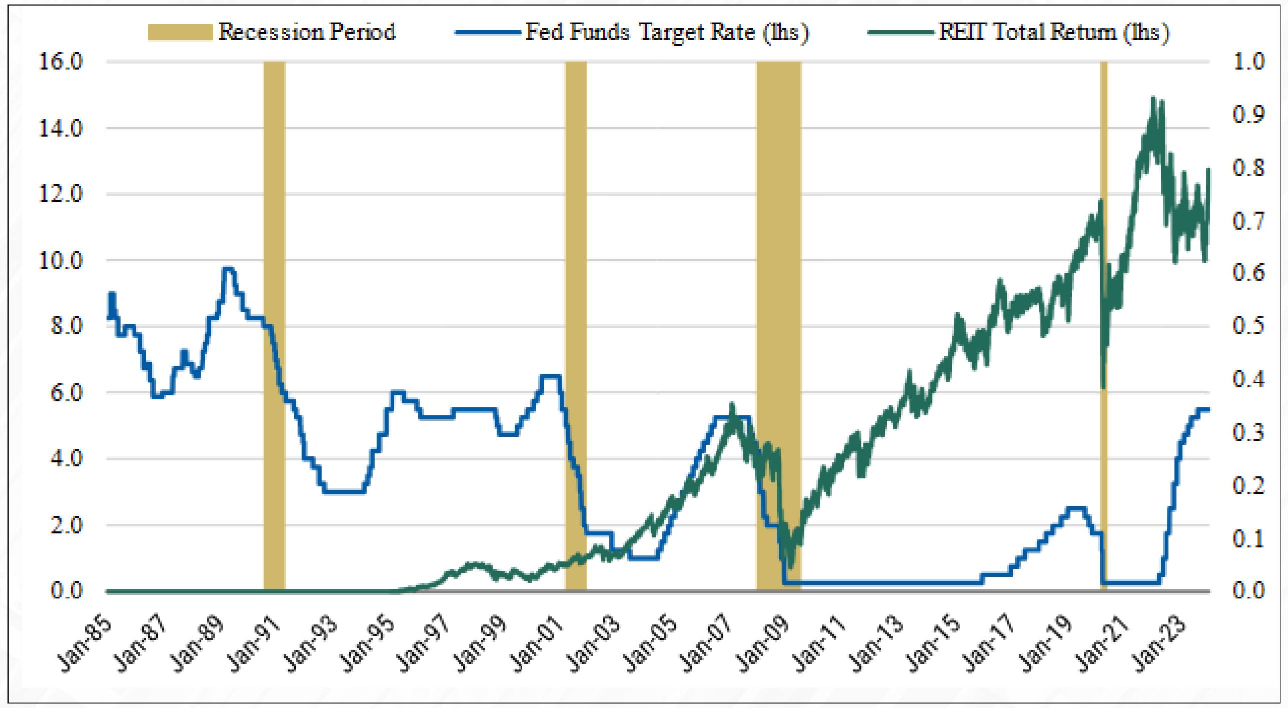
Bullish outlook for the Indian Rupee driven by a balanced current account, robust services exports, foreign investment-boosted manufacturing, global bond index inclusion, though tempered by steady repo rates, fiscal challenges, and election-related uncertainties in 2024

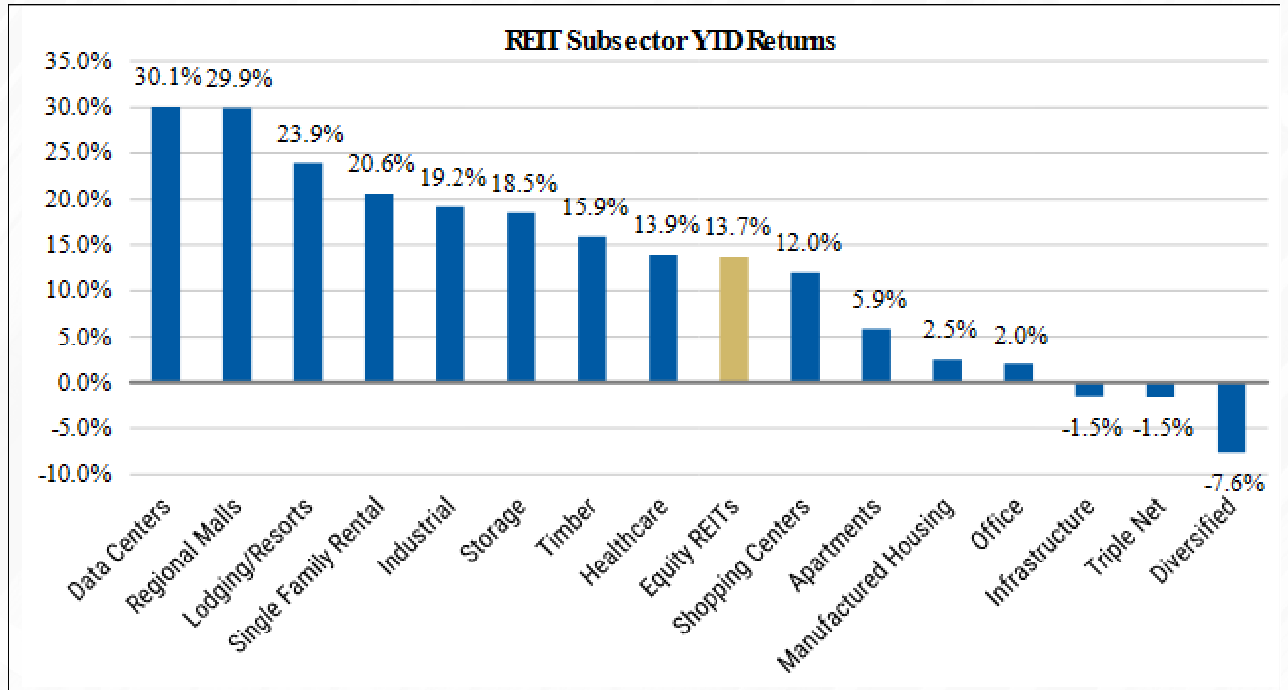
2024 Outlook : REITs

Rising rates have been holding REITs back. 2024 could finally see a shift!

Though REITs have experienced relative total return underperformance during Fed tightening cycles, they have outperformed both private real estate and equities in periods post Fed hikes. REITs may perform well after 2 years of underperformance with the Fed at or near the end of its interest rate hike cycle.

REIT sub-sector	Outlook	Rationale
Data Centers	Positive	AI creates strong demand dynamics and highly interconnected co-locations may benefit. Cloud Capex growth expected to be 16% in year 2024 (excluding Amazon)
Healthcare	Positive	Senior housing demand exceeds expectations, presenting an opportunity for a multi-year recovery opportunity
Retail	Neutral	Discretionary retail store traffic remains 20% below pre-COVID levels. Ecommerce and higher quality centers are giving a better NOI growth than lower quality centers. Community malls would perform better
Multifamily residential	Neutral	Apartments have underperformed REITs and the S&P mainly due to new multifamily supply. Coastal/Diversified peers have outperformed Sun Belt apartment REITs due to their concentration of new supply in the market
Office	Negative	High vacancy rate, demand slowdown, hybrid work culture. Leasing activity remains ~30% below pre-COVID levels. SFO , LA and sunbelt office exceed vacancy rates by 20-25%





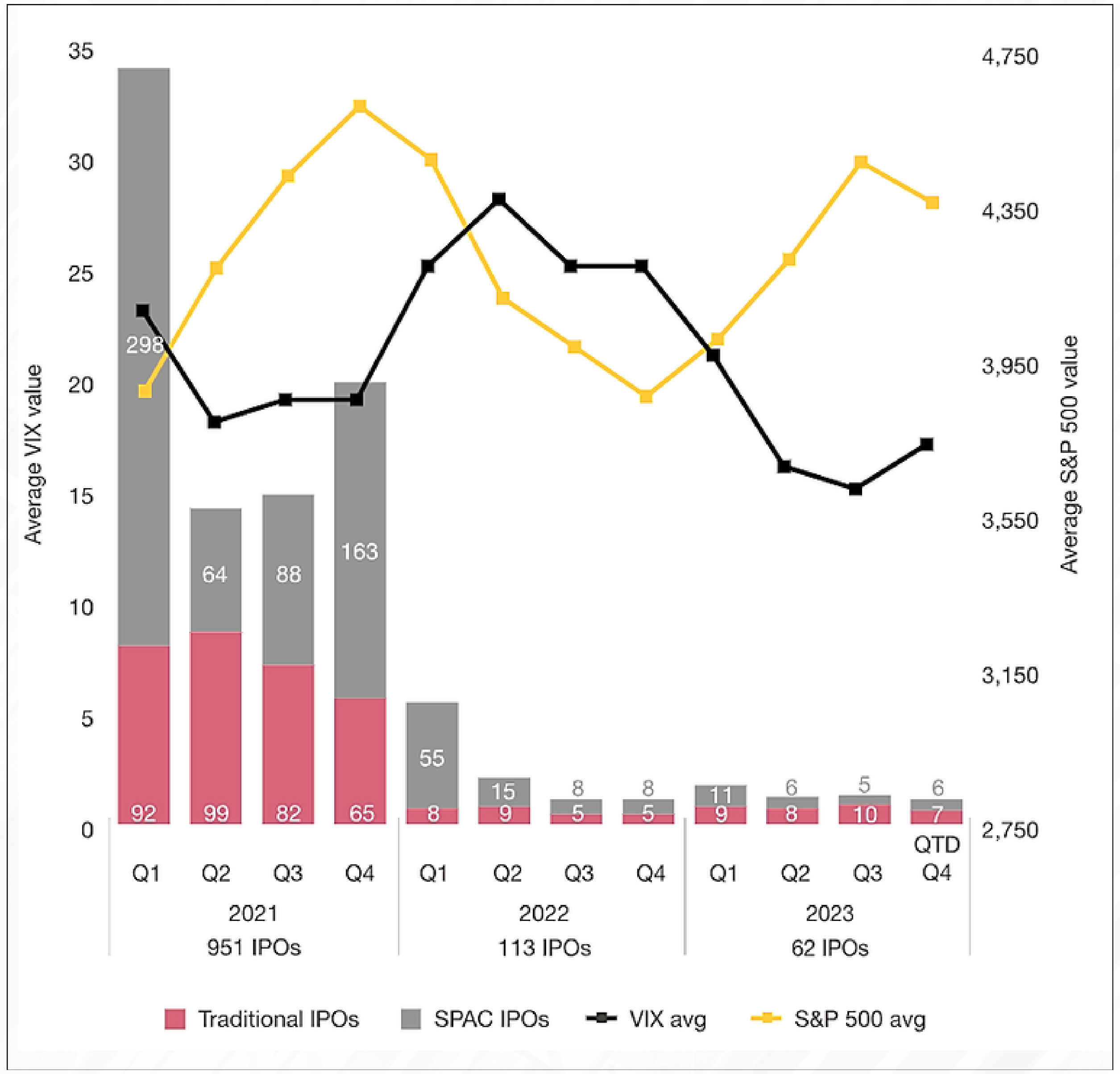
Source : Morgan Stanley

IPO ring to get louder in 2024!

The global, Indian, and Middle Eastern IPO markets present a promising outlook, fueled by various factors such as pent-up demand, economic diversification, growing economies, and a strong appetite for investments. The positive momentum in these markets indicates potential opportunities for both issuers and investors, setting the stage for continued growth in the coming years.

Country	IPO outlook	Rationale
US	**Positive.** More IPO activity due to large backlog of issuers who are actively focused on public company readiness and continuing to drive improvements in their business models and metrics.	Pent – up demand for new investment opportunities, stabilized valuation expectations, overall macroeconomic conditions, rate cuts
India	**Strong Positive.** The country's IPO market was a huge success throughout last year, with over 50 mainboard IPOs raising approximately Rs 49,500 crore. 2023 was a year that sparked renewed interest in IPOs	Strong momentum, strong appetite, growing economy, strong performance in secondary markets. Reports suggest that as many as 28 companies have already received a green signal from the SEBI for their IPOs, aimed at raising over Rs 30,000 crore
GCC	**Strong Positive.** Last year, the IPO haul in the Middle East was almost $23 billion and in 2019 it was $31.2 billion, mainly due to Saudi Aramco's record-setting $29.4 billion offering. **Saudi Arabia accounts for majority of listings**	Economic diversification driven by focus on non-oil activities, increase in foreign investments, consumption growth.

No. of IPOs in US vs S&P and VIX

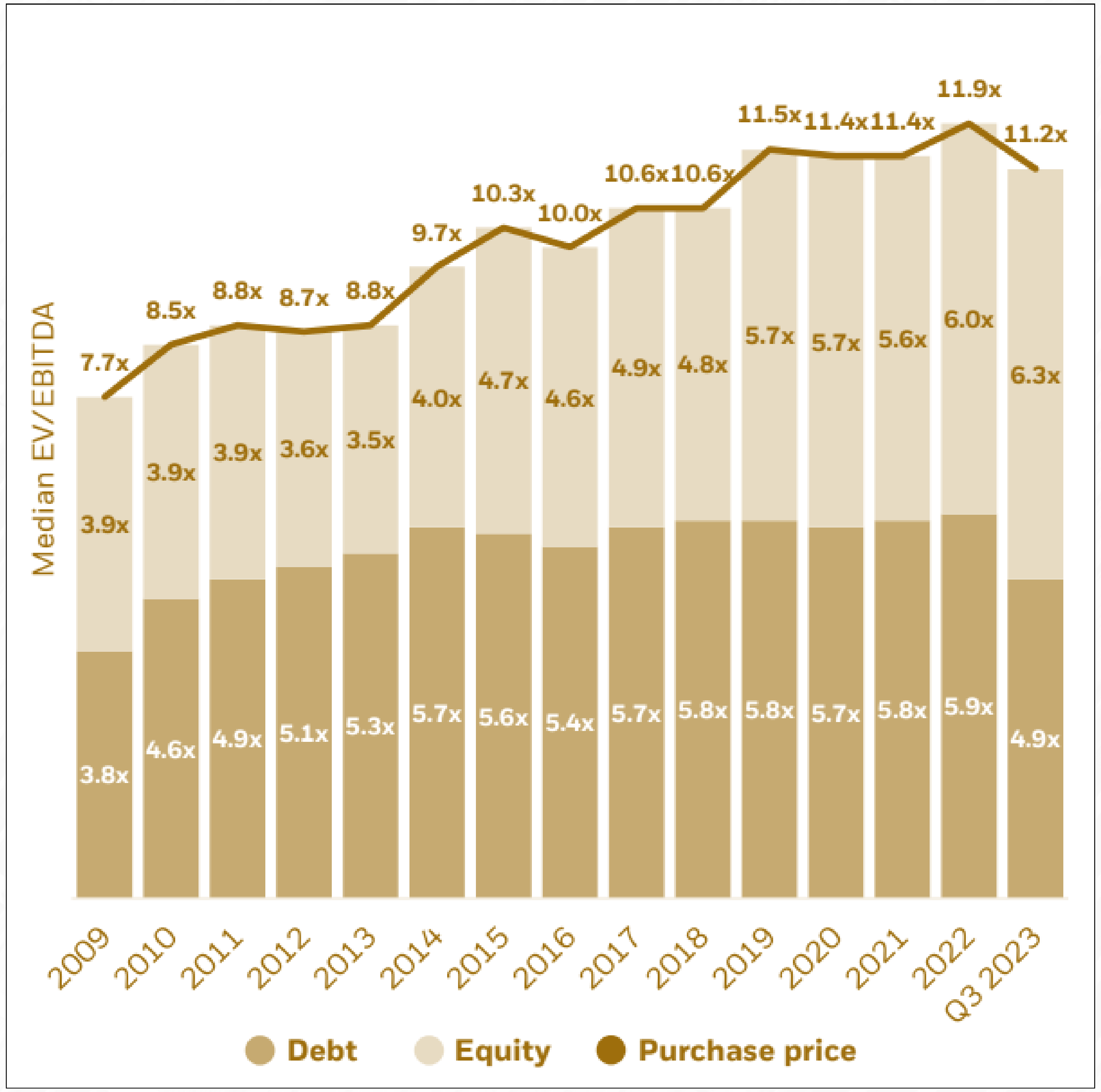


Source : PWC

2024 : Private equity come back!

Positive, with caution! Rationale :

- **Desperate Sellers** : With little to no access to the IPO market and low buyside sponsor demand, the last two years have resulted in below average exit deal volume
- **Access to debt** : As rate increases slow, borrowing environment may improve
- **Increase in corporate activity** : Increase in corporate carve out activity as large companies evaluate strategic needs. These deals are opportunities to acquire non-core divisions with proven business models and unlocked value.
- **Eased Valuations** : Correction in the public stock market has had an impact on the private market, normalizing the unusually high valuations
- **Innovative structuring** : Private equity owners are considering minority sales and structured capital raises to meet the need for exit and realizations. This presents attractive risk-return dynamics for buyers
- **Need for secondaries** : The shortage of exit opportunities has left an estimated private portfolios negative and as a result there is an oversupply of secondary market opportunities, again providing an attractive opportunity for risk taking buyers



Source : Blackrock

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