INVESTMENT REPORT 2024:

Navigating unchartered waters

Research Report

January 24

CIONET
What's next.

Contents

Introduction

In this report, Roger Camrass reviews the financial events of 2022 and 2023 and presents his personal view on investment prospects for 2024. Roger has followed global finance markets closely for more than 40 years and summarises trends in annual investment reports[1]. As the research director of CIONET, Europe's largest community of digital leaders[2], Roger has first-hand knowledge of digital trends.

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[1] Investment Reports accessible in the publications sector of Roger's website, www.rogercamrass.com
[2] Visit CIONET at www.cionet.com for information on our community of 10,000 digital leaders

Investment Outlook for 2024

There are reasons to believe 2024 will be a strong year for finance. First, rising investor confidence during the second half of 2023 sent global equities to record highs. Second, inflation rates fell from double-figure highs and prospects look good for a return to a historic 2% to 3% norm sooner rather than later. Third, interest rates are predicted to start falling through 2024.

Yet despite these positive signs, there are reasons for concern. Geopolitical tensions in key regions continue to escalate. Indications suggest election results across 50 democratic nations this year could move right in response to geopolitical tensions.

In this report, I summarise the factors that could shape financial markets during the year ahead and I provide suggestions for a balanced investment portfolio.

Placing 2023 in content

The spectre of high inflation was exorcised in 2023 through big rises in global bank interest rates. While these rate hikes tamed inflation, they also dampened equity markets, particularly for smaller stocks. However, the inherent resilience and innovation of the IT sector meant technology stocks continued to power ahead, propelling the NASDAQ and S&P 500 to year-end highs.

Now, let's consider the performance of global equity markets, which weathered losses ranging from 20% to 30% in 2022, but saw a huge turnaround last year, with the MSCI World Index rebounding with an 18.5% increase. Gold prices also saw an upward trend, improving by 6% compared to a 1.7% gain in 2022.

Despite the upswing in equities through 2023, the MSCI World Index saw cumulative gains of just 0.5% from January 2022 to December 2023. Despite this poor performance at a global level, there were noteworthy regional variations:

- In the USA, markets like NASDAQ and S&P 500 showed resilience, delivering a 6% net gain over 2022 and 2023.
- Europe, represented by CAC and DAX, followed closely behind with gains of 6.5% and 3% respectively over the same two-year period.
- The UK's FTSE 100 delivered a zero-sum game, while the FTSE 250 experienced a 20% decline over 2022 and 2023.
- Surprisingly, Bitcoin emerged as the standout performer, with a 92% gain over the two years, despite a dip in 2022.

Compared to average equity gains of around 7% per annum over previous decades, the last two years have been characterised by underperformance, as demonstrated by the MSCI World Index (up just 0.5%) and the FTSE 100 (no change).

Looking at broader market trends

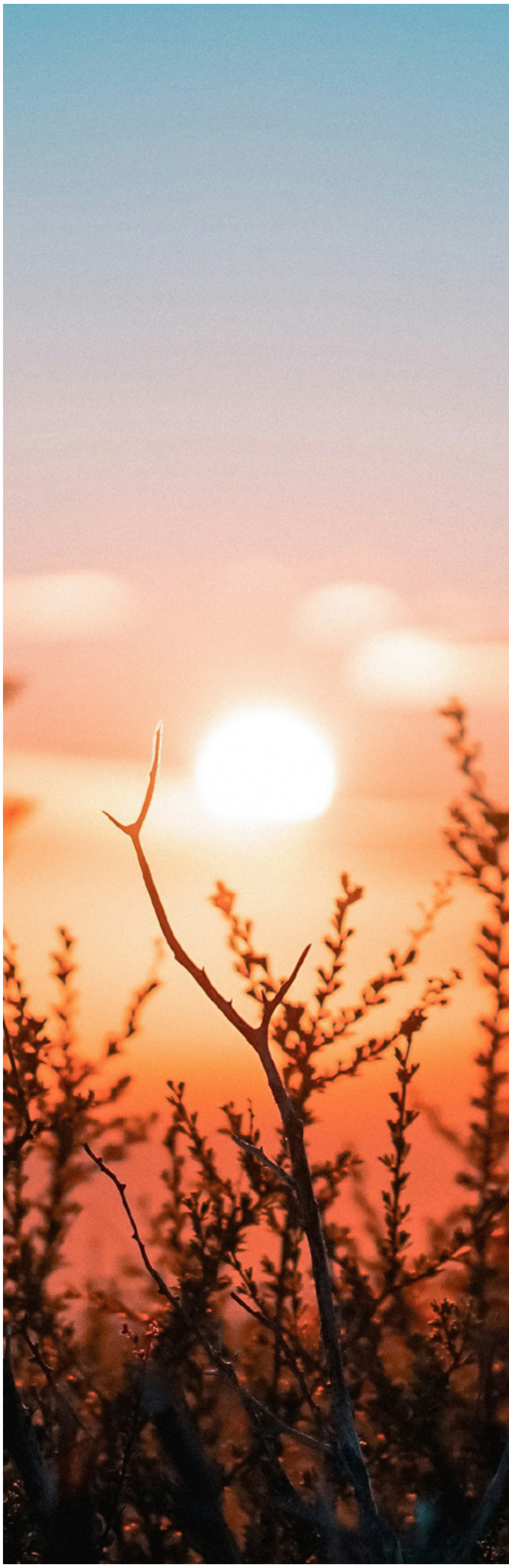
I believe four key factors enabled market recovery last year:

2022 legacy: Substantive losses through 2022 reminded investors of the perils of market volatility. We saw a return to cautious investment strategies that favoured cash over equities.

Lower inflation: Inflation fell sharply in major economies last year, with Germany and the UK seeing rates drop from double-digit figures to 3.8% and 3.9% respectively.

Second-half recovery: The final six months of last year brought a glimmer of hope, with lower inflation contributing to an economic revival where markets returned to peak post-COVID levels.

Higher interest rates for longe: There has been discussion about a "5% world", where cash remains an attractive asset in uncertain times (compared to a "4% world" described in my 2022 Investment Report[3]).



[3] Investment Report 2023 – Parts 1&2

Here is a summary of how major equity markets performed in 2023, which reflects the complex interplay of global events and economic factors:

Table 1 – Equity market movements in 2022 and 2023

Equity Markets	Price on Dec 31, 2023	2022 Performance	2023 Performance	Net Gain Over Two Years
S&P 500	4,769	-19%	+25%	**+6%**
NASDAQ	15,011	-33%	+39%	**+6%**
FTSE 100	7,733	0.0%	0.0%	0.0%
FTSE 250	19,700	-20%	0.0%	**-20%**
DAX	16,770	-12%	+15%	**+3%**
CAC 40	7,530	-9.5%	+16%	**+6.5%**
China SSE	2,967	+0.5%	-5%	**-4.5%**
Japan Nikke	33,460	-12.3%	+30%	**+17.3%**
India Nifty 50	21,300	n/a	+21%	n/a
Oil	70	+6%	-4%	**-2%**
Bitcoin	35,600	-60%	+152%	**+92%**

In short, 2023 was a year of remarkable contrasts in the world of investments. Here's a snapshot of how various asset classes performed:

Table 2 – Best and worst investments in 2023

Asset Class	2023 Performance
USA Equities	+15%
Global Equities	+12%
European Equities	+11%
Japanese Equities	+10%
Cash	+4.5-5.5%
British Equities	+0.5%
Emerging Market Equities	+1.9%
Asia-Pacific Equities	-2.5%
Commercial Properties	-4%
Commodities	-10%

Many investors were prepared for a recession in 2023 due to high-interest rates, inflation, and geopolitical tensions. However, the reality surpassed expectations, with some robust performances.

US equities led the pack, with a 15% gain, followed by global and European equities. Microsoft, Apple, Amazon, Alphabet, and Meta (MAAAM) stocks enjoyed an 85% increase in value, and Bitcoin surged by 152%. Japanese equities also posted a 10% rise. Cash emerged as a solid performer, offering 4.5% to 5.5% returns.

On the flip side, commercial properties and commodities faced challenges, resulting in negative returns. Chinese equities disappointed investors, with poor returns attributed to a slower recovery from COVID-19.

What could influence investment sentiment in 2024?

This section presents the macroeconomic factors that are set to shape investment strategies and market sentiment this year.

2024 macroeconomic effects: Economic

- **The Powell Pivot** – The Federal Reserve has hinted at potential interest rate cuts in 2024, responding to a fall in inflation to 3.2%, down from 6.5% in 2022. This hint has injected optimism into equity markets and shifted analyst views from recession to a likely soft landing in 2024.
- **Too good to be true?** – While the global economy remains buoyant, questions linger about sustainability. Government borrowing costs have risen over the years, from 1% to 5% of GDP in the US and elsewhere.
- **Outlook for the UK** – A fall in inflation presents the prospect of real wage growth in 2024. However, commercial properties face a grim future as remote work trends persist. US banks hold significant commercial property debt, posing solvency concerns.
- **Conquering inflation** – The successful management of inflation in the US and Europe has fuelled hopes of cheaper money, which could drive economic growth in the coming year.

2024 macroeconomic effects: Political

- **War disrupts trade** – Geopolitical tensions, including conflict in Ukraine and the Middle East, are a significant global risk. Supply chains and energy markets face further disruption, impacting global GDP.
- **Casting your vote** – There will be elections in more than 50 countries during 2024, including the US and the UK. The potential return of Donald Trump to a presidential position looms large, raising the prospect of a shift in global politics to the right.
- **Confronting the enemy** – Geopolitical challenges highlight the need for coordinated responses from the West. However, leaders in the US, UK, and Europe are struggling to deal with autocratic dictators, such as Putin, Xi Jinping, and the Mullahs of Iran.

2024 macroeconomic effects: Technological

- **AI takes centre stage** – OpenAI's ChatGPT and other large language models (LLMs) have encouraged corporates to accelerate AI plans. Generative AI could help transform internal productivity and enrich customer experiences. However, cultural and investment inertia could delay such ambitions.
- **Rise of the "Magnificent Seven"** – The enduring strength of MAAAM has been bolstered by new entrants, such as NVIDIA and Tesla. Nearly all US equities growth came from just seven Big Tech stocks in 2023, with NVIDIA alone adding 7% to the S&P 500. This pattern could be repeated in 2024, making the NASDAQ and S&P 500 attractive equity assets.
- **NVIDIA as a star performer** – NVIDIA's big gains can be attributed to the AI boom and the need for massive computing power to support growth in LLMs.

National and regional outlooks

The UK is still dependent on costly energy imports and immigration will likely continue at record levels. However, growth may increase to 0.6% in 2024 and 1. 5% in 2025. Interest rates could fall from 5.25% to 3.5% during 2024. Thirteen years of Conservative rule are likely to end in a change of government this year due to ineptitude on a massive scale in areas such as health, immigration, and growth.

The Eurozone outlook is bleaker, with growth projected at 0.5% for 2024. Germany has become the 'sick man' of the EU block, with declining demand for its goods in China and a requirement to transform its automotive sector to compete with Tesla and China. Portugal, Italy, Greece, and Spain (PIGS) have led a market recovery.

Chinese property prices fell slightly in 2023 and the country's delayed response to COVID restrained markets, as did a fall in consumer spending – making China the worst-performing global equity market. Japan became one of the best-performing markets in 2023. Leading sovereign wealth funds are now backing India.

Six key risks for 2024

The world may be heading into a new Cold War and a split into two trading blocs could cost between 2.5% and 7% of global GDP. Six key risks could affect investments in 2024:

Russia wins the Ukraine war: Commodity prices could soar and there would be the threat of broader conflicts in the region.

World sea lanes close: As many as 30% of global containers pass through the Red Sea. Low-cost drones, operated by the Iran-backed Houthis, threaten sea routes.

China blockades Taiwan: The election of Lai Ching, a strong supporter of independence from China, could lead to a blockade, with a huge impact on the IT industry.

Private equity collapse: Global private equity currently stands at $7.3 trillion but is saddled with debt.

Germany slips into recession: This reality could destabilise global markets and even sink the common currency.

Tension in the Middle East becomes untenable: A failure to find a resolution to the Hamas-Israeli war could lead to impacts that spread far beyond the immediate region. Iran is likely to become a Nuclear power.

Investment Options for 2024

Given the macroeconomic and geopolitical challenges, the investment theme for 2024 requires a careful balance between secure assets, such as fixed-term bonds offering 5% returns, and more volatile equities that could reassert themselves after a disappointing two-year stretch.

In the equities segment, choices should be spread between geographic regions, such as the US, Europe, and Asia, and corporate segments, such as Big Tech versus Old Economy (e.g., FTSE 100) stock. Big Tech could sustain high growth while the Old Economy will continue to produce a valuable flow of dividends. An investment in small-to-medium corporates might provide an upside, given reduced interest and inflation rates.

The first investment rule is to broaden a portfolio to reduce risk. Aim for regional spread and diverse asset classes (equities, bonds, and others). The exceptional macroeconomic risks facing the globe in 2024 suggest a lean towards safer assets.

The US will likely remain attractive because of its ability to generate life essentials, from food to energy. The US is also the innovation hub of the world, while Europe (including the UK) is more susceptible to prolonged economic stagnation, with continuing dependence on China. India and Japan might sustain strong equity returns, but elections could lead to surprises for investors.

Within the corporate sector, the big question is whether the 'Magnificent Seven' will continue to power equity markets. Big Tech stocks have performed exceptionally (see Table 3) and the S&P 500 would have remained stagnant through 2023 without the rise of the Magnificent Seven. There could, however, be an improvement in the Old Economy this year, especially in the small-cap segments. The FTSE 100 remains significantly undervalued (by around 40%), as is the FTSE 250.

Table 3 – Performance of the Magnificent Seven stocks (2022 to 2023)

Magnificent Seven stocks	Decline in 2022	Growth in 2023	Net advance over 2 years
Meta	-61%	+181%	+120%
Alphabet	-36%	+55%	+19%
Amazon	-48%	+76%	+28%
Apple	-28%	+48%	+20%
Microsoft	-27%	+54%	+26%
NVIDIA	-50%	+230%	+180%
Tesla	-66%	+100%	+34%

Analyst reports suggest the prospects for Big Tech remain strong and will continue to spur both the S&P 500 and NASDAQ. Tracker funds are available to capture these likely gains. The direct impact of Big Tech is illustrated in Table 4 below:

Table 4 – The New Magnificent Seven, based on analysts' 12-month price targets for 2024

Company	Ticker	Market value gain ($ B)	Sector	% of S&P 500 gain
Nvidia	NVDA	$399.9	Information Technology	13.1%
Microsoft	MSFT	298.2	Information Technology	9.7%
Amazon	AMZN	247.8	Consumer Discretionary	8.1%
Alphabet	GOOGL	187.4	Communication Services	6.1%
Apple	AAPL	106.5	Information Technology	3.5%
Exxon Mobil	XOM	104.5	Energy	3.4%
Berkshire Hathaway	BRKA	93.6	Financials	3.1%

Arranging an investment portfolio for 2024

Long-term equity averages are around 7%, although sharp falls can subdue the markets for long periods. Given the macroeconomic risk factors this year, safety is advisable. Table 5 (below) suggests a possible reallocation of personal assets for 2024:

Table 5 – Suggested asset allocation for 2023

Asset class	2023 allocation	2024 allocation	Rational
Liquid assets (cash, fixed-rate bonds)	25%	40%	Take advantage of high interest rates
Old Economy (e.g. FTSE 100)	25%	20%	Exploit value opportunities
Tech stocks	15%	20%	Growth engines for global equities
Asia/Japan/India	10%	10%	Diversification
Global funds	20%	10%	Search for income

Bitcoin could be added to your portfolio, especially as the asset matures in the minds of seasoned investors through 2024. More generally, I suggest taking the following approach:

- Retain a high level of cash (40%) due to market uncertainties. Fixed-rate, one-year bonds at 5% are a secure option. Some cash might be deployed mid-year as the picture for 2024 becomes clearer.
- Balance the equity portfolio with value stocks (around 30%) by adopting global funds and market trackers, such as the S&P 500. This approach should provide growth in equity value together with strong dividend flows.
- Tread carefully with Big Tech (at 20%) and focus on managed funds, such as Scottish Mortgage and NASDAQ trackers. Avoid crypto for the moment.
- Maintain a hold in Asia (10%) but defer investment in China until the country deals with economic and political concerns. Look to exploit growth regions, such as Indonesia and Vietnam.

Conclusions

2023 was a positive year for investors, with a rebound in nearly all asset classes, especially Big Tech. We can expect increased market risk in 2024, with prospects of escalating global conflict and elections around the globe. A combination of fixed-term bonds, ETFs in more mature and well-researched equity markets, such as the US, and best-in-class fund managers in more opaque regions, such as Asia, could be a preferred route for investments through 2024.

About the author

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A pioneer of today's Internet as an ARPA research fellow at MIT in the seventies, Roger has spent over forty five years helping corporations harness the power of new technologies such as cloud, mobile communications, e-commerce, voice recognition and satellite. He was a partner at EY responsible for e-commerce during the dot.com boom. He is a graduate of Cambridge University and MIT, and a visiting professor at the University of Surrey.

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