Macro & Market Outlook

as at June 30, 2023

Central Banks

(increase of 1*)

- The US Federal Reserve (the “Fed”) and other global central banks may be nearing an end to rate hikes.
- The Fed recently increased the federal funds rate to its highest point in 22 years, ranging from 5.25 to 5.50 percent. They also noted that further increases would be data dependent. Some investors believe that the tightening cycle may soon come to an end, and markets are currently pricing in a 40 percent chance of an additional Fed hike for the rest of the year.
- The disinflation trend continued in North America and Europe in the first half of 2023, notwithstanding that a resilient labour market and strong consumer spending have made inflation sticky. It is unlikely that core inflation will fall back to the two percent target until mid-2024.
- The way forward remains uncertain as central banks try to strike a delicate balance between fighting inflation and maintaining financial stability. We anticipate that the Fed will not begin to reduce rates until at least the second quarter of 2024.

Liquidity & Credit

(unchanged*)

- Banks in the US and the Eurozone have tightened their lending standards, making borrowing more difficult for businesses and individuals.
- Concerns about the economic outlook, credit quality, and funding liquidity could lead banks and other financial institutions further to contract the supply of credit to the economy. This may provide an opportunity for private credit as an alternative funding source.
- Commercial real estate is expected to be the next sector of concern, especially for regional and mid-sized banks, as they account for half of all US commercial and industrial loans.

Economics

(increase of 1*)

- Neither the US nor the global economy is fragile or likely to fall into a recession, at least through the year’s third quarter.
- It appears that the challenges faced by the banking sector in the US have not affected the overall economy. Consumers are continuing to spend at a healthy rate and employers are continuing to hire. Despite the significant rise in borrowing costs, the North American housing market experienced growth in the spring.
- The data have not revealed that a full-scale recession is unfolding, but some key risks remain. Among these risks are a resurgence in inflation, consumer savings being used up, banks becoming tighter with their lending standards, and a further deterioration in the geopolitical landscape. Despite these risks, we still believe that a severe recession is unlikely. However, a rolling recession, where some sectors contract while others expand, is perhaps more likely.
- According to the World Bank, global growth is expected to decrease to 2.1 percent in 2023, which is 1 percent lower than in 2022. However, it is projected to recover to 2.4 percent in 2024.
- The yield curve (10-year bond less the 2-year bond) continues to be steeply inverted. This is commonly interpreted as a warning sign that a recession may be approaching.

Valuations

(unchanged*)

- The S&P 500 Index officially entered bull market territory on June 8, having risen by at least 20 percent since its October 2022 low. However, market leadership has stayed very narrow, with just a handful of mega-cap stocks accounting for most of this year’s gains.
- The recent increase in stock prices has pushed valuations well above the long-term average P/E ratio. In addition, longer-term valuation measures (such as the Shiller P/E, Buffet Indicator, and Tobin’s Q) continue to be at unattractive levels.

Legend:

NEG. NEUTRAL POS.

* 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*)

- Investors fearful of missing out on gains increased their allocation to equities. While the rotation into stocks has helped buoy markets, it has also left less fuel on the sidelines to power further gains.
- Elevated interest rates will continue weighing on the S&P 500 Index earnings in the second half of the year. Additionally, the risk of a recession (rolling or otherwise) could limit the potential gains for equities.

Sentiment

(unchanged*)

- Consumer confidence in the US recently jumped to the highest level in the past two years, exhibiting a positive outlook on the economy (strong labour market and cooling inflation). Sentiment in Europe deteriorated while Asia was largely unchanged.
- The American Association of Individual Investors Sentiment Survey showed that optimism remains above average in the latest Survey. Both neutral and bullish sentiments increased.
- The confidence of CEOs decreased slightly in the second quarter. Many CEOs still feel pessimistic, which suggests that they are being cautious about the next 12-18 months.
- There continues to be a significant degree of uncertainty.

Technical

(US Large Cap)

(increase of 1*)

- 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.
- The Index has support at points 4170 and resistance at points 4800.
- The longer-term charts show that the S&P 500 Index is assessed as technically positive.

Overall

(increase of 3**)

Conclusion: Market conditions have improved since our last assessment three months ago. The global economy has experienced faster growth than expected in the first half of 2023. Despite aggressive monetary tightening, the U.S. labour market, housing sector, and corporate investment have remained strong. Inflation is on a downward trend but is not expected to return to the target range until at least Q2 2024.

Moving forward, we anticipate higher inflation, interest rates, and increased macroeconomic and market volatility. As a result, we are entering a new regime. Over the next 12-18 months, most developed markets will likely feel more of the effects of monetary policy tightening, impacting economic activities before stabilising later in 2024. While economic conditions in emerging markets are still fragile, countries like China and India are expected to experience relatively higher growth.

Given the uncertainty around inflation and growth, and the high valuation of risky assets (excluding emerging market equities), we remain cautious. We will continue prioritising long-term risk-return benefits, high-quality assets, and diversified asset allocations.

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