# Macro & Market Outlook

as at June 30, 2024

ARGUS Wealth Management

## Central Banks

(increase of 1*)

- As indicated in the Q1 2024 Market Review, the world's central banks started diverging from the US Federal Reserve ("the Fed"). The Bank of Canada became the first G-7 Country to cut interest rates by 25bps, followed by the European Central Bank.
- At its July meeting, the Fed held the federal funds rate steady at 5.25 – 5.50%. Recent signs that inflation is easing have paved the way for the Fed to lower the interest rate as soon as the fall.
- While there may be a widening gap in the timing of first cuts, divergence in the projected path of central bank rates over the next few years is unlikely. Once the Fed starts cutting rates, likely at the end of 2024, most major central banks will be moving in lockstep, with policy rates moving in the same direction.
- We have raised our score to 1 as the central banks have begun or possibly would begin to ease their monetary policies in the latter half of the year. They are expected to continue lowering interest rates over the next 12-18 months. The rate cuts would reduce the financial burden on borrowers, making loans and refinancing more affordable. Additionally, these cuts would potentially increase company valuations, which could help boost returns for stockholders.

## Liquidity & Credit

(unchanged*)

- After setting record lows in March, US corporate bond spreads hit a new low in May. The spread compression resulted from strong bond issuance growth in 2024, better global economic conditions than expected, and a decline in near-term default risk.
- As the US economy settles into a soft landing, borrowers will continue to enjoy more favourable credit conditions. The Fed's plan to ease monetary policy toward the end of the year is a promising sign for normalizing borrowing and refinancing rates.
- It's important to note that despite the current healthy credit conditions, there are potential risks on the horizon. A prolonged period of elevated borrowing costs could make debt service and refinancing too expensive in the short term. The gradual and "shallow" rate cuts will unlikely provide material, near-term interest rate relief. For instance, the already challenged sectors, such as commercial real estate, will continue facing asset valuation pressure and heightening refinancing risk.

## Economics

(decrease of 1*)

- In 2024, most economies experienced solid growth. The US is expected to continue leading the way, with Europe and the UK emerging from recession and posting growth in Q1 2024. Meanwhile, China's economy is gradually returning to normal as demand for goods and services improves. We anticipate moderate growth in the next 12 to 18 months, a slowing of job growth, and headline CPI to continue falling in most countries.
- The impact of tight monetary conditions continues to be felt. US corporate bankruptcy filings soared in June, driven by high interest rates, supply chain issues, and slowing consumer spending.
- The outlook continues to differ across countries, with weaker outcomes in many advanced economies, especially in Europe, and stronger growth in the United States.
  - According to the latest OECD's projections, the global economy's GDP growth rate is projected to be steady at 3.1% in 2024, followed by a slight pick-up at 3.2% in 2025.
  - Annual GDP growth in the US is projected to remain supported by household spending and strong labour market conditions at 2.6% in 2024 before slowing down to 1.8% in 2025.
  - Euro area GDP growth is projected to be 1% in 2024 and increase to 1.6% in 2025, driven by a continued expansion of consumption as real wages continue to increase.
- Geopolitical risks are always a wild card. Events such as the ongoing conflict in Ukraine, the war in the Middle East and the US presidential election in 2024 create uncertainty and may increase short-term market volatility.

## Valuations

(unchanged*)

- After a short-lived pullback in April 2024, the stock market's bullish momentum returned in Q2 2024, with all three major US indices making new highs. Optimism over artificial intelligence, which drove a rally in large-cap technology stocks last year, continues to be a major source of support for the rally. In addition, expectations of upcoming interest rate cuts, strong consumer spending, and better-than-expected corporate earnings support the sustained bull market.

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.

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

# Macro & Market Outlook as at June 30, 2024

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| **Valuations** *(cont.)* (unchanged*) | • The overall valuations of the US equity market are still higher than the long-term average. Longer-term valuation measures such as the Shiller P/E ratio, Buffet Indicator, and Tobin's Q remain unattractive. However, aside from a few AI-related stocks, most other S&P 500 Index stocks have reasonable valuations. Additionally, equities are more fairly valued in other parts of the world, such as Europe and China.<br>• Fundamentally, the US market is overvalued. However, earnings forecasts for the rest of 2024 appear solid, which could continue supporting the high equity valuations. In the short term, elevated geopolitical risk and the coming US Presidential election could also bring some volatility. |
| **Sentiment** (unchanged*) | • According to the Conference Board Consumer Confidence Index, US consumers have brighter perceptions of today's economic conditions but are slightly less optimistic about the future.<br>• The American Association of Individual Investors Sentiment Survey showed Neutral sentiment among individual investors about the short-term outlook for stocks decreased in the latest AAII Sentiment Survey. Meanwhile, both optimism and pessimism increased.<br>• According to the Conference Board CEO Confidence Index, CEO sentiment improved in Q2 2024, marking the second consecutive quarter where optimism outweighed pessimism in the last two years. |
| **Technical** (US Large Cap) (unchanged*) | • The S&P 500 Index is assessed as positive for the medium-long term.<br>• The S&P 500 Index has broken the medium- and long-term rising trend, indicating an even stronger rising rate. There is no resistance in the price chart, and a further rise is indicated. |
| **Overall** (unchanged*) | **Conclusion:** Our overall assessment has stayed neutral and consistent with last quarter. The first half of the year was characterized by a robust economy that once again surpassed the initial 2024 expectations. With inflation continuing to ease, it is anticipated that the Fed will begin to lower its policy rate in the latter part of 2024 and then accelerate the rate of easing in 2025 as economic growth slows below its potential.<br>Going forward, markets may face some challenges in the coming quarters. So much optimism is built into the implied market outlook that any downside surprise could affect performance. Expectations of solid corporate profitability have been crucial to sustaining the current market rally. Analysts remain optimistic about the second-quarter earnings of tech companies, but the market will be vulnerable if these companies do not follow through with earnings that support these valuations.<br>Despite the short-term volatility the November election may bring, the performance of equity markets usually improves with greater certainty, regardless of which party wins the election. Data going back to 1928 suggests that average full-year price returns in election vs. non-election years are basically the same – at 7.3% and 7.5%, respectively – but the path to getting there is very different. This year's strong start could mean an even better trajectory for stocks if past cycles are any indication. |



**Argus Wealth Management Limited**

The Argus Building
14 Wesley Street
Hamilton HM11, Bermuda

Tel: +1 (441) 295 9000
invest@argus.bm
arguswealth.bm

* Change from the previous 12-month outlook.
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[2] https://www.conference-board.org/topics/consumer-confidence
[3] https://www.aaii.com/sentimentsurvey

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