# Macro & Market Outlook

as at September 30, 2024

## Central Banks

(unchanged*)

- At the September 2024 Federal Open Market Committee (FOMC) meeting, the US Federal Reserve (Fed) lowered interest rates by 50 basis points, easing monetary policy for the first time in four years. This lowered the interest rate target to a range of 4.75% to 5%.
- Although the Fed has started its policy easing cycle, we anticipate this one will be modest compared to historical rate-cutting episodes, such as in 2020 since the US economy remains strong and inflation continues to decrease.
- Other major banks have implemented more substantial interest rate cuts. For example, the Bank of Canada reduced its benchmark interest rate by 50 basis points to 3.75% in October, marking its fourth consecutive cut since June. Similarly, the European Central Bank made its third reduction, lowering the deposit rate from 3.50% to 3.25%.
- Lowering interest rates typically stimulates the economy. While cutting rates can reduce the high returns that savers have recently enjoyed, it also alleviates some financial pressure on borrowers, making loans and refinancing more affordable. Furthermore, the stock market has reacted positively to these interest rate cuts, as they can potentially increase company valuations.

## Liquidity & Credit

(increased of 1*)

- Credit spreads for US investment-grade corporate bonds have fallen to their lowest level since 2005, indicating growing investor confidence.
- The delinquency rate on all US consumer loans is currently at 1.8%, which is well below the 10-year average of 4.9%.
- Global bond issuance is projected to increase by 17% in 2024, according to S&P Global. This positive trend is expected to continue into 2025, supported by anticipated economic growth, looser monetary policies, and narrow corporate spreads.
- It's important to note that despite the current healthy credit and liquidity conditions, there are potential risks on the horizon. Geopolitical risks were elevated coming into 2024 and have arguably become more so. Overall, debt levels — especially among many governments — have risen in recent years, which could lead to higher borrowing costs across the system. Additionally, rising threats to global trade might flare inflation up again, compelling central banks to slow or pause their easing measures.

## Economics

(unchanged*)

- The global economy has shown resilience through 2024, with declining inflation, robust growth in trade, improvements in real incomes, and a more accommodative monetary policy in many countries. We expect the growth rate to be similar in the next 12 to 18 months as the headline Consumer Price Indices (CPIs) trend toward central bank targets.
- The outlook continues to differ across countries, with weaker outcomes in Europe and stronger growth in the United States.
  - According to the latest OECD projections[1], the global economy's GDP growth rate is projected to be steady at 3.2% in 2025, with projected G20 headline inflation of 3.3%.
  - Annual GDP growth in the US is expected to moderate from its recent rapid pace. However, it will still be supported by easing monetary policy and strong labour market conditions. Growth is projected to be 2.6% in 2024 before slowing to 1.7% in 2025.
  - Euro area GDP growth is projected to be 0.7% in 2024 and increase to 1.3% in 2025, with activity supported by the recovery in real incomes and improvements in credit availability.
  - China's growth is expected to ease to 4.9% in 2024 and 4.5% in 2025, with policy stimulus offset by subdued consumer demand and the ongoing deep correction in the real estate sector.
- Geopolitical and trade tensions, such as the ongoing conflict in Ukraine and evolving situations in the Middle East, pose risks of increasing inflation and may dampen global economic activity.

## Valuations

(increased by 1*)

- The stock market is experiencing remarkable growth in 2024, as all three major US indices continue to reach all-time highs. In 2023, the S&P 500 had a return of 26%. If there are no significant drops in the stock market over the next two months, the S&P 500 could achieve a second consecutive year with a return exceeding 20%.

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/en/publications/oecd-economic-outlook-interim-report-september-2024_1517c196-en.html

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| **Valuations** *(cont.)*<br>(increased by 1*) | • The overall valuation of the US equity market is higher than the long-term average, especially for the mega-cap tech stocks. However, these elevated valuations are supported by stronger corporate earnings. While technology stocks continue to lead the equity markets, momentum has begun to spread to other sectors. More attractive opportunities may be found in mid-cap stocks, trading at 15 times forward earnings compared to 22 times for the overall S&P 500.<br>• Earnings growth in 2025 is forecasted to be solid, backed by positive macro-outlooks, which could continue supporting the high equity valuations. |
| **Sentiment**<br>(unchanged*) | • Reading from the University of Michigan's Consumer Sentiment Index that tracks U.S. consumer sentiment rose to the highest level in six months. The latest result marked the third consecutive monthly sentiment increase.<br>• The American Association of Individual Investors Sentiment Survey showed bullish sentiment among individual investors about the short-term outlook for stocks decreased in the latest AAII Sentiment Survey. However, bullish sentiment remains above the historical average and is higher than both neutral and bearish sentiments[2].<br>• According to the Conference Board CEO Confidence Index[3], CEO sentiment retreated slightly in Q4 2024, but the measure remained above 50, indicating that CEOs are generally optimistic. |
| **Technical**<br>(US Large Cap)<br>(unchanged*) | • The S&P 500 Index is assessed as positive for the medium to long term.<br>• The S&P 500 is in a rising trend channel in the medium to long term. This shows that investors, over time, have bought the index at higher prices and indicates good development for the market. There is no resistance in the price chart, and a further rise is indicated. |
| **Overall**<br>(increased by 2*) | **Conclusion:** Our overall assessment has shifted to positive, an improvement from previous quarters. So far, 2024 has been a strong year for stocks and economies. With interest rates expected to decrease further and central banks currently in a monetary easing cycle, we look forward to a favourable investment climate next year.<br>As we enter the final months of 2024, we are closely monitoring several factors that could derail the current optimism. The outcome of the U.S. election may influence market conditions. For instance, implementing new tariffs could hamper the US economy and prolong inflation concerns. Recent technological innovations, particularly in AI, have driven the recent growth of the stock market. Many experts believe AI will prove its value, leading to higher earnings expectations and, consequently, higher stock prices. However, there remains uncertainty about whether AI can truly deliver on its promises of efficiency and improved products. Finally, ongoing geopolitical conflicts are one of the most discussed risks. Thus far, the war in Ukraine and conflicts in the Middle East have not created major issues in the US financial markets. However, this could change if unrest escalates to disrupt global trade or commodities supply.<br>Considering the uncertainties at hand, we remain vigilant and prudently optimistic. We believe a well-diversified portfolio that balances exposure to growth sectors with defensive positions is essential in managing potential volatility and unpredictable geopolitical risks. |



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* Change from the previous 12-month outlook.

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[2] https://www.aaii.com/sentiment-survey

[3] https://www.conference-board.org/topics/CEO-Confidence

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