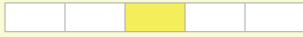


# Macro & Market Outlook

as at March 31, 2024

## Central Banks



(decrease of 1\*)

- At its March meeting, the U.S. Federal Reserve (“the Fed”) held the federal funds rate steady at 5.25-5.50% for the fifth time and forecasted three interest rate cuts in 2024.
- While the Fed funds rate has likely reached its peak for this tightening cycle, data will determine the precise timing and extent of potential 2024 rate cuts. As U.S. inflation continues to be sticky and the economy remains solid, there is little urgency for the Fed to rush to cut. A further weakening in the labour market and on-target inflation would be required for rate cuts to begin.
- The Swiss National Bank became the first developed-market central bank to cut rates in March. Other developed country central banks, such as the European Central Bank, the Bank of Canada, and the Bank of England, could diverge from the Fed and start cutting sooner and in bigger increments.
- We reduced our lookout for central bank policies to neutral from positive last quarter. As compared to December 2023, fewer rate cuts are now expected in the next 12-18 months. The timing and frequency of rate cuts will depend on various factors, including inflation and the labour market.

## Liquidity & Credit



(unchanged\*)

- More liquidity support is expected as central banks turn toward monetary easing in the next 12-18 months. As indicated in its March meeting, the Fed may scale back its “quantitative tightening” to slow the pace of its balance sheet reduction.
- Credit conditions remain healthy as the U.S. economy settles into a soft landing and the Fed eases monetary policy. Corporate spreads, or the premium companies pay over U.S. Treasuries for issuing bonds, are at their tightest in years, indicating that the risk of corporate debt defaults is currently low.
- It’s important to note that despite the current healthy credit conditions, there are potential risks on the horizon. Higher financing costs and a potential economic slowdown could pose significant challenges for borrowers across all asset classes. A prolonged period of elevated borrowing costs could make debt service and/or refinancing too expensive, forcing borrowers to adjust to tighter financial conditions than in the last 20 years.

## Economics



(increase of 1\*)

- Global economies were surprisingly resilient in 2023. Lower energy prices and fading supply chain pressures helped inflation decline more quickly than expected. We expect moderate growth in the next 12-18 months and inflation to fall further in most countries.
- According to the OECD’s projections<sup>1</sup>, the global economy’s growth rate is projected to ease to 2.9% in 2024. A modest improvement is predicted in 2025, when it will increase to 3.0%.
- Annual GDP growth in the U.S. is projected to remain supported by household spending and strong labour market conditions but to moderate to 2.1% in 2024 and down to 1.7% in 2025.
- Euro area GDP growth is projected to be 0.6% in 2024 and 1.3% in 2025, with activity held back by tight credit conditions in the near term before picking up as real incomes strengthen.
- The Federal Open Market Committee projects that the U.S. unemployment rate will average a healthy 4.0% in 2024. This is higher than the current rate of 3.8% but remains significantly lower than its long-term average of about 5.7%.
- Geopolitical risks are always a wild card. Events such as the ongoing conflict in Ukraine, the war in the Middle East and the U.S. presidential election in 2024 create uncertainty and may increase market volatility.

## Valuations



(unchanged\*)

- The stock markets’ bullish momentum continued in Q1 2024, with all three major U.S. indices making new highs. Optimism over artificial intelligence, which drove a rally in technology stocks last year, continues to be a major source of support for the rally.
- The overall U.S. equity market’s valuations are still well above the long-term average. Longer-term valuation measures (such as the Shiller P/E ratio, Buffet Indicator, and Tobin’s Q) continue to be at unattractive levels. However, equities are more fairly valued in other parts of the world, such as Europe and China.
- Fundamentally, the U.S. market is overvalued. While the U.S. equity markets could continue their positive momentum, the broader market looks more prone to consolidating in the months ahead. Elevated geopolitical risk and the coming U.S. election could also bring more volatility.

Legend:



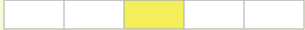


\* Change from the previous 12-month outlook.

\*\* The weights to calculate the Overall rating are determined by Argus Wealth at its discretion.

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

# Macro & Market Outlook as at March 31, 2024

<h3>Sentiment</h3>  <p>(unchanged*)</p>	<ul style="list-style-type: none"><li>• According to the Conference Board Consumer Confidence Index<sup>2</sup>, U.S. consumers have brighter perceptions of today's economic conditions but are slightly less optimistic about the future.</li><li>• The American Association of Individual Investors Sentiment Survey showed some pessimism in the latest Survey<sup>3</sup>. However, bullish sentiments and expectations that stock prices will rise over the next six months were 38.3%, slightly above the historical average of 37.5%.</li><li>• According to the Conference Board CEO Confidence Index, CEO sentiment improved in Q1 2024, where optimism outweighs pessimism for the first time in the last two years.</li><li>• However, we have seen less-than-positive sentiment readings in the option markets. The CBOE equity put/call ratio has decreased, which may indicate bearish sentiment towards stocks. In addition, the ISEE index, which measures the ratio of opening long call options to opening long short options, has reached outright contrarian territory.</li></ul>
<h3>Technical</h3> <p>(US Large Cap)</p>  <p>(unchanged*)</p>	<ul style="list-style-type: none"><li>• The S&amp;P 500 Index is assessed as technically slightly positive for the medium-long term.</li><li>• The S&amp;P 500 has broken through the floor of a rising trend channel in the medium-long term. This indicates a slower rising rate at first or the start of a more horizontal development.</li></ul>
<h3>Overall</h3>  <p>(unchanged*)</p>	<p><b>Conclusion:</b> Our overall assessment has remained neutral, the same as last quarter. The U.S. economy closed Q1 2024 on a solid note, with persistent labour market strength continuing to deliver employment gains and positive real income growth. In March, 303,000 jobs were added in the U.S., exceeding economists' projections of 200,000. Concurrently, there was an unexpected dip in the unemployment rate to 3.8%.</p> <p>The robust jobs data highlight a strong labour market and elevated market optimism, acting as a buffer against inflation concerns heightened by geopolitical tensions in the Middle East and a recent surge in the price of oil.</p> <p>This economic resilience is pivotal for central bank policy direction, especially as investors keenly await rate-cut initiation. The Federal Reserve's data-dependent approach means the longer the economy maintains its strength, the less urgency there is to cut.</p> <p>While equities have incorporated optimism for a benign economic trajectory, higher bond yields suggest that interest rate cuts may not come as soon as expected. The current economic backdrop underscores the importance of asset diversification, prudent risk mitigation, and constructing resilient portfolios through active management. The path ahead promises opportunities but warrants investment strategies equipped to navigate the complexities of a transitioning market environment.</p>

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\* Change from the previous 12-month outlook.

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<sup>2</sup> <https://www.conference-board.org/topics/consumer-confidence>

<sup>3</sup> <https://www.aaii.com/sentimentsurvey>

