ANNUAL RESEARCH REPORT

2024

OCTAVE
ASSET MANAGEMENT

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Contents

Introduction

We love quotes by the folks over at Berkshire Hathaway and the one that fits now is: "It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong." It’s been nothing less than a volatile year and November blindsided most of the investors.

Ahil Mansoor
Chief Executive & Chief Investment Officer
Octave Asset Management

“It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong.”

Warren Buffett
Chairman and CEO of
Berkshire Hathaway

Recap of 2023

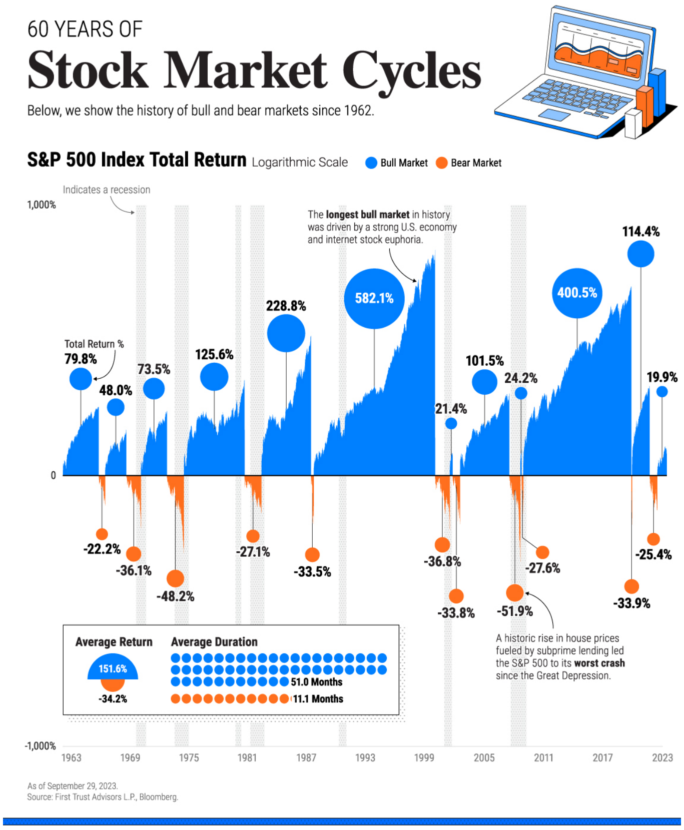
In the fiscal year of 2023, the S&P 500 witnessed a noteworthy resurgence, rebounding from its previous decade's lows. Until December 21st, the index is set to conclude the year with a commendable gain of approximately 23.63%. However, this upward trajectory was not without its challenges, marked by early gains and a series of economic uncertainties.

Market Performance

The S&P 500 outperformed expectations, boasting a total return of 23.63%, well surpassing its average annual return. Technology, communication services, and consumer discretionary stocks experienced substantial rebounds, driven by a notable shift in investor focus from rising interest rates to the prospect of rate cuts in early 2024. The Nasdaq Composite surged by approximately 45%, while the Dow Jones Industrial Average posted an 12.8% gain.

The standout performers of the S&P 500 were the high-growth, cyclical sectors, including technology, telecom, and consumer discretionary. Conversely, defensive sectors like utilities, healthcare, and consumer staples lagged behind in 2023.

The formidable performance of the "Magnificent 7" mega-cap tech stocks – Apple (AAPL), Amazon (AMZN), Alphabet (GOOG, GOOGL), Nvidia (NVDA), Meta Platforms (META), Microsoft (MSFT), and Tesla (TSLA) – significantly contributed to the market's strength, collectively surpassing the S&P 500's gains for the year.



Source: First Trust Advisors L.P. Bloomberg; Visual Capitalist

"**Magnificent 7**" collectively surpassing the S&P 500's gains for the year.

Banking Crisis

Despite facing unexpected challenges, the market demonstrated resilience during the regional banking crisis in the spring of 2023. Silvergate Bank, Silicon Valley Bank, Signature Bank, and First Republic Bank faced collapses triggered by cryptocurrency losses, bond portfolio downturns, and commercial real estate challenges. The Federal Reserve intervened, averting a broader crisis by providing emergency loans and reassuring customers of the failed banks. Larger banks, such as JPMorgan Chase and New York Community Bancorp, acquired the assets of the failed banks, leading to minimal disruption in equity markets.

Best & Worst Stocks of 2023

Best Stocks

NVIDIA

Royal Caribbean International

Meta

Worst Stocks

FMC
FMC CORPORATION

ENPHASE

solaredge

Several S&P 500 stocks stood out in 2023, with notable performances and disappointing declines. Top performers included Nvidia (NVDA), Meta Platforms (META), and Royal Caribbean (RCL). Conversely, Solaredge Technologies (SEDG), Enphase Energy (ENPH), and FMC Corporation (FMC) faced challenges in the solar energy, microinverter, and agricultural-chemical sectors, respectively.

Top Investment Themes

Investment trends in 2023 highlighted the surge in ChatGPT and generative AI products, reflecting an acknowledgment of the burgeoning role of AI in the future economy. The crypto market rebounded from the 2022 "crypto winter," with Bitcoin prices soaring, and cryptocurrency-related stocks like MicroStrategy (MSTR) and Cipher Mining Technologies (CIFR) benefited.

Geopolitical events, such as Israel's declaration of war on Hamas, influenced the global outlook. Certain stocks and sectors, particularly aerospace and defense, thrived amid growing global defense budgets.

Inflation and Interest Rates

In 2023, inflation and interest rates emerged as pivotal market influencers. The Federal Reserve's aggressive interest rate hikes, initiated in March 2022 to counter surging inflation, demonstrated positive results. Year-over-year consumer price index (CPI) inflation, peaking at 9.1% in June 2022, gradually declined to 3.2% by October 2023. While inflation remains above the Fed's long-term target, the central bank's strategic rate hikes have tempered its rise.

In summary, the market landscape of 2023 reflects a dynamic interplay of economic challenges, resilient sectors, and strategic investor shifts, culminating in a year of notable market performance.

> Inflation and interest rates emerged as pivotal market influencers. The Fed's aggressive rate hikes to counter inflation demonstrated positive results. Looks like the Fed has landed the plane safely!

Going Forward Themes for 2024

Economic Projections for 2024

We think that global growth will undershoot consensus expectations in 2024 as the lagged effects of monetary policy tightening filter through. Among the advanced economies, the US will continue to outperform Europe. And while China's policy-induced recovery is set to continue in the near term, strong structural headwinds will put the economy on a weaker track by the second half of 2024. Subdued growth is likely to bring inflation back to central banks' targets sooner than most anticipate. Accordingly, central banks should be able to cut interest rates back to more neutral levels almost across the board. Upcoming elections won't be a game-changer for global growth, but some may influence how the world economy continues to fracture along geopolitical lines.

Activity
Most advanced economies contracted in Q3, and the latest activity surveys point to a weak Q4 as well. The US economy has been remarkably resilient and should continue to outperform Europe. In China, the recent step-up in policy support should maintain growth at current rates rather than boost it materially.

Labour Markets
There have been more signs that labour market conditions are cooling throughout DMs, especially in the US. Wage growth is finally falling in Europe, but it remains uncomfortably high. We expect wage growth to be at low 4% levels and productivity growth to be above 2%.

Inflation
Falling energy and food inflation have driven most of the decline in global headline inflation this year. Core inflation should continue to ease too, although strong wage growth will
mean that it takes longer to fall in the UK than in the US.

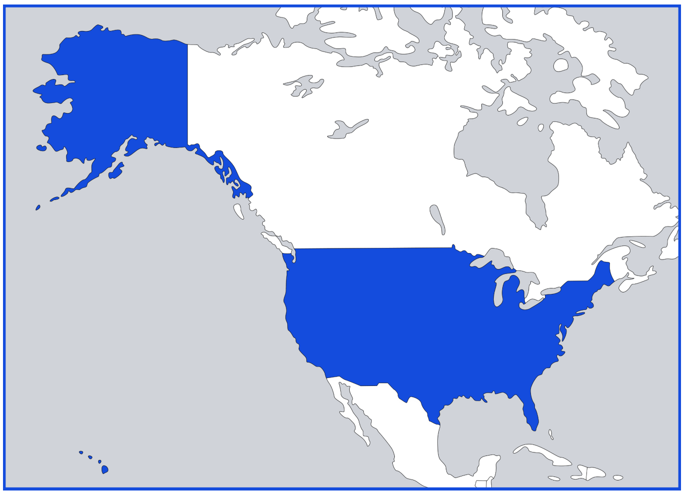
Policy
We believe that policy rates have now reached their peak in all DMs. Central banks will turn to rate cuts next year, with the US Fed cutting as soon as March. The market is expecting a 125 bps rate cut in 2024. We expect this to be slightly more aggressive at 175 bps.

> We expect the Fed to start cutting in March with a total of 175 bps throughout 2024.

Regional Snapshots

United States

While the economic environment for the US stock market in the next two years may not mirror the favorable conditions of the late 1990s, we anticipate a potential bubble in equity prices driven by investors seeking gains from emerging transformative technologies.



Market Projections

Our distinctive forecast predicts the S&P 500 to reach 5,200 by the close of 2024, marking a substantial departure from consensus expectations. Furthermore, we foresee the index extending its gains, concluding 2025 at 6,500. This optimistic outlook is grounded in the belief that investors will fervently drive up equity prices, akin to the excitement witnessed during the late 1990s internet boom, fueled this time by the future potential of artificial intelligence (AI).

Economic Challenges

One challenge to this view is the less supportive economic conditions compared to the late 1990s. Back then, the unemployment rate steadily declined, core inflation exhibited a gradual downward trend, and long-term Treasury yields were accommodative. However, current economic indicators pose challenges, especially regarding the labor market.

Economic Indicators

While prospects for core inflation appear favorable, with expectations of a decline in 2024, we project a less optimistic scenario for the labor market. Anticipating a climb in the unemployment rate to approximately 4.8% in the latter half of 2025, the potential incongruity between a deteriorating labor market and rising equity prices reflects a historical anomaly observed in the early 1990s.

Tech Sector Dynamics

The ongoing stock market surge has been propelled by a select group of mega-cap firms at the forefront of the AI revolution. Notably, the three key tech sectors (information technology, communication services, and consumer discretionary) containing these giants have outperformed others. This differs from the late 1990s when the winners from the internet boom were less discernible, and firms within these sectors generally outperformed.

AI Momentum and Market Resilience

Despite the economic headwinds, a robust rally in the stock market is plausible, especially if enthusiasm around AI gains momentum. Historical instances, such as the mid-/late-1800s railway bubble, demonstrate that transformative technologies can drive market bubbles even in the face of a generally weak economy.

Valuation Considerations

The current valuation of the stock market, in absolute terms and relative to government bonds, is notably less stretched compared to the dot-com era. This suggests that there is substantial upward potential for equities before reaching a point of vulnerability.

Market Dynamics

The valuation of the stock market, however, remains less stretched compared to the dot-com bubble era, both in absolute terms and concerning government bonds. This suggests that there is significant room for the market to further ascend before a potential rollover in equities.

Market Broadening

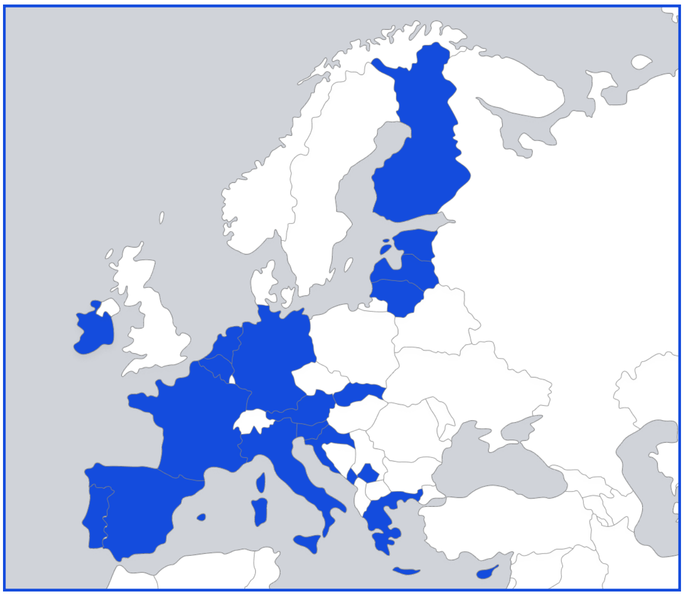
Looking ahead, while big-tech giants are expected to continue leading in 2024/25, we anticipate the rally to broaden within the three tech sectors and potentially beyond. The evolving dynamics in the AI landscape may provide opportunities for a more diversified market performance.

In summary, our forecast envisions a unique trajectory for the stock market, propelled by AI enthusiasm, economic nuances, and evolving sector dynamics, setting the stage for potential opportunities and challenges in the coming years.

Regional Snapshots

Eurozone

The euro-zone is poised to remain mired in or near a recession during the first half of 2024 due to the ongoing impact of elevated interest rates, which continues to exert downward pressure on both household consumption and investment. Additionally, fiscal policy is set to tighten, exacerbating the economic challenges. Headline inflation has already experienced a significant decline and is anticipated to hover around the European Central Bank's (ECB) 2% target for the majority of 2024. Despite a still relatively tight labor market, signs of easing are emerging, with a reduction in the number of job vacancies from recent highs. This trend is expected to contribute to a downward trajectory in core inflation.



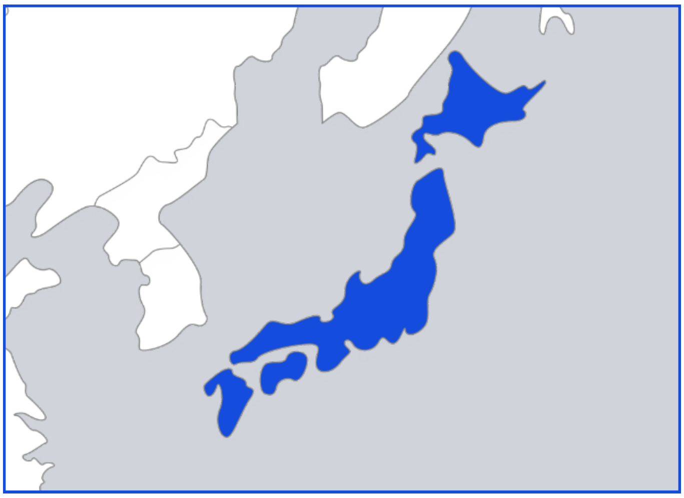
Anticipating these economic conditions, it is speculated that the ECB will embark on a policy easing cycle around April of the upcoming year. Forecasts suggest that the ECB will progressively reduce its deposit rate, currently at 4%, reaching approximately 2.25% by the close of 2025.

In other regions, Sweden is grappling with a profound recession that is anticipated to prompt the Riksbank to initiate interest rate cuts in the second quarter of the next year. Meanwhile, Norges Bank, having reached the zenith of its tightening cycle, is projected to implement rate cuts totaling around 100 basis points throughout 2024. Similarly, the Swiss National Bank (SNB) is expected to decrease rates by 50 basis points in the coming year, settling at 1.25%, as inflation remains well below the 2% threshold.

Central banks in the Nordic economies and Switzerland are nearing the apex of their interest rate trajectories. While the Swiss National Bank (SNB) is expected to undergo a few more rate hikes, its policy rate is anticipated to peak at a relatively low level compared to regional standards. The Norges Bank is projected to reach its terminal policy rate of 3.5% by June, and this level is anticipated to be maintained until 2024. As for the Riksbank, although it is likely to raise its policy rate to a peak of 3.5%, the combination of a deep recession and a sharp decline in house prices positions it closer than many other central banks to considering interest rate cuts.

Japan

We anticipate a decline in real household disposable income persisting until at least mid-2024. Coupled with the savings rate reverting to pre-virus levels, this is expected to lead to a substantial deceleration in GDP growth in the coming year, with the labor market experiencing a period of stagnation. Despite these economic challenges, there are emerging indications of a positive feedback loop forming between wages and prices. Consequently, we project that inflation will only dip below the Bank of Japan's 2% target by the conclusion of 2024.



In light of these developments, we foresee BoJ Governor Ueda utilizing the present opportunity to dismantle the ultra-loose policy introduced by former Governor Kuroda. Our expectations include the cessation of negative interest rates by early 2024, followed by a complete dismantling of Yield Curve Control by mid-year. As the neutral interest rate is poised to rise, monetary policy is anticipated to adopt a progressively accommodative stance. In accordance with these shifts, our outlook now envisions both inflation and the Bank's policy rate reaching the 2% mark by the year 2030.

Regional Snapshots

China

China's reopening recovery has fizzled out and the economy is now at risk of slipping into a recession. We think policymakers will provide enough stimulus to avoid this and deliver a modest reacceleration in growth over the coming quarters. But most of the slowdown since the start of the pandemic is structural and won't be reversed.

China's economy is regaining some momentum after stalling for a brief period during the summer. A step up in policy support looks set to deliver a modest cyclical recovery but trend growth remains under pressure.

China's equities have exhibited short-term potential for outperformance, driven by a boost in November's industrial output. However, this momentum has waned, and a broader perspective reveals that they have lagged behind the global equity market rally in recent weeks, grappling with challenges amidst falling yields throughout the year.

Downbeat Sentiment and Valuations

Current sentiment surrounding China's equities appears unusually pessimistic, particularly when compared to the past few years. This sentiment is evident in the plunging price/forward earnings (PE) ratios of major Chinese benchmark indices, which have continued to decline even as yields in "safe" assets have started to decrease. Consequently, valuations appear markedly low compared to historical benchmarks.

Link to Economic Pessimism

The subdued valuations seem intertwined with pessimism regarding China's economic health. Potential for a rebound exists if economic data improve, considering the historical correlation between PE ratios and the post-COVID reopening. Beyond economic factors, perceptions about the government's stance on the private sector and fluctuating US/China tensions may also influence equity valuations. Nevertheless, economic concerns remain a pivotal factor in the current undervaluation.

Relative Valuations

China's equity valuations face downbeat comparisons not only within the nation but also globally. Relative to other developed markets (DMs) and emerging markets (EMs), Chinese equities exhibit some of the lowest valuations in over a decade. This is not solely attributed to elevated US PE ratios, indicating a unique challenge faced by China's equities on the global stage.

Long-Term Outlook:

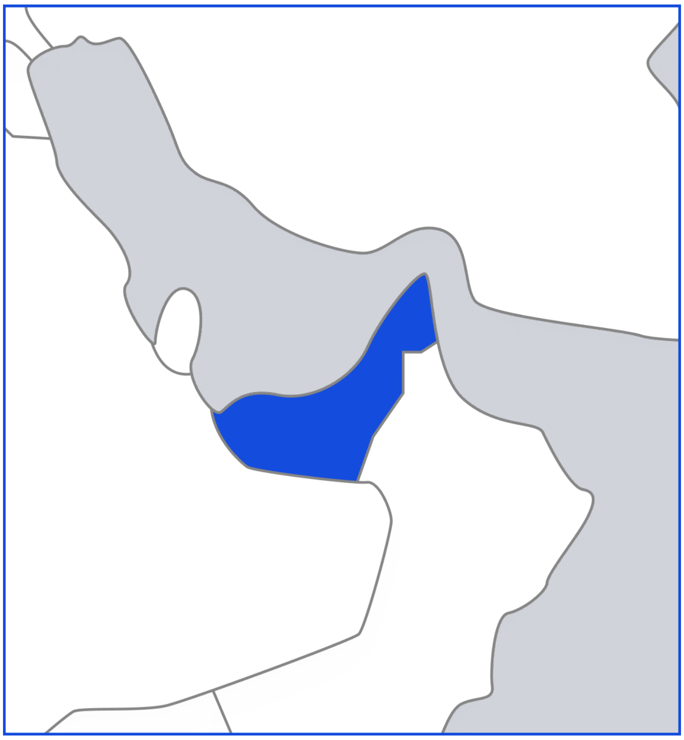
While short-term valuations may see improvement with positive economic developments, our analysis suggests a less favorable long-term outlook for China's equities. The sustained growth necessary for prolonged market gains appears challenging, given demographic pressures and an anticipated global economic fracture. Despite potential near-term rebounds, the prospects for long-term earnings' growth in China and, consequently, equity prices appear bleak. Furthermore, the CPC policies towards businesses, can be quite random like what we saw last year with tech companies such as Alibaba.

In summary, while short-term dynamics may provide fleeting opportunities, a cautious approach is warranted due to the formidable challenges facing China's equities in the foreseeable future.

Regional Snapshots

United Arab Emirates

The UAE has been famous for having lots of oil, and for a long time, it heavily depended on selling oil to run its economy. But things are changing now as the UAE is getting ready for a future where oil isn't the main thing. The government and private companies are teaming up for this change. They're investing in different programs to cut down on things that cause pollution and are aiming to meet certain goals for the next few years to make things better for the environment. Let's look at their oil sector, GDP growth and economic future.



Oil Sector and GDP Growth

The UAE's adherence to OPEC+ agreements is poised to impact short-term growth. However, as oil production ascends in H2 2024, the sector is anticipated to invigorate GDP growth. Concurrently, the non-oil economy is expected to sustain robust momentum.

Current Economic Landscape

While GDP figures exhibit a prolonged reporting lag, real-time data signals a significant deceleration in economic growth, plummeting from 7.9% in 2022 to approximately 1.5% this year.

Oil Sector Outlook for 2024

Projections for 2024 indicate a more favorable performance in the oil sector. Presently aligned with OPEC+ quotas, including recent voluntary cuts, the UAE's oil GDP is likely to remain a drag on the economy in H1 2024. However, a notable surge in output is anticipated in the latter part of 2024 and extending into 2025. Ambitious targets to augment oil production, coupled with increased investments in LNG, are anticipated to yield positive results, especially amid the accelerating green transition.

Monetary Policy and Economic Stimulus

The prospect of interest rate reductions from Q1 is expected to provide relief to borrowers, fostering lending growth. Coupled with a decline in inflation (see Chart 28), this easing monetary environment is poised to stimulate consumer spending and alleviate concerns regarding a surge in non-performing loans within the banking sector

Export Revenues and Fiscal Resilience

Despite potential constraints on export revenues from lower oil and gas prices, the UAE's solid balance sheet positions the government to sustain supportive fiscal policies. Notably, corporate debt risks in Dubai have abated following substantial repayments earlier in the year.

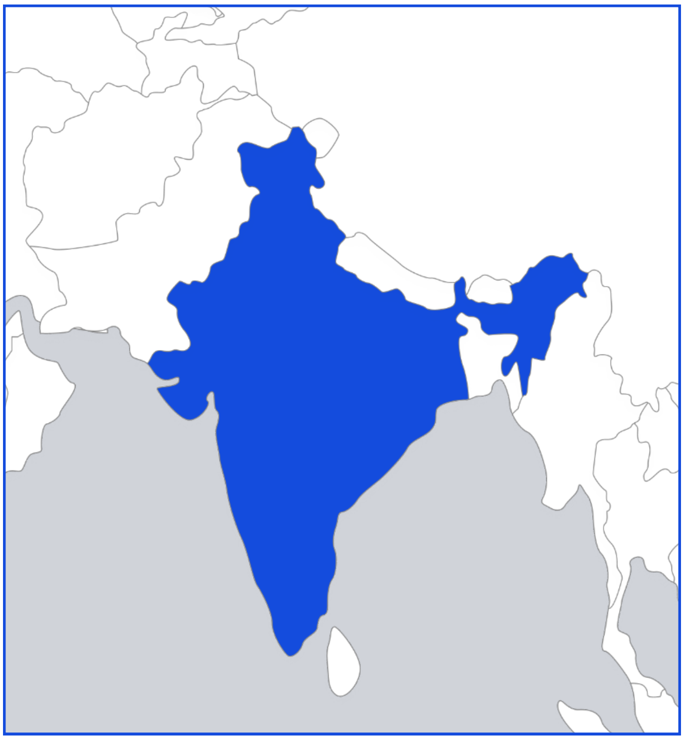
GDP Growth Forecast

In light of these dynamics, our expectations point towards a rebound in GDP growth, reaching 3.0% in 2024. This forecast positions the UAE as the top performer among Gulf economies. The optimistic outlook hinges on the synergies between the recovery in the oil sector, sustained non-oil economic momentum, and supportive fiscal and monetary policies.

Regional Snapshots

India

In the vast global economic landscape, India's stock market has emerged as a beacon of resilience and growth. Ranked sixth globally, the Indian economy seamlessly weaves together tradition and modernity, boasting cultural richness and a population exceeding a billion. Notably, the stock market has experienced a remarkable 17.8% year-to-date surge, garnering attention from both domestic and international investors. Analysts foresee a promising future, projecting earnings to grow between 16% to 18% in the upcoming year, indicative of confidence in India's economic trajectory. This report provides a concise exploration, aiming to offer valuable insights for investors navigating the dynamic landscape of the Indian financial market.



National Elections

The upcoming general election in India is poised to determine the continuity of Prime Minister Modi's BJP in power. However, the paramount concern for the economy and financial markets lies not solely in the winning party but in the potential emergence of a stable government with a functional parliamentary majority. A single-party majority or a resilient coalition would pave the way for sustained gradual reforms, fostering robust economic growth in the years ahead.

The current term of the Lok Sabha concludes in June 2024, with the Election Commission determining the timing of its replacement. Given the monumental logistical challenge of facilitating elections for a billion eligible voters, it is anticipated that the process will unfold over several weeks between April and June.

While circumstances may evolve, the current trajectory suggests the incumbent BJP, led by Prime Minister Narendra Modi, is likely to secure another victory. The party's general success at the state level, coupled with a fragile opposition, reinforces its dominance, a sentiment echoed by recent opinion polls.

In the broader context of the longer-term economic outlook, the victorious major party may wield limited influence, as both the BJP and the primary opposition, Congress (under the leadership of Rahul Gandhi), lack a strong track record in manifestos' delivery. Nevertheless, there is a shared recognition within both parties of the imperative for ongoing economic liberalization to prevent stagnation and the consequential loss of economic momentum.

The pivotal question surrounding the forthcoming election pertains to the potential for the incoming government to implement challenging reforms amid inevitable opposition. A government with a single-party majority or a stable coalition is essential to usher in sufficient structural reforms, thereby sustaining India's potential growth rate at approximately 6%. The most probable scenario in this context is the BJP forming another government, either by maintaining its majority or as part of the enduring National Democratic Alliance (NDA), which has demonstrated cohesion since its establishment in 1998.

Economic Performance and Outlook

India's economic trajectory has exhibited robust growth in recent quarters, a trend expected to persist with government spending until the upcoming general election in [next year]. The resurgence of food inflation underscores the Reserve Bank of India's (RBI) cautious approach, delaying anticipated rate cuts until the latter half of 2024, a departure from timelines observed in most major emerging markets.

The economy, currently 17% larger than pre-pandemic levels, achieved the fastest growth rate among major economies in Q3, as indicated by GDP data.

Regional Snapshots

India (continued)

Factors Influencing Growth

Anticipated growth deceleration in the next quarters is attributed to recent restrictions impacting unsecured lending, a sector that witnessed significant expansion this year. While promoting the health of the banking sector, this may concurrently constrain household consumption. Additionally, external challenges continue to impede export growth.

However, the expected slowdown is projected to be gradual, with the transmission of tighter monetary policy to lending rates already evident, mitigating the risk of a broader credit growth slowdown.

Fiscal Measures and Political Implications

The recent extension of the free food grain scheme aligns with various fiscal measures aimed at strengthening political support for the BJP in the lead-up to the impending general election. Consequently, the fiscal deficit is anticipated to persist significantly higher than pre-pandemic norms.

External Sector

The current account deficit is expected to remain within the RBI's sustainable threshold of 2% of GDP over the next few years, supported by commodity prices comfortably below their 2022 peaks.

Revised Growth Projections

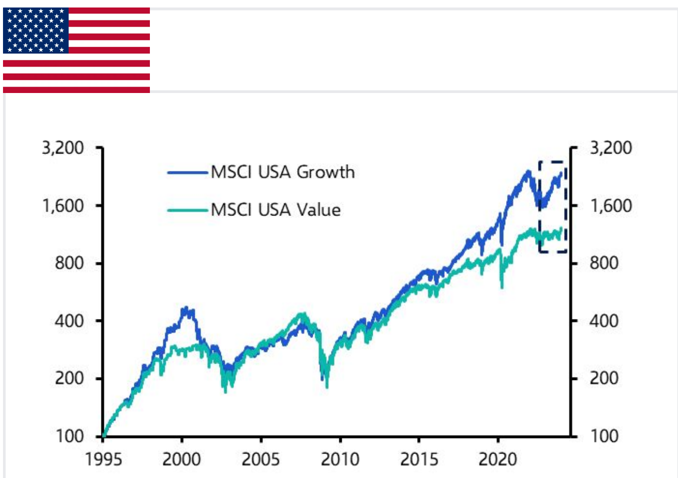
Revised annual GDP growth projections stand at 7.0% in 2023 and 6.3% in 2024, reflecting an upward adjustment from previous estimates of 6.3% and 5.5%, respectively. These figures underscore India's position as one of the fastest-growing major emerging market economies.

Inflation Dynamics

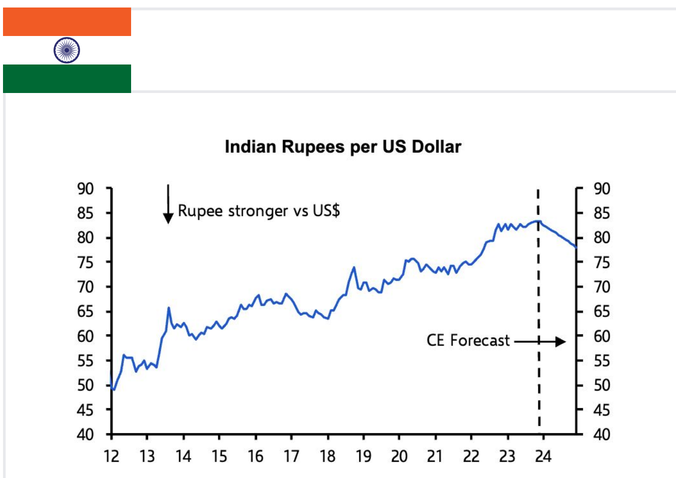
While current consumer price inflation remains within the RBI's targeted range, a recent upsurge in vegetable prices poses concerns about potential second-round inflation effects. The RBI's sustained hawkish stance prompts a revision of the easing cycle commencement from Q1 to Q3 2024, a departure from timelines observed in most other emerging markets.

Long-Term Economic Prospects

Looking forward, India's long-term economic outlook remains promising. While the rise of generative artificial intelligence may impact the outsourcing sector, its gradual decline is not envisaged to induce a substantial shock to output. India's demographic potential, as the world's most populous nation and poised to surpass China as the largest labor force, positions it favorably in a fractured global economy for benefiting from the "friend-shoring" of manufacturing supply chains due to its abundant labor supply and cost advantages.



Source: Capital Economics



Sources: Refinitiv, Capital Economics

Forecast for 2024 - Summary

Equities

Backdrop of Falling Interest Rates
The global economic landscape is marked by a trend of decreasing interest rates. Central banks, in response to economic conditions, have adopted accommodative policies, creating an environment conducive to equity investments. Lower interest rates make equities more attractive compared to fixed-income assets, as the potential returns from stocks become relatively more appealing

Revised Targets
In light of these macroeconomic factors, we have revised our targets for key equity indices. The S&P 500 is expected to reach 5200, reflecting a positive outlook for U.S. equities.This assumes a 8% earnings growth rate from the current 2023 estimates of 218 and expansion in PE multiples due to the expected AI bubble. The German DAX is projected to hit 19500, indicating confidence in the performance of the German stock market. These targets signify an optimistic view on the potential for capital appreciation in equities as a result of prevailing economic conditions.

Fixed Income

Easing Monetary Policies
Central banks worldwide are anticipated to continue their easing cycles, implying a scenario of lower interest rates. In such an environment, fixed-income securities, including bonds, become more attractive to investors seeking stable returns. The expectation of a prolonged easing cycle suggests that fixed income, across various durations, will perform well.

We expect the US 10-Year to be around 3.75% and the German Bund to be around 2%.

High-Yield Opportunities
The report highlights the high-yield space as particularly promising. As central banks maintain accommodative policies, investors may find higher-yielding fixed-income instruments more appealing. This segment of the fixed-income market is expected to benefit from the search for yield in a low-interest-rate environment.

Forecast for 2024 - Summary

Commodities

Demand for Real, Hard Assets
The projected positive performance of commodities is grounded in the belief that real, hard assets will experience increased demand in 2024. Investors often turn to commodities like gold, silver, copper, and zinc as tangible stores of value, especially during periods of economic uncertainty.

Year-End Targets
Specifically, the report sets year-end targets of $2100 for gold and $9000 per tonne for copper. These targets are reflective of the anticipated demand for safe-haven assets like gold and the expected robustness in the industrial demand for copper, driven by economic growth and infrastructure development.

Real Estate

Impact of Lower Interest Rates
Lower interest rates are identified as a key factor supporting the real estate market. The report suggests that consumers will benefit from the ability to refinance at lower rates, thereby creating a floor on real estate prices globally. This phenomenon is expected to contribute to the stability and potential appreciation of real estate assets.

Investor Opportunity
Investors are advised to consider the favorable financing conditions as an opportunity to invest in real estate. The stability in prices, coupled with the potential for appreciation, makes real estate an attractive asset class in the current economic environment.

"We are bullish on anything real for 2024 that includes commodities (ex-oil) and real estate"

Key Risks for 2024

We describe eight of the biggest risks to our economic forecasts for 2024. The unusual nature of this cycle and uncertainties surrounding the transmission of monetary policy mean that the biggest risks relate to central banks. On the upside, previous interest rate hikes might fail to take a significant toll as many borrowers sit out the effects of the tightening cycle. But on the downside, policymakers might keep interest rates too high for too long and finally spark a labour markets downturn.

We outlined Seven Themes for 2024 below and detailed forecasts. In short, our forecasts for 2024 are generally below the consensus and we anticipate interest rate cuts in most economies. But there are risks in both directions. Here, we set out what we see as the biggest threats and opportunities for the year ahead and rate each according to probability and potential impact on the global economy.

40%
Likelihood

7/10
Impact

Starting on the optimistic side, we think the biggest upside risk to our forecasts is that previous interest rate hikes never take a major toll and inflation returns to target, nonetheless. Like most others, we have been surprised by the resilience of the world's major economies this year against a backdrop of aggressive monetary policy tightening. Our view is that this partly reflects the longer maturity of debt, and we think that some of the pain has yet to come. But perhaps it is not. It is possible that many firms and households will sit out the policy tightening cycle altogether as by the time they need to refinance, market interest rates will be falling. This would raise concerns about the impotence of monetary policy and its power to deal with the next crisis. But in the meantime, it would mean stronger growth in the advanced economies and no recessions.

30%
Likelihood

6/10
Impact

The next upside risk is that falling inflation provides a significant boost to consumer spending. Easing pandemic-related disruptions or falls in oil prices might prompt a sharper decline in inflation than we have assumed. If wage growth remains healthy at the same time, real incomes would rise sharply. This possibility is stronger in the euro-zone than in the US, where wage growth is already slowing. Note too that euro-zone households still have significant "excess savings", which they might eventually decide to spend. Admittedly, the positive effects of lower oil prices for consumers would be partly offset by the adverse impact on producers at the global level. But we would anticipate a net positive impact given the higher propensity to save in the latter group.

10%
Likelihood

7/10
Impact

A third potential source of optimism is that AI might start to boost productivity. This is something that we have already factored into our long-term forecasts and explored in detail in this year's Spotlight report (a recommended read for those that missed it). But it's possible that the boost will start to come through sooner than we expect. After all, the "adoption lags" before countries implement new technologies after they are invented have shortened over time and there is an outside chance that the recent strength of US productivity already reflects some of this.

> *Inflation and interest rates emerged as pivotal market influencers. The Fed's aggressive rate hikes to counter inflation demonstrated positive results. Looks like the Fed has landed the plane safely!*

Key Risks for 2024

30%
Likelihood

8/10
Impact

Unfortunately, though, we still think that the balance of risk is skewed to the downside. Chief among these is the possibility that central banks do not cut interest rates in 2024 as we anticipate. This could happen either because core inflation is sticky around current rates or because monetary policymakers choose to err on the side of caution. In the aftermath of such a severe inflation shock and given their current rhetoric, it is quite feasible that central banks will be slow to acknowledge weakness in their economies as they focus on stamping out any lingering inflation threat, however remote. In the event that interest rates are kept at current levels and banks maintain a hawkish tone, bond yields are more likely to rise than fall as we anticipate. The ongoing tightness of financial conditions could prompt a rise in loan defaults and insolvencies, plus the sharp rise in unemployment that has so far been absent in this cycle.

20%
Likelihood

7/10
Impact

A second downside risk is that something breaks in the financial system. By and large, financial institutions seem to have adjusted to higher interest rates, and stress tests imply that major banks are well-placed. If policy rates have plateaued, we could be out of the woods. However, it is still possible that the lagged effects of previous hikes could cause a crisis. Corporates might struggle to refinance once their long-term loans come due and a round of insolvencies would impair financial institutions' assets. These risks are perhaps greatest for commercial property companies and the funds that are exposed to them. Alternatively, we could yet see renewed falls in house prices once households come to remortgage at higher rates with knock-on effects for the financial sector.

25%
Likelihood

5/10
Impact

Third, there is a threat around public debt sustainability. As we explained in a recent Global Economics Focus, if government borrowing remains elevated, market concerns about the fiscal position could grow. If serious stresses do start to appear in government bond markets, countries may be forced into an abrupt fiscal consolidation causing prolonged economic weakness. Or alternatively, they might resort to financial repression with adverse implications for inflation. Among the DMs, the risks are highest in Italy and, of the major EMs, we are most concerned about Brazil and South Africa. Clearly, this risk would be much greater in the event that central banks kept interest rates high.

20%
Likelihood

5/10
Impact

Fourth, global fracturing might intensify. Relations between the US and China blocs could deteriorate further, perhaps due to tensions surrounding the election in Taiwan or in the run-up to the US election. This could result in tariffs, sanctions and limits on capital and technology flows. China's growth would suffer in 2024 and beyond. The immediate economic impact on large DMs should be small, though financial markets could react badly and some Western firms may lose China market share. There is a much smaller risk of a far worse outcome involving conflict.

Key Risks for 2024

30%

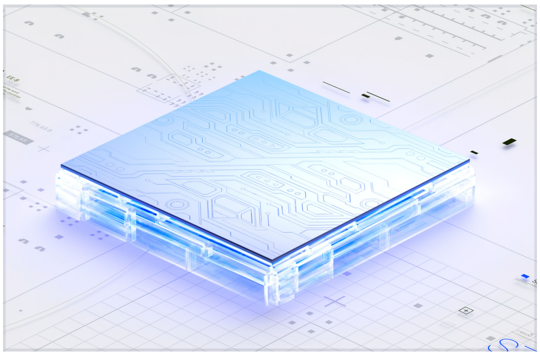
Likelihood

3/10

Impact

Finally, China might suffer a renewed downturn. We have assumed that the economy is past the worst and that a policy-induced cyclical recovery will continue. But it is notable that there has still been no major correction in broad construction activity despite the property crisis. This might yet materialize if structural factors weighing on demand take their toll faster than we have assumed. In that event, policymakers may struggle to provide an offsetting boost to demand since the fiscal deficit and public investment spending are already elevated. Besides China, trading partners in Asia and commodity producers would suffer. But much of the adverse impact on commodity consumers, particularly advanced economies, would be offset by the associated downward pressure on commodity prices.

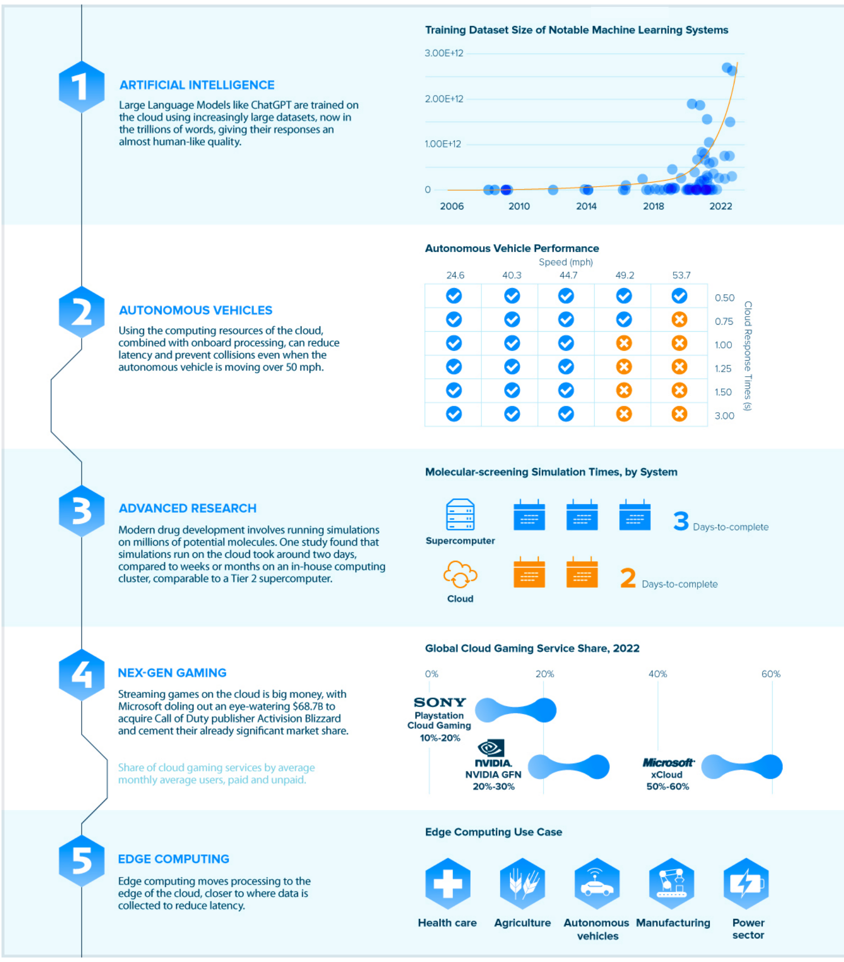
In practice, the impact of any of the shocks would depend on its precise nature. In most cases, it is possible to think of more extreme versions of the scenarios above which are less likely to happen but would have far greater effects if they did. And crucially, the risks are not independent of each other. The realisation of one may mean that the probability of others increases, such as higher rates prompting fiscal concerns and financial strains. It is under these circumstances that the economic repercussions would be greatest.



Graphics Processing Units (GPUs) are specialized computer chips originally designed for use in gaming, but have recently found a second life on the cloud because of their capabilities in high performance computing.

GPUs use parallel processing to efficiently and effectively solve complex problems across a wide range of domains, much faster than the serial processing approach of CPUs.

The North American GPU cloud market is projected to increase from $3.2B in 2023 to $25.5B by 2030, at an impressive CAGR of 34.8%. Here are 5 factors driving its growth:



Source: Fortune Business Insights, Epoch, IROS 2023; Visual Capitalist

"The values of stocks in China compared to other markets, EM and DM, are currently at their lowest point in more than ten years."

Conclusion

The research report paints a comprehensive picture of the investment landscape in 2024, considering the interplay of falling interest rates, central bank policies, and global economic conditions. Investors are encouraged to align their investment strategies with the projected trends in equities, fixed income, commodities, and real estate, leveraging the opportunities presented by the prevailing macroeconomic environment. The analysis aims to provide a nuanced understanding of each asset class, empowering investors to make informed decisions in navigating the financial markets.

Ahil Mansoor
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Ahil Mansoor is a distinguished financial professional, brings over two decades of multifaceted experience to his role as CEO and CIO at Octave Asset Management. With expertise spanning asset management, private banking, venture capital, and financial consulting, Ahil is a strategic leader in the financial domain. Holding an MBA in Finance from the Thunderbird School of Global Management complemented by a Bachelor's degree in Engineering, Ahil is a seasoned professional with a strategic leadership approach. His industry proficiency is further underscored by designations including Certified Financial Planner (CFP), Chartered Investment Manager (CIM), and Fellow of the Canadian Securities Institute (FSCI), along with successful completion of CFA Level 2.

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