FORECASTS 2024

For a better understanding, we start our outlook of the new investment year with a review. Our previous annual outlook correctly identified 2023 as the year of stagflation, the end of the low interest rate policy and the path to higher capital costs. Until the middle of the year the stock markets compensated for negative exaggerations from the previous year and then tested investors' nerves from August until late autumn. The markets reacted to good news with price losses. Negative news, on the other hand, was welcome to dissuade central bankers from further interest rate hikes. The frequent statements from the Fed and ECB regularly slowed down the stock markets and were intended to prevent the economy from overheating at all costs. From October onwards, the signals from the central banks became increasingly clear: interest rates had peaked. This paved the way for the pleasing year-end rally 23'. The central banks succeeded for the first time in recent economic history in squaring the circle, namely avoiding a recession despite significant interest rate hikes. And despite this, or because he failed to push the economy into the red, Fed Chairman Jerome Powell was honoured with the title 'the loser of the year' by Time magazine.

The rapid path to peak interest rates pushed inflation rates unexpectedly quickly into the central banks' target range without causing an economic crisis. Capital-intensive growth companies have cleverly digested this situation and will continue to offer shareholders uninterrupted high corporate profits in 2024. Before the central banks start cutting interest rates in lockstep from May 2024 at the earliest, interest rates in the main currencies USD, EUR and CHF will remain at a high level. The hopes of equity speculators for an earlier interest rate cut do not seem realistic to us. A positive boost for share prices from a series of rapid interest rate cuts by until the end of the year cannot be ruled out. What would please shareholders would be a bitter pill for investors with bond portfolios.

The economic development in 2024 is shaped by numerous opportunities and risks. The U.S. economy is booming, Germany, the powerhouse of Europe, is struggling with politically induced pessimism, and the Asian economic locomotive, China, is back on track. While the economy shows signs of revival, the looming threats of the real estate and credit bubble are notable. Due to this susceptibility to correction, we remain cautious with China investments despite the temptations. Political tension surrounding Taiwan and the potential return of Trump's presidency could further unsettle the world's workshop. The latest example of China's behaviour, perceived as unfair by Western partners, is evident: on one hand, China prohibits the export of rare earth refining technology, and on the other hand, it demands technology transfer from all business partners with joint ventures.

The unbroken favourable consumer sentiment is positive for the global economy. Private purchasing power in the USA has risen significantly. Consumers are spending as if the whole year were Black Friday, as if there were no tomorrow. In Europe, on the other hand, the propensity to spend is being dampened somewhat by inflation. The EU's bureaucratic monster of a 266-page guide to importing goods is making our goods even more expensive.

At the turn of the year, financial institutions are outdoing each other with positively revised forecasts. For the influential S&P500, the range for the end of 2024 spans from 3600 to 5700 points. At MPM, we believe that, from today's perspective, a range of 5300/5400 points by the end of 2024 is achievable, representing a year-end increase of 11 to 12% in dollar terms.

With a healthy dose of caution, risks lurking behind the façade must not be overlooked: armed conflicts and an unfortunate government policy hinder growth. In Europe, companies suffer from a weak education policy, leading to a shortage of skilled workers. Currently, well-equipped Houthi rebels threaten the sea route from Asia to Europe, thereby disrupting economic supply chains. The resulting delays and cost increases could cause renewed inflationary stress. This issue is somewhat mitigated by the currently high inventory levels. A moderate start to the year for the stock markets is thus a plausible scenario. Apart from that, the word recession is still haunting the stock market landscape. A clear word from the US central bank, the Fed, is expected by market participants and would and will trigger a surge in share prices over the course of the year.

The following data is a current consensus of the most important financial houses from the Bloomberg database. The surveys published 6 months ago have brightened significantly. Notably, the outlook for the US economy has brightened, contrasting with a downgrade that positions Germany at the bottom of the European rankings.

The calculated inflation figures are annual averages. The newly captured inflation forecasts clearly explain why the ECB is hesitating with interest rate cuts. Inflation is decreasing, but too slowly. The United Kingdom stands out as extremely negative, while Switzerland is portrayed as a model student, attributing the strength of the Swiss Franc to understandable factors.

	ECONOMIC GROWTH %			**INFLATION %**		
	2022	2023	2024	2022	2023	2024
WORLD	3,4	3,0	2,4	8,2	5,5	4,2
USA	2,1	2,5	1,3	8,0	4,1	2,7
EURO-Zone	3,4	0,5	0,4	8,4	5,4	2,3
GERMANY	1,9	-0,2	0,2	6,9	5,9	2,1
UK	4,3	0,5	0,2	9,1	7,5	3,0
SWITZERLAND	2,7	0,8	0,9	2,8	2,2	1,9
JAPAN	0,9	1,7	0,8	2,5	3,3	2,6
CHINA	3,0	5,2	4,4	1,9	0,4	1,5
INDIA	6,8	6,8	5,7	6,7	5,8	4,8
BRAZIL	3,0	3,0	0,2	9,3	4,6	3,9

In our continuous effort to assess stock market sentiment and identify potential under- or overvaluations in global equity markets, we consistently referenced the State Street Investor Confidence Index in this section. After decades of serving as a valuable indicator and appreciated indicator, its tenure concluded with a final positive indication of 108.1 points at the end of October 2023. This healthy score indicates neither an undervaluation nor an overvaluation of the markets, but rather fair share prices. Following a significant undervaluation late summer 2023, the stock market begins 2024 with positive signs:

In January 2023, only 24.7% of professional investors were confident. As we step into 2024, the confidence level has risen to a reassuring 51.3%. In simple terms, only a quarter of investors got it right in 2023. Another indicator of healthy markets is the cash held in global investments, which stands at 20.1%, an average figure since 1998. There is therefore no lack of investment potential.

The stock market year 2024 kicks off from a bull market, heading towards a reality check in February. The positive potential of the new year may already be somewhat priced into equity valuation. We will therefore not be spared of high price volatility and anomalies in the new year either. Election years are good stock market years, they say. Russia has elections in the spring, and European elections are scheduled for May. We don't want to bet on whether the red-green-yellow coalition in Germany holds, with the possibility of new elections. In the USA, we will no doubt see an ugly election campaign. In addition, the announced interest rate cuts will have a positive impact on stock prices. But beware if they are delayed or don't materialize. There is little hope of an end to the military conflicts around Europe. An escalation that burdens the economy cannot be ruled out. A peaceful resolution would be a surprise that could trigger a profitable phase.

We are allocating around 65% of MPM's basic portfolio to the US, with a third split between Switzerland and the EU. Beyond these regions, we're notably cautious. 2024 is set to be a year for stocks. For bond investors, it might be a lean year. In economic sectors, our focus is primarily on growth stocks. Artificial intelligence is the talk of the town and will be omnipresent in financial media. Major players in the supply industry will dominate. The restructuring of the chip industry will generate billions in revenue and profits. It's also worthwhile to take a look at the troubled automotive industry. Electromobility has become susceptible to correction. Particularly, car rental companies with savvy profit calculations are revealing their uneconomical nature. A revival of classic technology would not be surprising. Commodity stocks have had a disappointing phase, and the pendulum could swing in a positive direction here.

The regulatory industry has evolved into a trillion-dollar business. While until 2009, about a third of the annual profits of S&P500 companies went to management as bonuses, regulators and law firms now pocket a similar third at the expense of shareholders. The long-term return of the S&P500 since 1950 stands at an annual +10.3% until 2023.

After the fight against black money and secret bank accounts and the subsequent subordination of para-banks and independent asset managers to financial supervision, pressure is now mounting on law firms. Regulators are focusing on commercial law firms that oversee offshore companies. The delicate aspect is that this could potentially undermine attorney-client privilege.

MPM points this out periodically: Not all investors realise that US securities are subject to US inheritance law. Modern society is increasingly characterised by multinational families with multiple domiciles. We recommend seeking legal expertise in a timely manner.

For 2024, we stick to our credo: no hasty buying and selling, as patience yields stable profits. Instead of reacting emotionally to sensational headlines, we manage wealth based on reliable data.

With 40 successful years at MPM, commitment is paramount.

January 2024/MPM