Adjusting to a fragmented world

Investors need to adapt to an uncertain landscape caused by the shift towards a more multipolar world, according to Daniele Antonucci, Co-Head of Investment & CIO at Quintet Private Bank, and Iris van de Looij, Head of Investment & Client Solutions at InsingerGilissen, Quintet's Dutch branch. How to respond and what may be the key developments in 2024?

By *Bouko de Groot* and *Esther Waal*

Planning our course for the next decades, what will be the biggest change in 2024 compared to 2023?
Iris van de Looij: 'Global economic growth will decelerate in the first half of 2024, following a 12-month period marked by numerous interest-rate hikes and sustained high inflation. By mid-year, amidst slower growth and reduced inflationary pressure, central banks will seize the opportunity to begin cutting interest rates, supporting a broad-based recovery over the second half of 2024 and beyond.'

Daniele Antonucci: 'Over the course of what is expected to be a year of two halves, investors will need to cut through significant 'noise', including major elections, continued geopolitical uncertainty and regional tensions. The shift towards a more multipolar world, that began with the pandemic, continues to be evidenced by the fragmentation of supply chains, trade and finance. In 2024, investors will need to adapt to this uncertain landscape, including by considering exposure to assets that may provide defensive benefits, reducing portfolio risk.'

Do you see (generative) AI as an opportunity or as a threat?
Antonucci: 'We invest in a range of long-term themes to gain exposure to the technologies and business models of the future. AI is one of these themes influencing the market. The functionality of AI services is expanding and improving fast, bringing both opportunities and risks in the long term. The rise of AI boosted themes like semiconductors and cloud computing, driving the big US tech stocks and major indices.

And the numbers have backed up the hype: the most well-known AI-exposed company, Nvidia, has more than doubled quarterly revenue guidance last year. This was driven by an incredible pick-up in usage of generative AI applications like ChatGPT, the launch of multiple AI-driven services by tech companies and overall investments in the space.'

Van de Looij: 'The number of visits to ChatGPT's website rose from just 1 million in December 2022 to over 1.4 billion by mid-2023, showcasing how many people are using the new generative AI service for all kinds of use cases, from simple tasks like writing letters to complex projects like coding. Whether this pace of adoption is sustainable

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remains to be seen, but trends have been strong so far.’

Will election turmoil worldwide impact financial markets?

Van de Looij: ‘The key elections in 2024 (US, India, Indonesia, UK, Belgium, the European Union) could cause short-term market volatility, though not necessarily. For example, the election in Taiwan at the start of the year didn’t have any discernible market impact. What these votes have in common is active policies. We’re moving from a world dominated by central banks’ monetary policy to one where Big Government is a key factor. Fiscal, industrial and even foreign policies will likely play bigger roles in differentiating geographies and asset classes.’

Antonucci: ‘Diving deeper into the US election: the campaign trail for November 2024 will start in force in the early part of the year, and we expect this could make some noise in markets. Voters often put the economy at the top of their list of issues, so we expect this to be a hotly debated topic amongst the candidates. While this could cause some short-term market implications, it’s important to see it as such – short-term noise that will likely dissipate. While candidates may promise tax cuts (as Donald Trump enacted at the start of his presidency, leading to a strong equity rally), the US debt ceiling may have other ideas.

The US economy has been defying gravity for some time, with very strong growth and high inflation. This is now changing, and we think both trends will likely come back to Earth. With high interest rates feeding through and supply chains working better, inflation has steadily fallen over the past year, though it remains fairly elevated. But the economy has remained surprisingly resilient.’

What to expect from interest rates?

Van de Looij: ‘Following 12 months marked by numerous interest-rate hikes and sustained high inflation, we expect that by mid-year, amidst slower growth and reduced inflationary pressure, central banks will seize the opportunity to begin cutting interest rates, supporting a broad-based recovery over the second half of 2024 and beyond.’

Antonucci: ‘We’re unlikely to see the Fed reach its 2% inflation target this year. More likely is that we’ll see a stabilisation between 2 and 3%, a much lower level than the 9 to 10% we experienced a year ago. As with the other major western central banks, the Fed is at peak rates. To keep downward pressure on inflation, we believe it will keep rates elevated over the coming months before cutting from mid-2024 to support growth.

As a result, some weakness is on the cards for the dollar once the Fed starts cutting rates, combined with some other fundamental factors such as an overvalued currency, and fiscal and trade deficits. However, as other central banks, too, will likely cut rates, any downside for the dollar could be limited.’

Where do you see the biggest opportunity within the financial markets in 2024? And what to stay away from?

Van de Looij: ‘The ongoing drop in inflation is occurring with limited growth sacrifice in the US. Stronger economic data have made us continue to add more equities and reduce bonds (particularly US bonds) – a process we’ve started with our 2024 Investment Outlook. Relative to our long-term, strategic asset allocation, we’re now neutral for equities vs bonds. In line with our recent changes, we look to expose our portfolios to markets with attractive valuations.’

Antonucci: ‘In equities, we added global small cap equities, as prices reflect a more negative growth backdrop versus our base case, in place of US bonds, which have benefited from recent strong performance. In credit, we increased exposure to European investment grade bonds which, excluding crisis periods, have compelling valuations. While our US equity exposure is in line with our long-term allocation, we keep a slightly reduced exposure to Europe and still hold low-volatility equities to protect against a slowdown, while continuing to own a reduced exposure to riskier high-yield bonds.’ ■

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SUMMARY

We are moving from a US-centric world to one that’s more multipolar.

This means that markets, economies and supply chains are more fragmented and driven by different regional factors.

The world is also shifting from dominated by central banks’ monetary policy to one where Big Government is a key factor.

Fiscal, industrial, and even foreign policies will likely play bigger roles in differentiating geographies and asset classes.

PHOTOS: ARCHIVE QUINTET PRIVATE BANK