Navigating the global equity landscape in 2024: A cautious year ahead, long-term equity market wealth creation intact

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As the world emerges from the shadows of a pandemic and navigates the complexities of geopolitical tensions and economic uncertainties, central bank policy is likely to continue to dominate near-term market headlines and drivers of indices. This presents a complex range of opportunities and challenges for investors in global equities in 2024.

After more than a decade of interest rates and bond yields globally at or near very long-term lows, the post-pandemic landscape has been characterised by a period of inflation in developed economies that turned out to be more than initial 'transient' expectations and has consequently caused major central banks to increase interest rates rapidly and substantially. Some of the impacts of these changes have already been reflected in economic activity and financial markets, but as we enter 2024 it is likely that the most meaningful impacts of higher rates and bond yields on consumers, businesses and the financial system are still to emerge. How these impacts unfold, and how indeed central banks react to them, will be a key driver of market and intra-market volatility and activity in 2024.

Outside of the envelope of interest rates and discount rates, we enter 2024 with the usual mixture of geopolitical, societal, and macroeconomic uncertainties. The specifics of the list change from year to year and in 2024 key items that will create volatility and change in markets likely include the US election cycle, China-US relationships, war in the Middle East and Ukraine, incremental activity in the fight against climate change and technological shifts with the impacts of AI likely increasing in society and the economy.

At an aggregate level we believe the long-term outlook for equities remains attractive with our global equity team estimate of the likely return from a diversified basket of global equities being Inflation + 4%. This is reasonable as a return in an absolute and historical sense, but it is noteworthy that for the first time in over a decade, cash and fixed income yields are much closer to the implied earnings yield of global equities. This could put some pressure on equity markets advancing well ahead of other asset classes in 2024, even if the long-term expected real return remains reasonable.

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