



Society of Actuaries in Ireland

---

## 2024 Market Outlook

---

27<sup>th</sup> February 2024

---



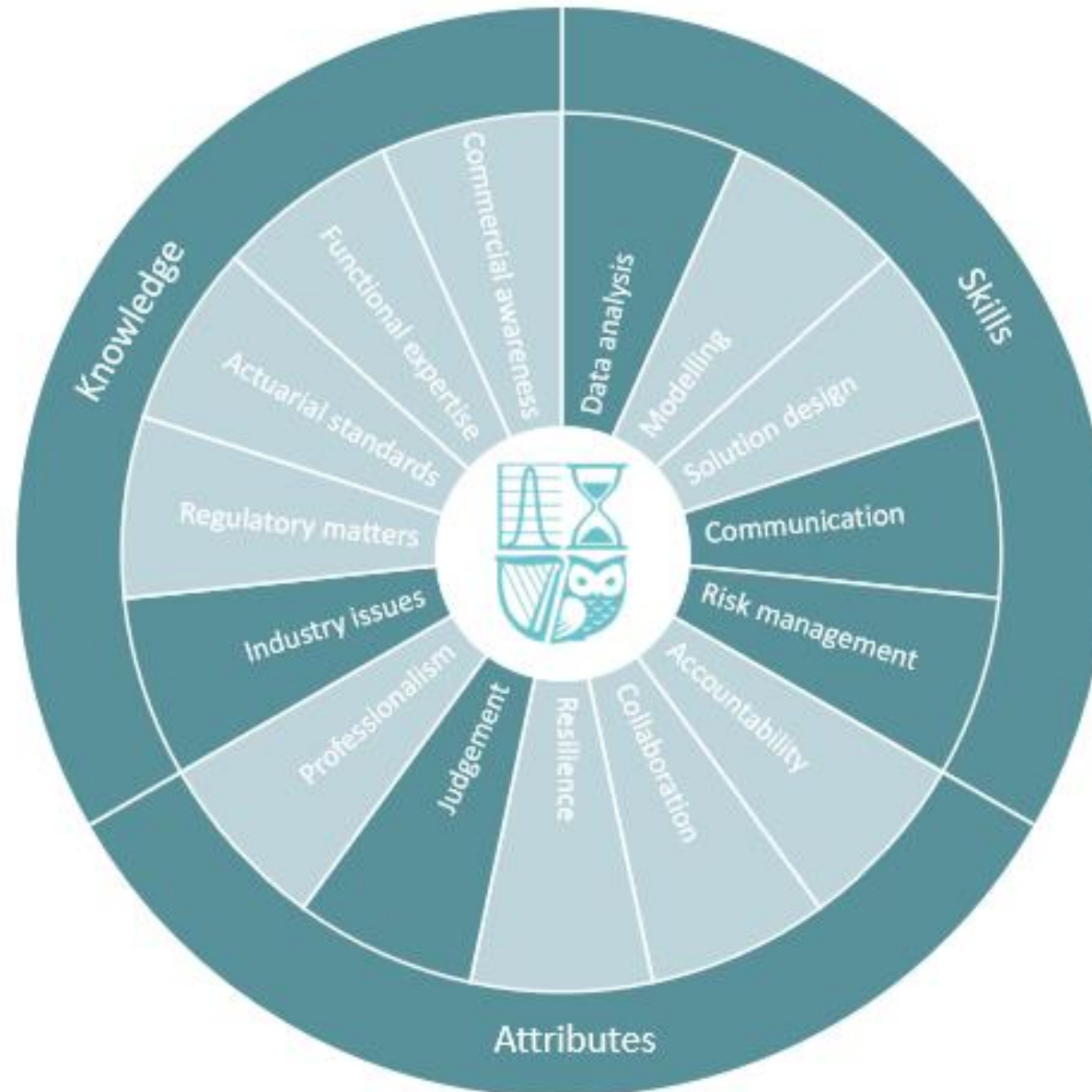
## Disclaimer

---

**The views expressed in this presentation are those of the presenter(s) and not necessarily those of their employer(s) (if any) or the Society of Actuaries in Ireland.**



# Competency Framework Wheel



# Economics & Market Update

Feb 2024

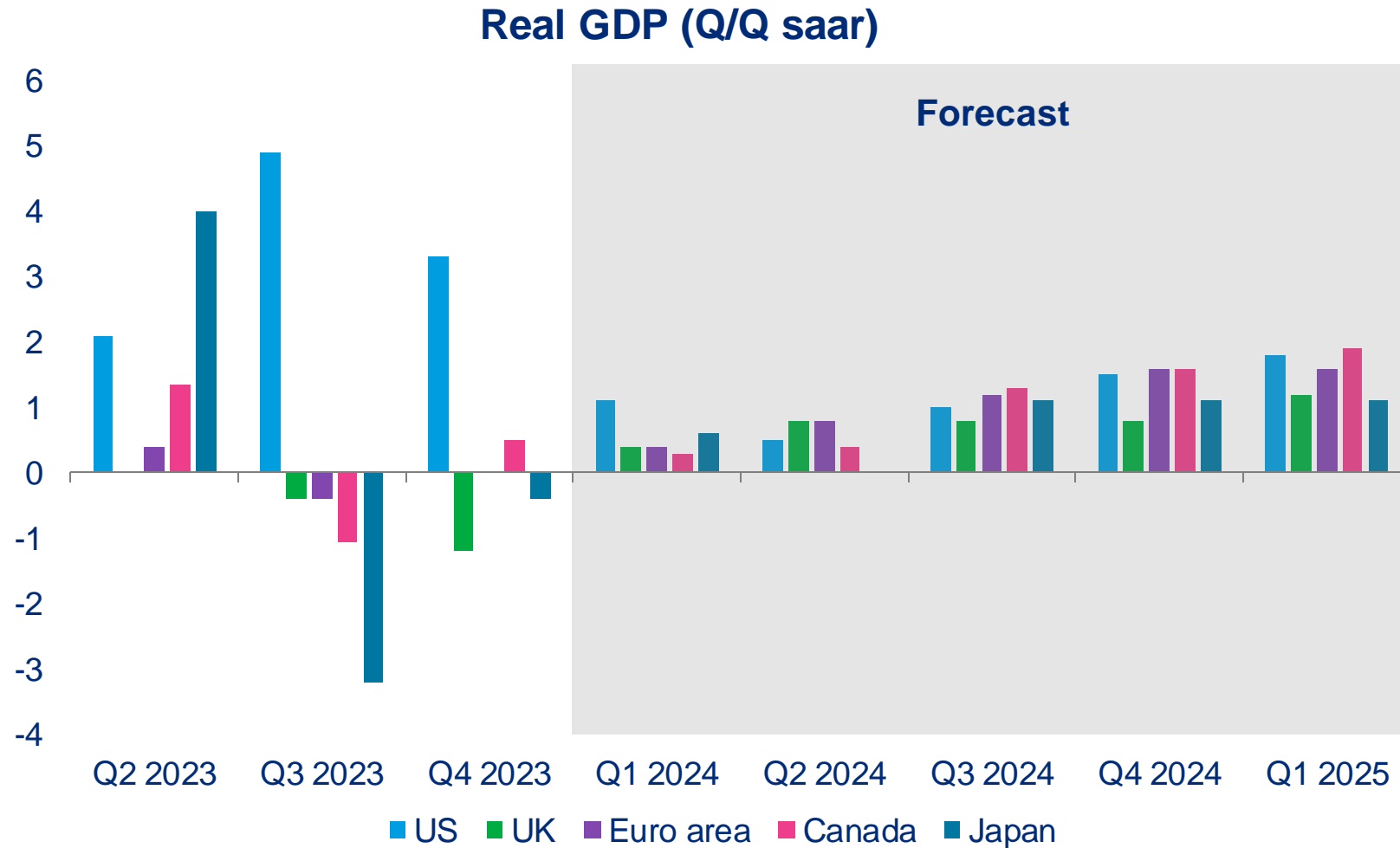
Global Economics and Dynamic Asset Allocation (DAA)

A business of Marsh McLennan



# Economics

# Growth likely to soften in developed world



Source: Bloomberg. Consensus forecasts. Data as of February 20, 2024.

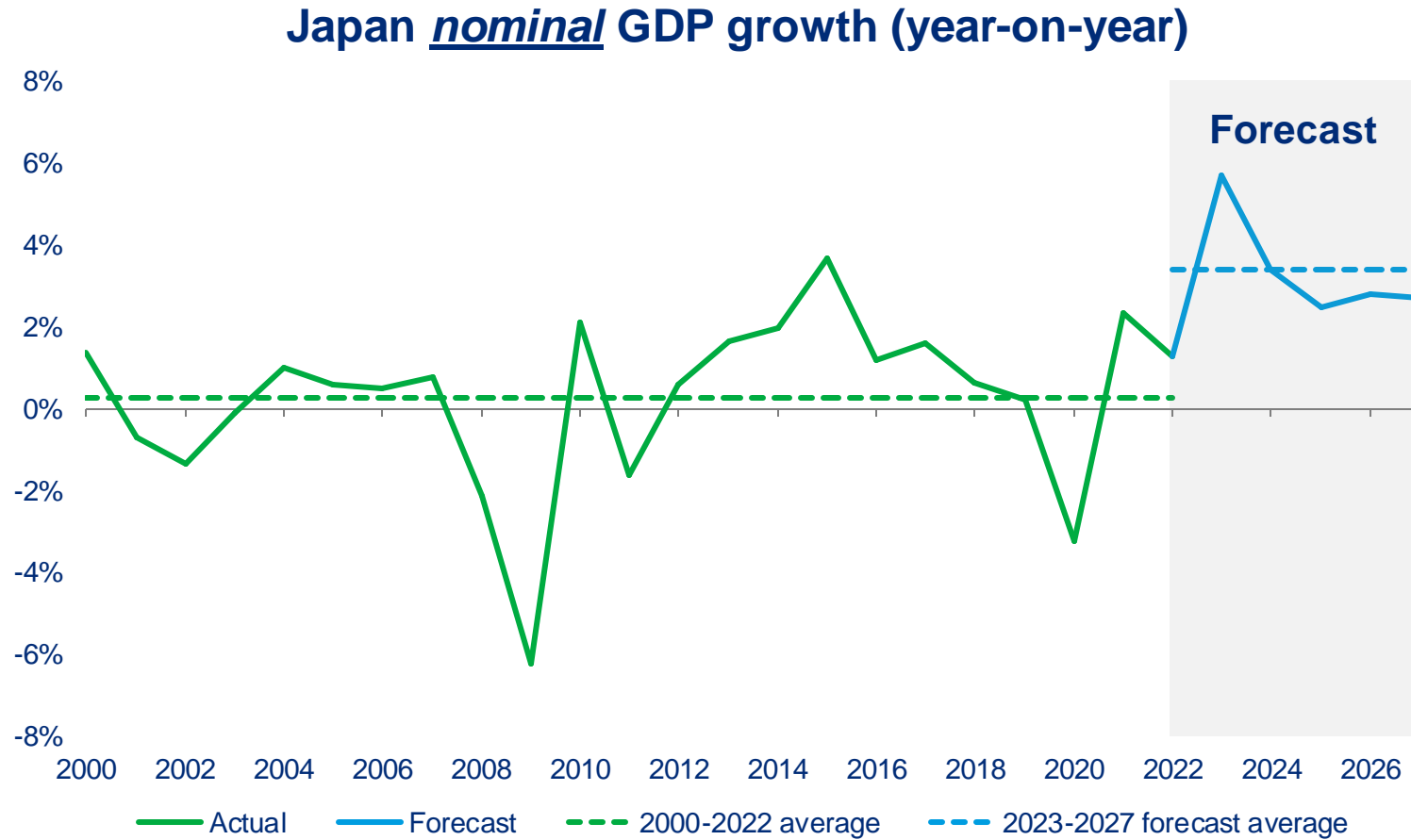
# But financial conditions have eased. Upside risk to growth

## Goldman Sachs US Financial Conditions Index (FCI)



Source: Bloomberg. Data as of January 31, 2024

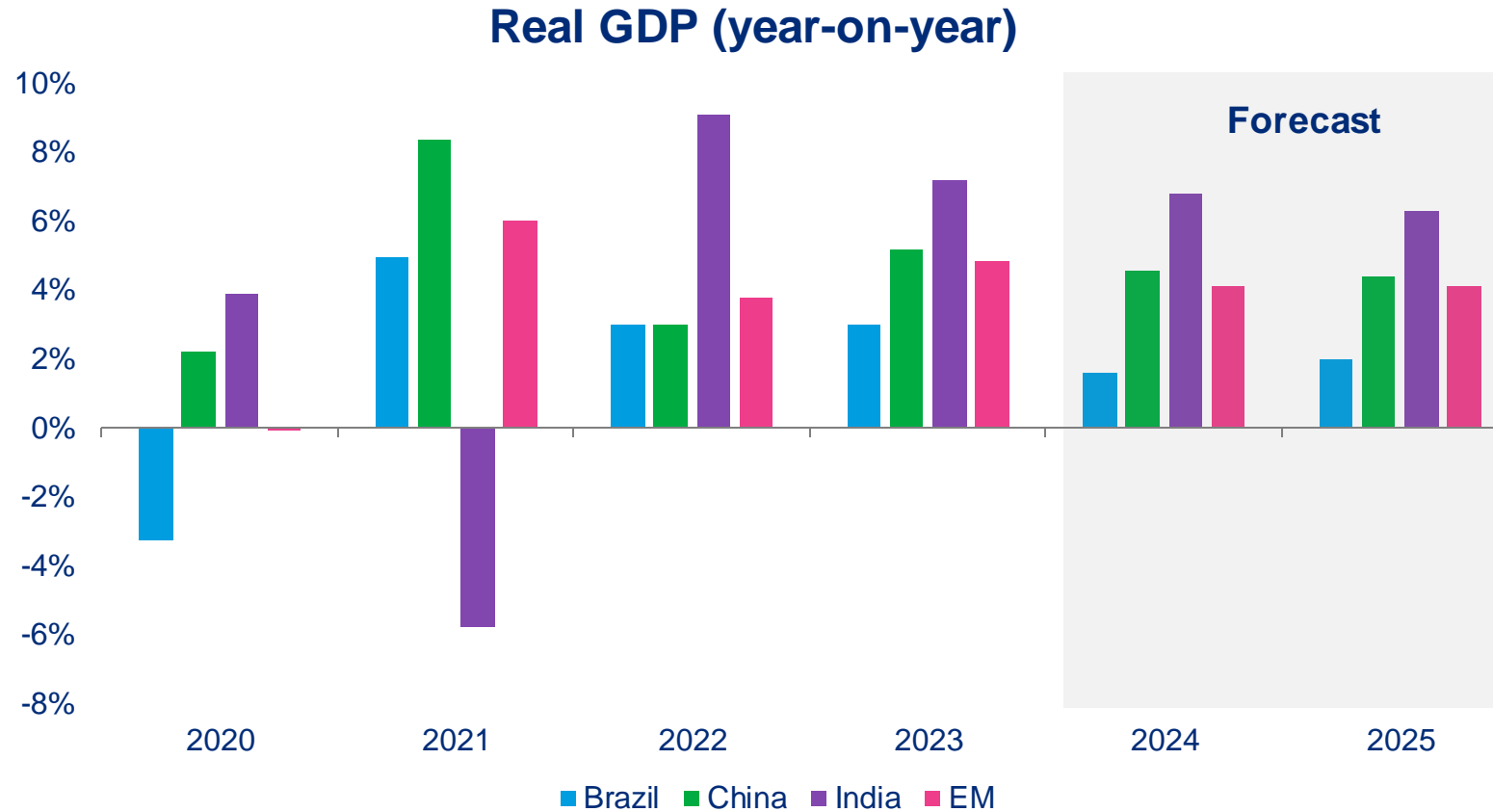
# Japan is breaking out from a structural malaise



Source: Goldman Sachs. Data as of February 20, 2024.

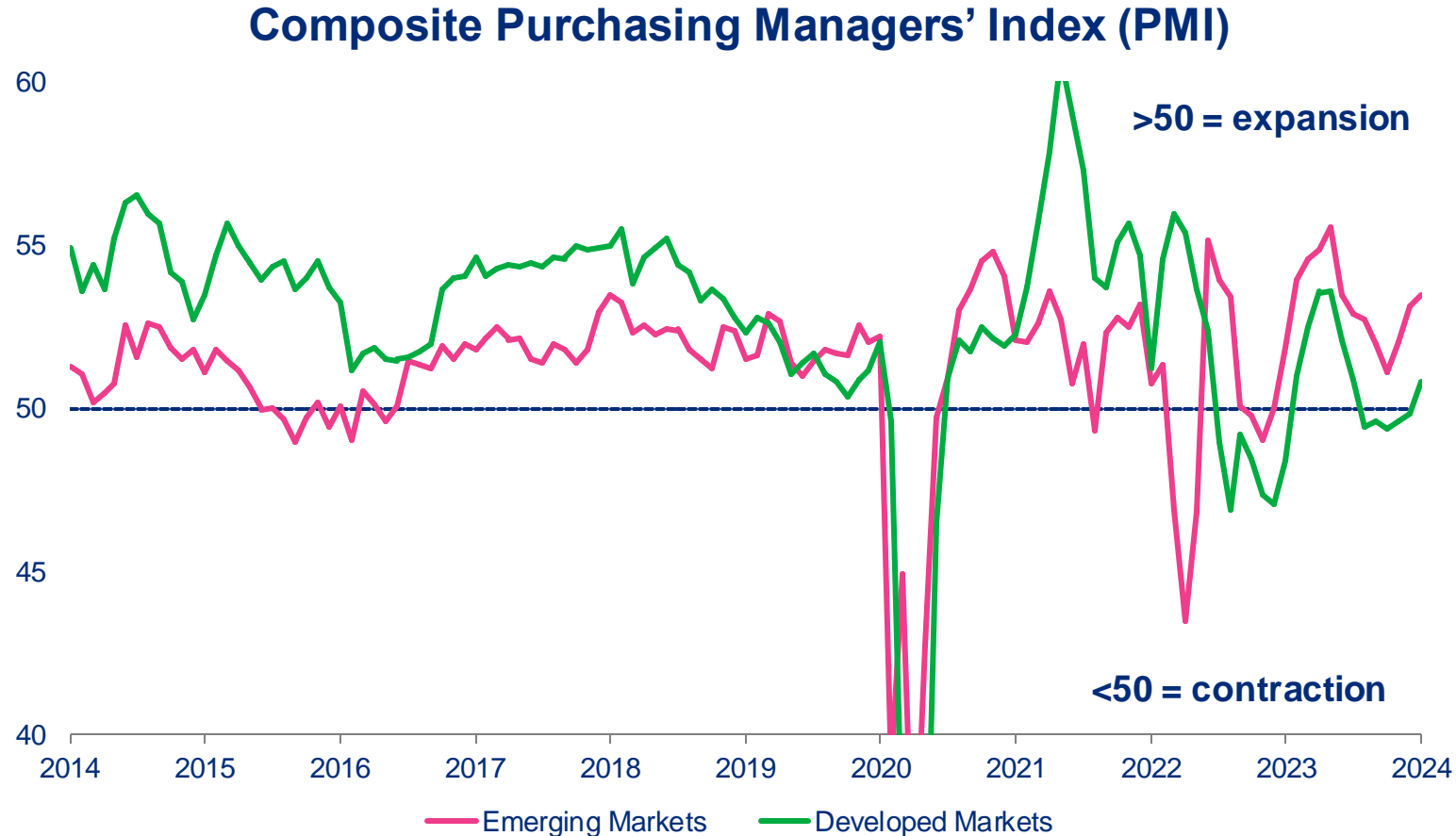


# EM and China growth to be decent



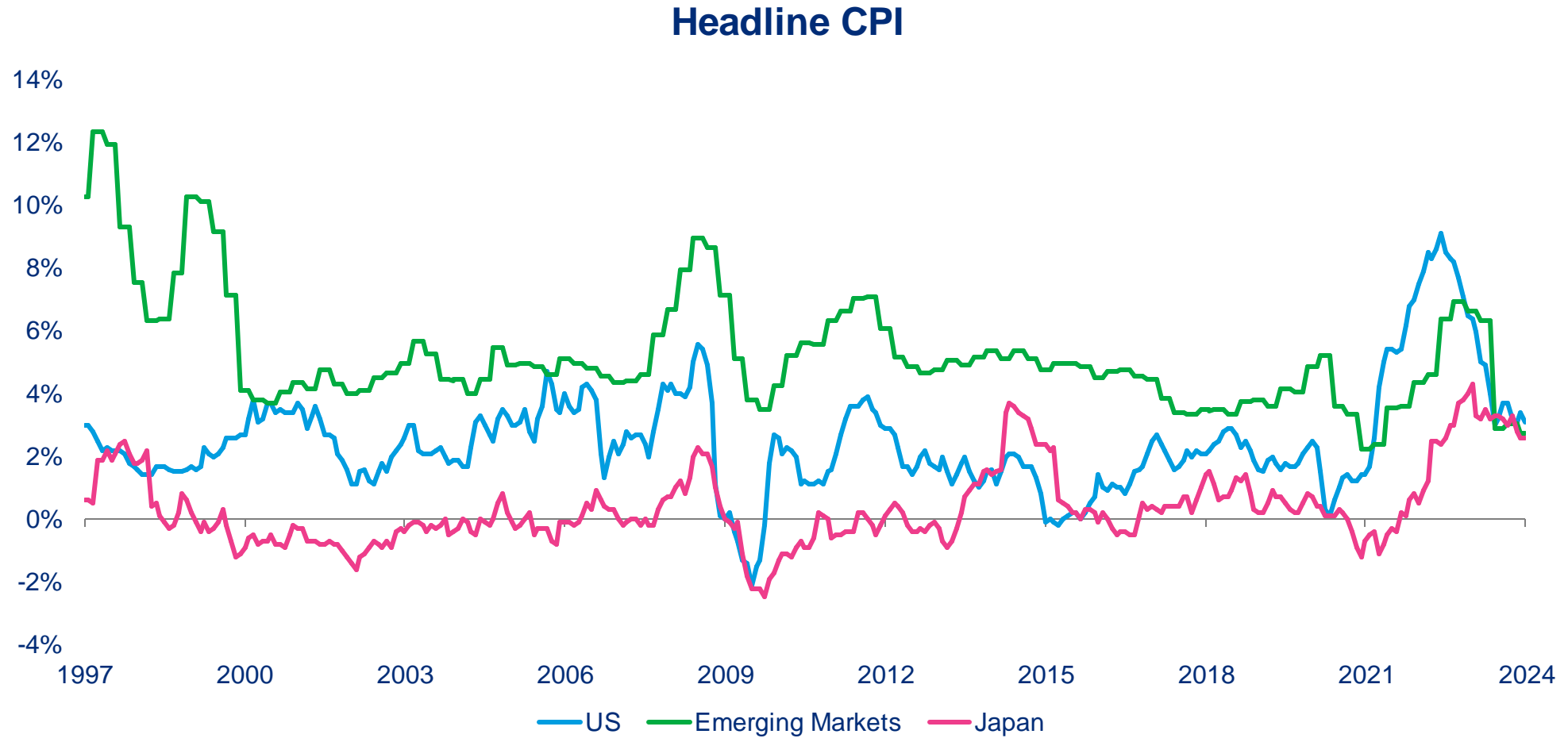
Source: Bloomberg. Consensus forecasts. 2023 Brazil and EM GDP growth is forecast. Data as of February 20, 2024.

# Forward looking business survey data positive for EM



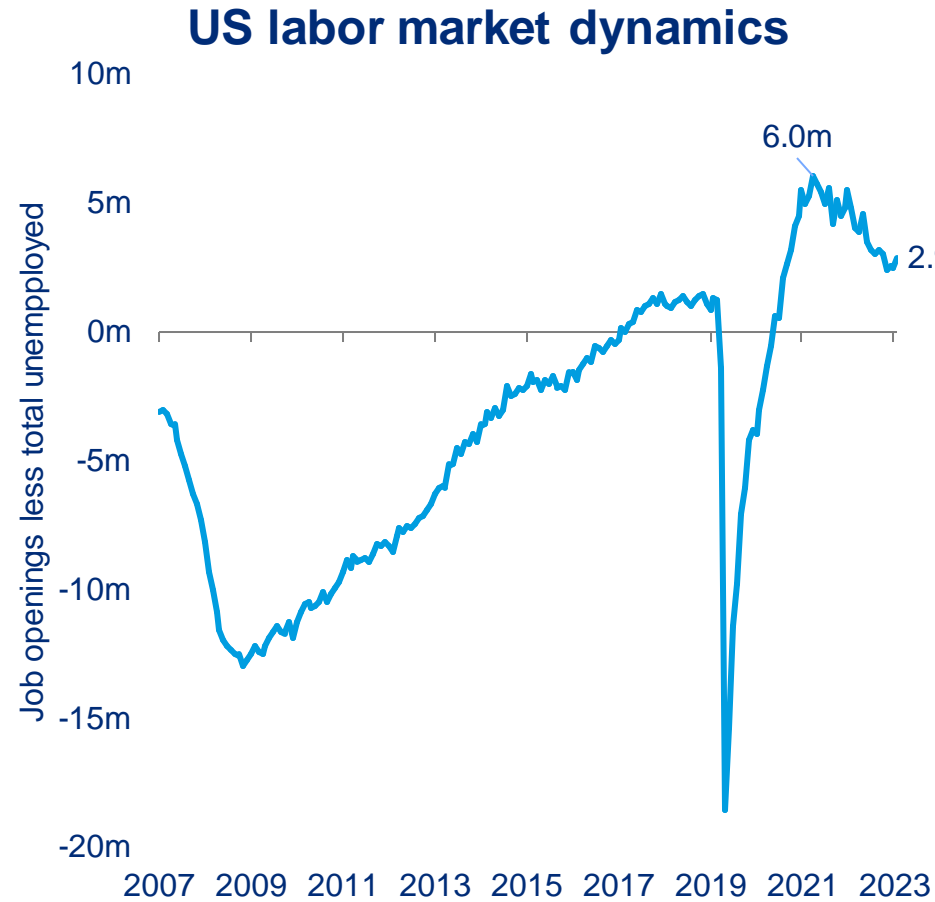
Source: JP Morgan Markets. Data as of February 20, 2024.

# Inflation continuing to decline in DM & EM



Source: Bloomberg. Data as of January 31, 2024.

# Final piece of the jigsaw for inflation to return to target is labor markets. Seeing some cooling



Source: Bloomberg. Data as of January 31, 2024.



Source: Bloomberg. Data as of January 31, 2024.

# Doves vs. hawks. Fed more dovish, ECB, BoE less so

A sharp pivot from the Fed



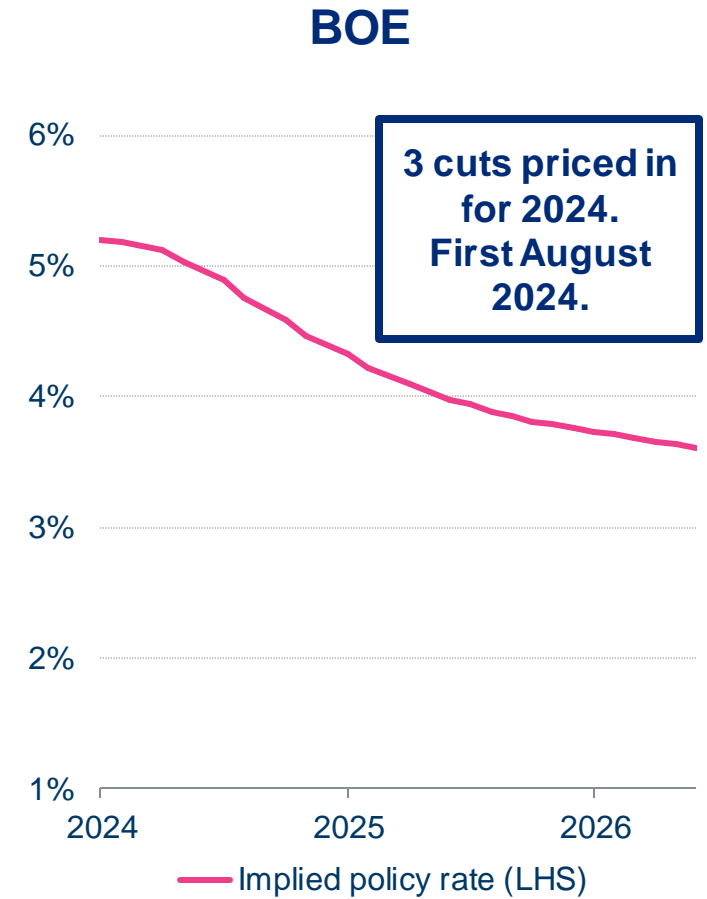
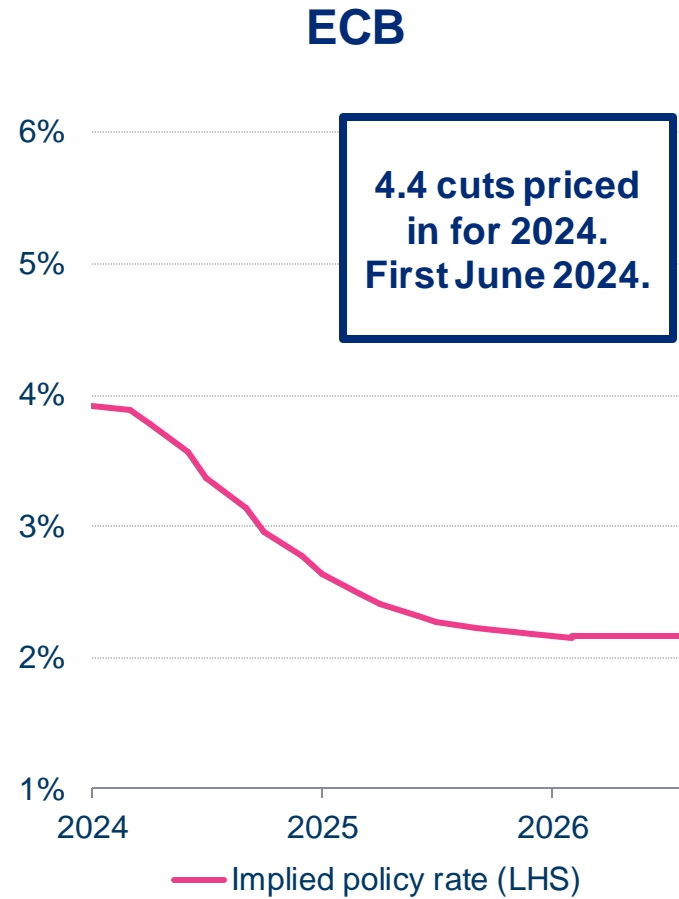
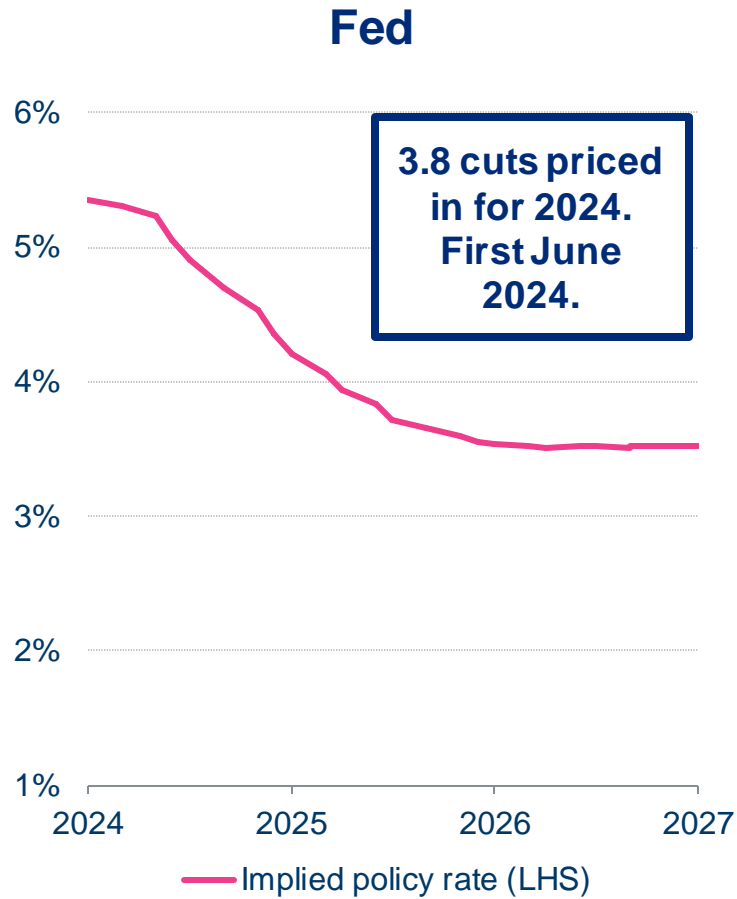
The ECB has begun its gradual dovish shift



BoE continues to push back on hopes of near-term rate cuts

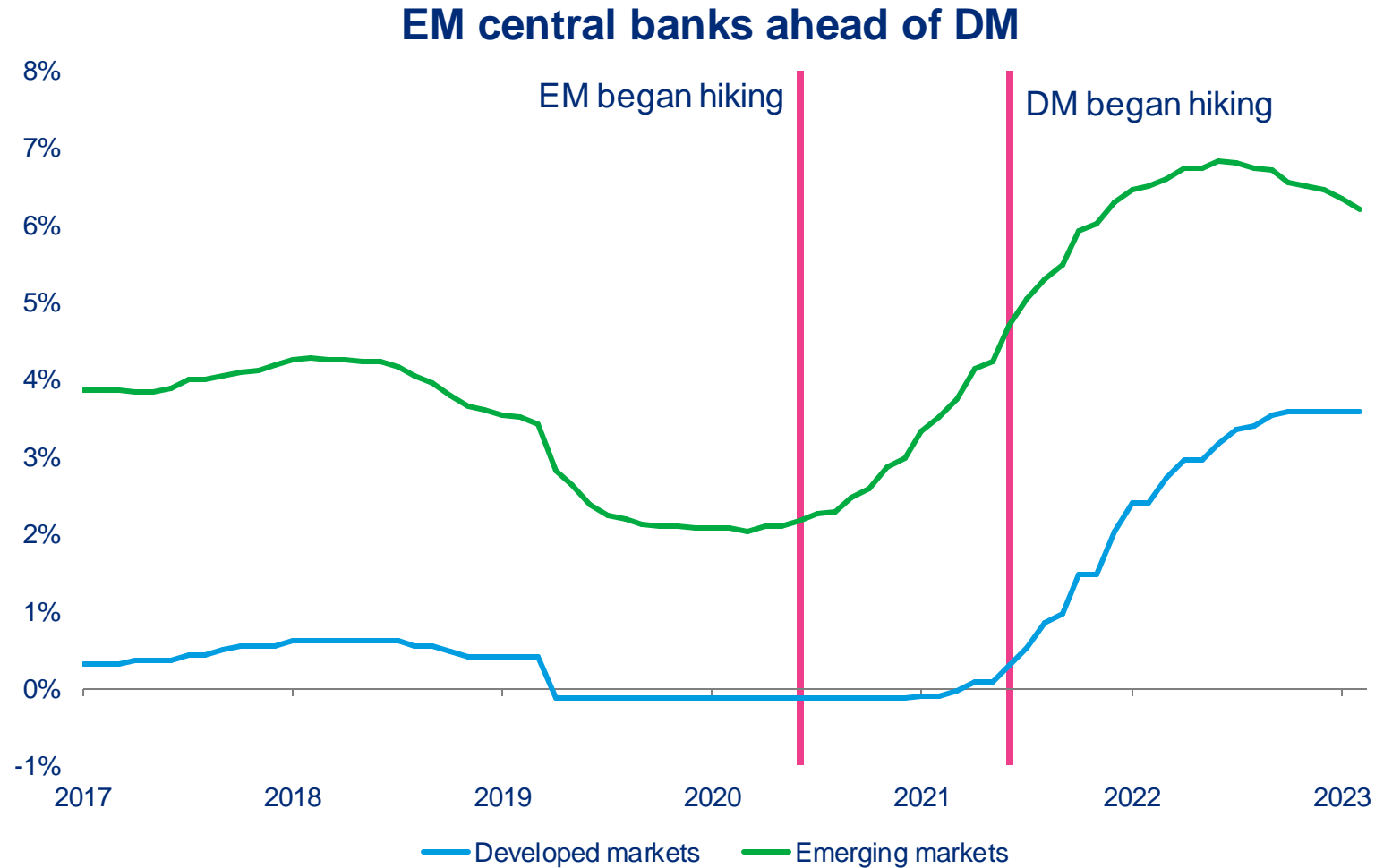


# Bond markets expect rate cuts. Agree with direction of travel



Source: Goldman Sachs. Data as of February 19, 2024.

# EM central banks are broadly easing policy. Tailwind for growth



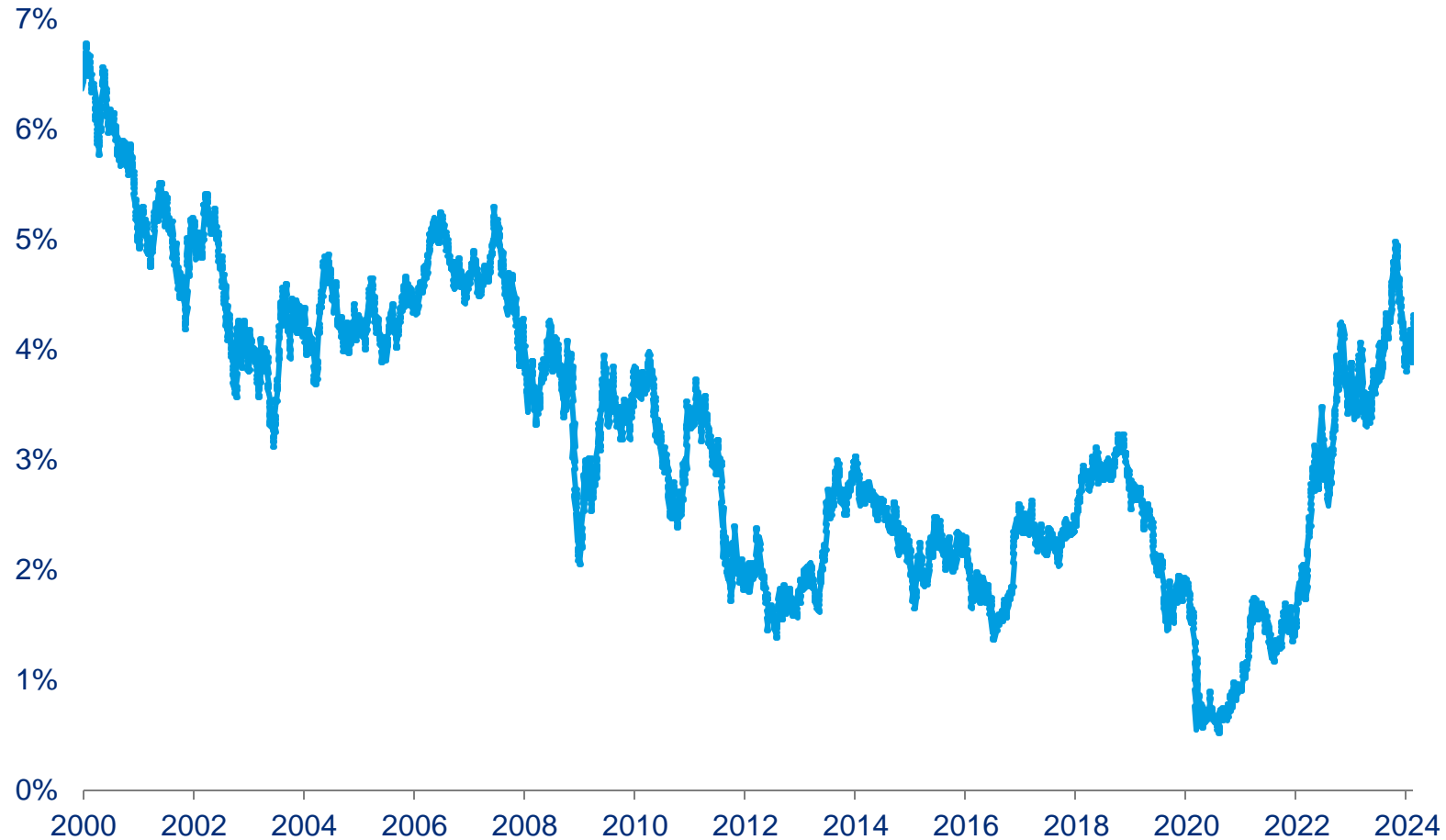
Source: Bloomberg. Data as of January 31, 2024. Weighted average policy rates for 11 EM countries and 4 DM countries.

# Markets



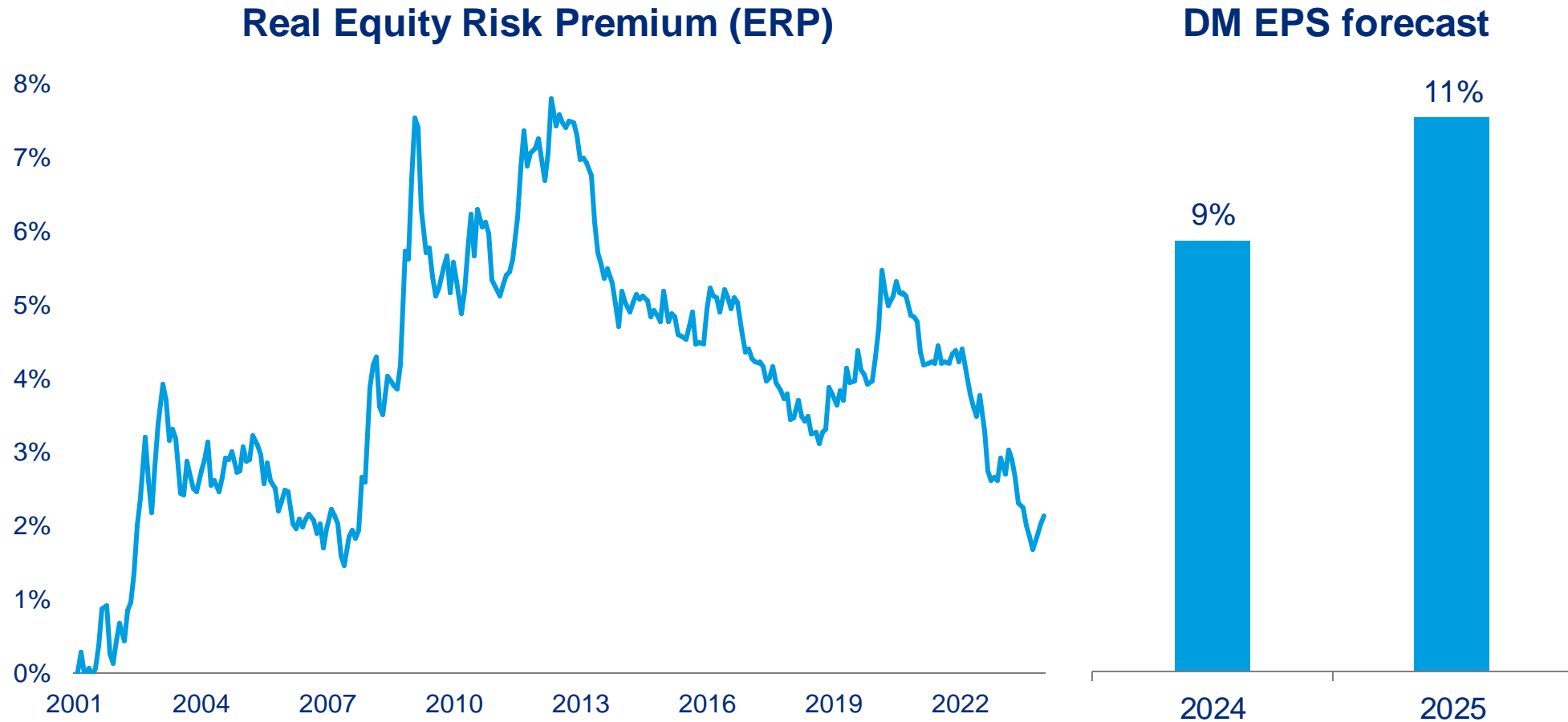
# Following Fed's dovish comments in Dec, bond yields fell sharply. Picked up in Jan/Feb 2024 on growth/inflation data

10-year US government bond yields



Source: Bloomberg. Data as of February 20, 2024.

# After latest rally equity valuations appear little bit less attractive. Earnings solid



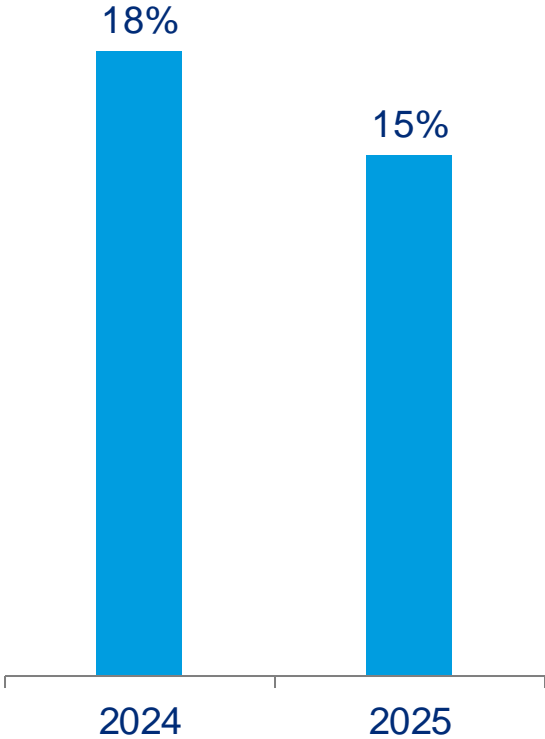
Source: Bloomberg, IBES, Refinitiv. Data as of January 31, 2024. (Left hand chart) Reciprocal of cyclically-adjusted-price-to-earnings ratio less 10-year US real yield.

# EM underperformed and trades at larger than usual discount to DM. China stimulus to feed through in 2024

### MSCI World vs. MSCI EM CAPE

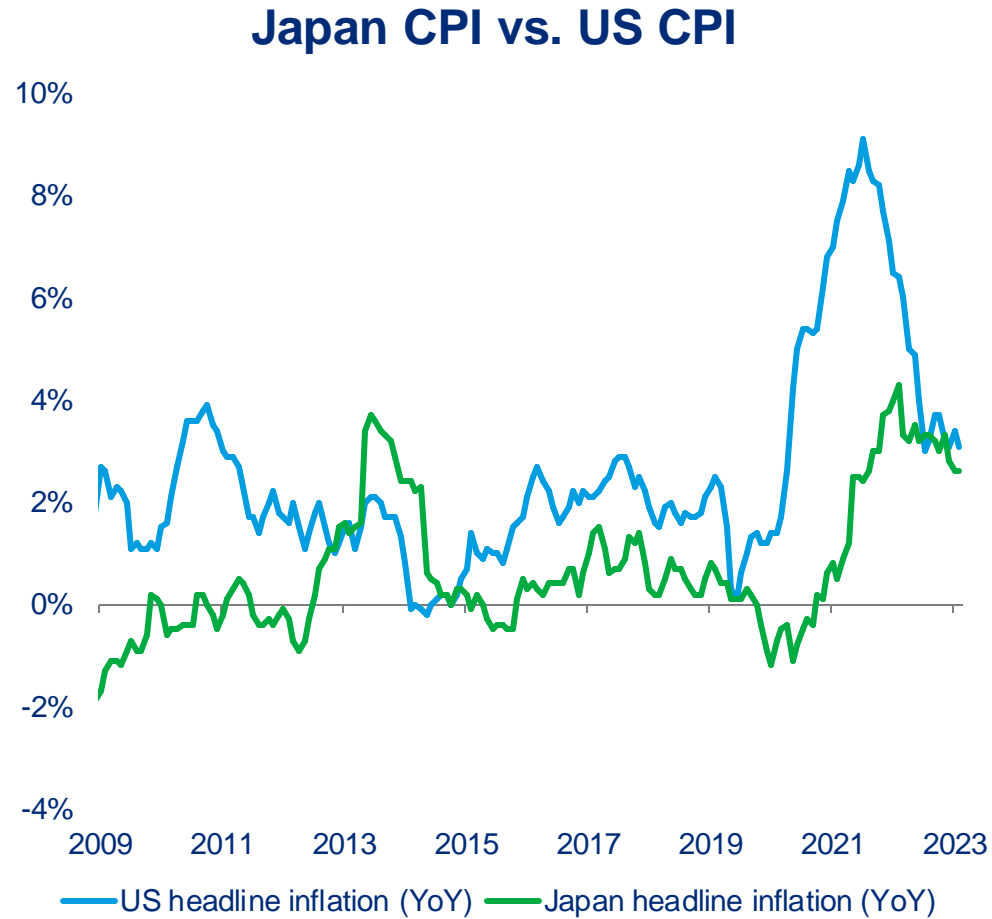


### EM EPS forecast

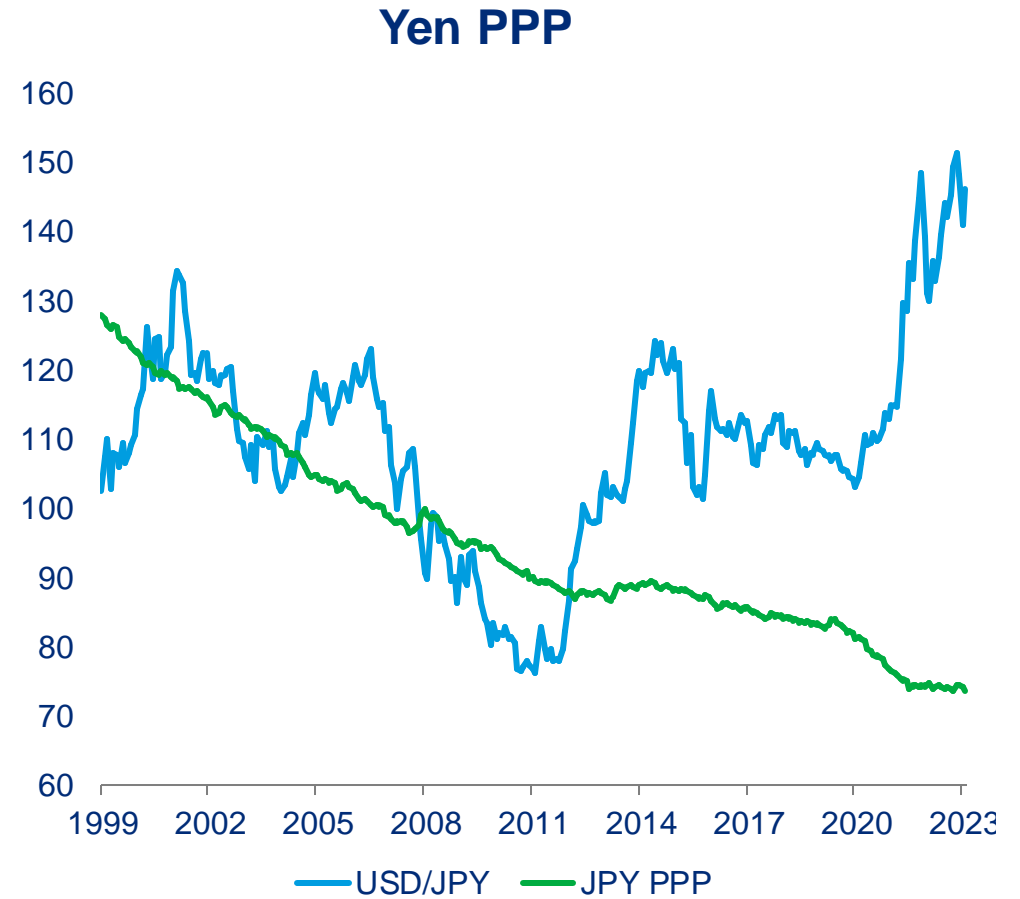


Source: Bloomberg, IBES, Refinitiv. Data as of January 31, 2024.

# Yen looks very undervalued. BoJ may tighten policy



Source: Bloomberg. Data as of January 31, 2024.



Source: Bloomberg. Data as of January 31, 2024.

# Positioning & Outlook – Taking profit

Q4 2023		Change	Q1 2024	
Unconstrained			Unconstrained	
<b>Position</b>			<b>Position</b>	
<b>Equities</b>	<b>3%</b>	← -1%	<b>Equities</b>	<b>2%</b>
Developed	-3%	← -1%	Developed	-4%
Emerging	2%		Emerging	2%
Small Cap	0%		Small Cap	0%
REITs	2%		REITs	2%
Japan	2%		Japan	2%
<b>Growth Fixed</b>	<b>6%</b>		<b>Growth Fixed</b>	<b>6%</b>
EM Debt (LC)	0%		EM Debt (LC)	0%
Global HY	-3%		Global HY	-3%
Frontier Debt	6%		Frontier Debt	6%
Asia HY	3%		Asia HY	3%
<b>Defensive Fixed</b>	<b>3%</b>	← -3%	<b>Defensive Fixed</b>	<b>0%</b>
Nominal Gov	3%	← -3%	Nominal Gov	0%
Real Gov	0%		Real Gov	0%
IG Credit	0%		IG Credit	0%
<b>Cash &amp; Cash Like</b>	<b>-12%</b>	← +4%	<b>Cash &amp; Cash Like (USD)</b>	<b>-8%</b>
<b>TE (p.a.)</b>			<b>Currency Overlay Position</b>	
	1.2%		NZD	-2%
			CHF	-2%
			EUR	-1%
			JPY	5%
			<b>Tracking Error (p.a.)</b>	
			1.1%	

Source: Mercer. For illustrative purposes only. As at October 2023.

Source: Mercer. For illustrative purposes only. As at February 2024.

# Key views

Q1 2024

Unconstrained	
	Position
<b>Equities</b>	<b>2%</b>
Developed	-4%
Emerging	2%
Small Cap	0%
REITs	2%
Japan	2%
<b>Growth Fixed</b>	<b>6%</b>
EM Debt (LC)	0%
Global HY	-3%
Frontier Debt	6%
Asia HY	3%
<b>Defensive Fixed</b>	<b>0%</b>
Nominal Gov	0%
Real Gov	0%
IG Credit	0%
<b>Cash &amp; Cash Like (USD)</b>	<b>-8%</b>
<b>Currency Overlay Position</b>	
NZD	-2%
CHF	-2%
EUR	-1%
JPY	5%
<b>Tracking Error (p.a.)</b>	<b>1.1%</b>

Source: Mercer. For illustrative purposes only. As at February 2024.

# Over time equity index leadership changed, however, regionally not so much.

The World's Top Ten Largest Companies by Market Capitalization (ex Aramco)									
1980: Peak Oil		1990: Japan will take over world		2000: TMT bubble		2010: China will take over world		2021: Only tech can deliver growth	
Malthusian Bull		Ricardian Bull		Schumpeterian Bull		Malthusian/Ricardian Bull		Schumpeterian Bull	
	IBM		<i>NTT</i>		<i>Microsoft</i>		<i>Exxon Mobil</i>		<i>Apple (US\$ 2.43tr)</i>
	AT&T		<i>Bank of Tokyo-Mitsubishi</i>		General Electric		<i>PetroChina</i>		<i>Microsoft (US\$2.25tr)</i>
	<i>Exxon</i>		<i>Industrial Bank of Japan</i>		<i>NTT DoCoMo</i>		Apple Inc.		<i>Alphabet/Google (US\$1.88tr)</i>
	<i>Standard Oil</i>		<i>Sumitomo Mitsui Banking</i>		<i>Cisco Systems</i>		<i>BHP Billiton</i>		<i>Amazon (US\$ 1.73tr)</i>
	<i>Schlumberger</i>		<i>Toyota Motors</i>		Wal-Mart		Microsoft		<i>Meta/Facebook (US\$ 975bn)</i>
	<i>Shell</i>		<i>Fuji Bank</i>		<i>Intel</i>		<i>ICBC</i>		<i>Tesla (US\$745bn)</i>
	<i>Mobil</i>		<i>Dai ilchi Kangyo Bank</i>		<i>NTT</i>		<i>Petrobras</i>		<i>Berkshire Hathaway (630bn)</i>
	<i>Atlantic Richfield</i>		IBM		<i>Exxon Mobil</i>		<i>China Construction Bank</i>		<i>TSMC (US\$602bn)</i>
	General Electric		<i>UFJ Bank</i>		<i>Lucent Technologies</i>		<i>Royal Dutch Shell</i>		<i>Tencent Holdings (570bn)</i>
	Eastman Kodak		Exxon		<i>Deutsche Telekom</i>		Nestlé		<i>Nvidia (562bn)</i>

Source: Gavekal

But will AI not just help US tech maintain its leadership, but grow it?



Mercer Limited is authorised and regulated by the Financial Conduct Authority. Registered in England and Wales No. 984275. Registered Office: 1 Tower Place West, Tower Place, London EC3R 5BU





# Q&A

---

Please click on the **'Raise Hand'** icon  
to ask a question aloud

and

wait to be unmuted

or

Use the **Q&A function** to ask a question