

# Outlook

2024

**Our top 10 themes** for the year ahead

# Review of 2023 Outlook

- |                                   |                    |
|-----------------------------------|--------------------|
| 1. Inflation (finally) subsides   | Correct            |
| 2. Geopolitical tensions ease     | Partially correct  |
| 3. Global growth: back to reality | Correct            |
| 4. Japan: renaissance continues   | Correct            |
| 5. Emerging economies recover     | Partially correct  |
| 6. Weaker US dollar trend         | Partially Correct* |
| 7. Bond vigilantes on patrol      | Correct            |
| 8. Investment grade bonds         | Partially correct  |
| 9. Global small caps              | Incorrect          |
| 10. Consumer discretionary sector | Correct            |



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# Market Review

# Market Review



A year with asymmetric returns across asset classes and regions, and unusually high volatility in the fixed income market.

% RETURNS	2019	2020	2021	H1-22	H2-22	2022	Q1-23	Q2-23	Q3-23	Q4-23	2023
<b>MSCI World (Local)</b>	24.9%	11.7%	22.5%	-19.0%	2.0%	-17.4%	7.0%	6.6%	-3.0%	9.5%	21.1%
<b>MSCI EM (Local)</b>	15.1%	16.6%	-2.3%	-14.9%	-3.6%	-17.9%	3.4%	0.7%	-2.2%	5.2%	7.1%
<b>S&amp;P500</b>	28.9%	16.3%	26.9%	-20.6%	1.4%	-19.4%	7.0%	8.3%	-3.6%	11.2%	24.2%
<b>Nasdaq</b>	35.2%	43.6%	21.4%	-29.5%	-5.1%	-33.1%	16.8%	12.8%	-4.1%	13.6%	43.4%
<b>Russell 2000</b>	23.7%	18.4%	13.7%	-23.9%	3.1%	-21.6%	2.3%	4.8%	-5.5%	13.6%	15.1%
<b>S&amp;P500 Value</b>	28.6%	-1.4%	22.2%	-12.4%	5.7%	-7.4%	4.6%	6.1%	-4.6%	13.0%	19.8%
<b>S&amp;P500 Growth</b>	29.1%	32.0%	31.0%	-27.9%	-3.0%	-30.1%	9.2%	10.2%	-2.9%	9.7%	28.3%
<b>DJ Eurostoxx</b>	24.8%	-5.1%	21.0%	-19.6%	9.8%	-11.7%	13.7%	1.9%	-5.1%	8.3%	19.2%
<b>FTSE100</b>	12.1%	-14.3%	14.3%	-2.9%	3.9%	0.9%	2.4%	-1.3%	1.0%	1.6%	3.8%
<b>Swiss Market</b>	26.0%	0.8%	20.3%	-16.6%	-0.1%	-16.7%	3.5%	1.6%	-2.8%	1.6%	3.8%
<b>TOPIX</b>	15.2%	4.8%	10.4%	-6.1%	1.1%	-5.1%	5.9%	14.2%	1.5%	1.9%	25.1%
<b>Hang Seng</b>	9.1%	-3.4%	-14.1%	-6.6%	-9.5%	-15.5%	3.1%	-7.3%	-5.9%	-4.3%	-13.8%
<b>H Shares</b>	10.3%	-3.8%	-23.3%	-6.9%	-12.5%	-18.6%	3.9%	-7.8%	-4.3%	-6.2%	-14.0%
<b>China</b>	36.1%	27.2%	-5.2%	-9.2%	-13.7%	-21.6%	4.6%	-5.1%	-4.0%	-7.0%	-11.4%
<b>Korea</b>	7.7%	30.8%	3.6%	-21.7%	-4.1%	-24.9%	10.8%	3.5%	-3.9%	7.7%	18.7%
<b>Taiwan</b>	23.3%	22.8%	23.7%	-18.6%	-4.6%	-22.4%	12.2%	6.6%	-3.3%	9.6%	26.8%
<b>Thailand</b>	1.0%	-8.3%	14.4%	-5.4%	6.4%	0.7%	-3.6%	-6.6%	-2.1%	-3.8%	-15.2%
<b>Indonesia</b>	1.7%	-5.1%	10.1%	5.0%	-0.9%	4.1%	-0.7%	-2.1%	4.2%	4.8%	6.2%
<b>Philippines</b>	4.7%	-8.6%	-0.2%	-13.6%	6.7%	-7.8%	-1.0%	-0.5%	-2.3%	2.0%	-1.8%
<b>India</b>	12.0%	14.9%	24.1%	-9.1%	14.7%	4.3%	-4.1%	10.5%	2.3%	10.7%	20.0%
<b>DS Asia Pac ex Japan</b>	11.3%	15.2%	-2.5%	-15.4%	-2.0%	-17.1%	1.7%	0.0%	-2.7%	6.4%	5.2%
<b>Brazil</b>	31.6%	2.9%	-11.9%	-6.0%	11.4%	4.7%	-7.2%	15.9%	-1.3%	15.1%	22.3%
<b>Mexico</b>	4.6%	1.2%	20.9%	-10.8%	2.0%	-9.0%	11.8%	-1.2%	-5.0%	12.8%	18.4%
<b>Russia</b>	29.1%	8.0%	15.1%	-41.8%	-2.3%	-43.1%	13.8%	14.1%	12.0%	-1.1%	43.9%
<b>DS Latin America</b>	13.8%	-15.8%	-10.9%	-5.8%	4.9%	-1.1%	4.9%	9.8%	-5.7%	11.3%	20.9%
<b>DS Emerging Europe</b>	26.4%	-10.4%	7.0%	-42.4%	26.8%	-27.0%	-1.0%	3.0%	13.7%	3.3%	19.7%
<b>HFR Equity hedge</b>	10.7%	4.6%	12.1%	-4.7%	1.6%	-3.2%	0.8%	2.1%	0.2%	3.6%	6.9%

% RETURNS	2019	2020	2021	H1-22	H2-22	2022	Q1-23	Q2-23	Q3-23	Q4-23	2023
<b>Bbg Barclays Global Agg (\$)</b>	6.8%	9.2%	-4.5%	-13.9%	-2.7%	-16.2%	3.0%	-1.5%	-3.6%	8.1%	5.7%
<b>Bbg Barclays Global Agg (\$ Hedged)</b>	8.2%	5.6%	-2.5%	-9.1%	-2.4%	-11.2%	2.9%	0.1%	-1.8%	6.0%	7.1%
<b>ICE BofAML US Gov Bonds (\$)</b>	6.4%	7.3%	-2.1%	-8.1%	-3.3%	-11.1%	2.8%	-1.1%	-2.7%	5.1%	4.0%
<b>FTSE UK Gov Bonds (£)</b>	7.5%	9.7%	-5.4%	-16.0%	-13.2%	-27.1%	2.6%	-6.2%	-1.1%	9.1%	3.8%
<b>ICE BofAML Japan Gov Bonds (¥)</b>	1.7%	-0.8%	-0.2%	-2.9%	-2.5%	-5.4%	2.3%	0.4%	-3.1%	0.9%	0.4%
<b>ICE BofAML Euro Gov Bonds (€)</b>	6.8%	4.9%	-3.4%	-12.2%	-6.8%	-18.2%	2.0%	0.1%	-2.5%	7.2%	6.7%
<b>ICE BofAML Swiss Gov Bonds (CHF)</b>	4.5%	2.0%	-4.1%	-13.3%	-4.3%	-17.0%	4.6%	3.1%	-1.6%	5.8%	12.2%
<b>ICE BofAML US Corporate Index</b>	14.2%	9.8%	-1.0%	-13.9%	-1.8%	-15.4%	3.5%	-0.2%	-2.7%	7.9%	8.4%
<b>ICE BofAML US HY Index (\$)</b>	14.4%	6.2%	5.4%	-14.0%	3.3%	-11.2%	3.7%	1.6%	0.5%	7.1%	13.4%
<b>ICE BofAML EM Sov Bonds (\$)</b>	8.1%	7.9%	-0.8%	-9.2%	-0.2%	-9.4%	2.9%	-0.9%	-1.5%	5.8%	6.3%
<b>BoA-ML Convertible Index</b>	13.7%	32.6%	4.0%	-16.7%	2.1%	-14.9%	3.2%	3.5%	-1.9%	6.1%	11.3%
<b>HFR Relative Value Arbitrage</b>	6.6%	8.1%	0.4%	-9.2%	1.6%	-7.7%	1.1%	1.0%	0.6%	1.9%	4.8%
<b>Euro</b>	-2.3%	8.9%	-6.9%	-7.8%	2.1%	-5.9%	1.3%	0.7%	-3.1%	4.4%	3.1%
<b>Sterling</b>	3.9%	3.1%	-1.1%	-10.0%	-0.6%	-10.6%	2.0%	3.0%	-4.0%	4.4%	5.2%
<b>Swiss Franc</b>	1.4%	9.3%	-3.0%	-4.5%	3.3%	-1.3%	1.1%	2.2%	-2.1%	8.7%	9.9%
<b>Japanese Yen</b>	0.9%	4.9%	-11.5%	-17.9%	3.4%	-13.9%	-1.3%	-8.7%	-3.5%	5.6%	-7.6%
<b>Brazilian Real</b>	-3.6%	-29.2%	-7.3%	5.6%	-0.6%	5.1%	4.2%	5.5%	-5.1%	3.6%	8.2%
<b>Chinese Yuan</b>	-1.2%	6.3%	2.6%	-5.4%	-3.0%	-8.5%	0.4%	-5.6%	-0.7%	2.8%	-2.9%
<b>Russian Rouble</b>	11.2%	-19.5%	-1.0%	26.5%	-34.1%	1.4%	-5.8%	-12.8%	-11.4%	8.9%	-21.0%
<b>Trade Weighted US Dollar</b>	0.2%	-6.7%	6.7%	9.1%	-1.1%	7.9%	-1.0%	0.4%	3.2%	-4.6%	-2.1%
<b>Oil</b>	35.1%	-21.0%	55.8%	43.1%	-25.5%	6.7%	-5.7%	-6.6%	28.5%	-20.8%	-10.4%
<b>Gold</b>	18.7%	24.8%	-4.0%	-0.9%	0.5%	-0.4%	8.9%	-3.1%	-3.1%	11.2%	13.8%
<b>S&amp;P GSCI Industrial Metals</b>	1.5%	17.8%	30.7%	-12.3%	3.0%	-9.6%	0.2%	-9.8%	3.0%	0.6%	-6.3%
<b>S&amp;P GSCI Agriculture &amp; Livestock</b>	5.9%	13.2%	20.8%	6.1%	0.9%	7.0%	-0.4%	-6.6%	-3.2%	-3.1%	-12.7%
<b>YIELDS</b>											
<b>10 Year Treasury Yield</b>	1.9	0.9	1.5	3.0	3.8	3.8	3.5	3.8	4.6	3.9	3.9
<b>ICE BofAML USD HY Index</b>	6.2	5.2	5.5	9.5	9.3	9.3	9.0	9.0	9.2	8.1	8.1
<b>Spread</b>	4.2	4.3	4.0	6.5	5.5	5.5	5.5	5.2	4.6	4.3	4.3

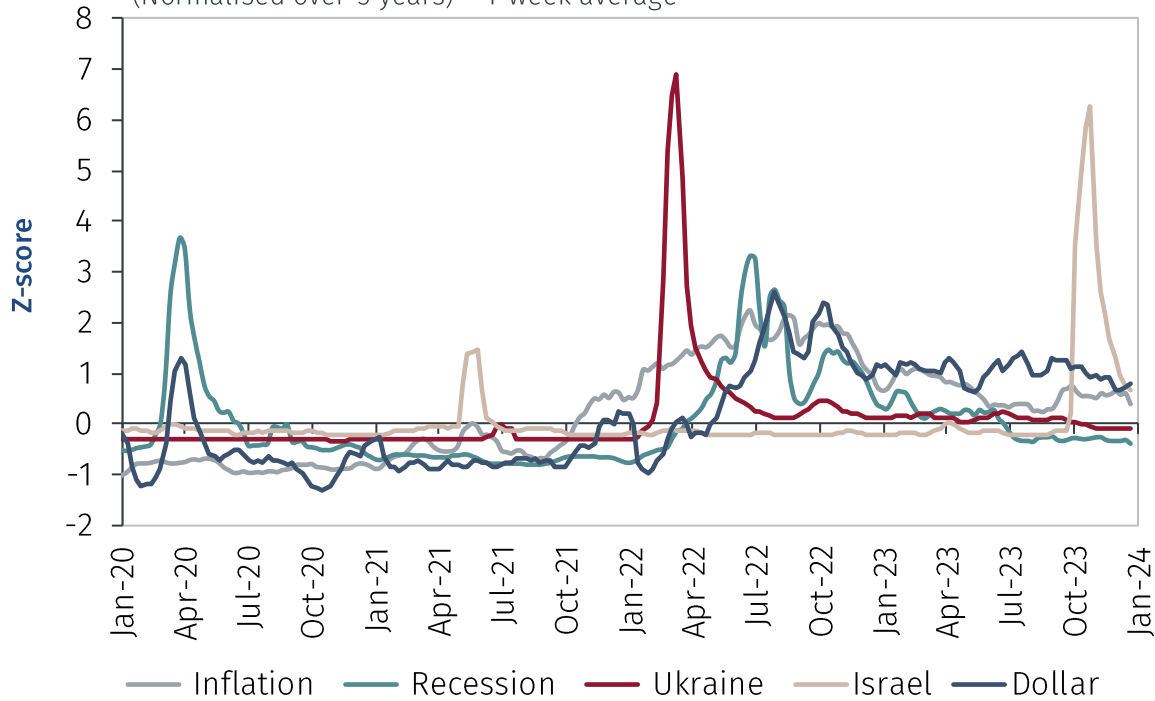
Source: LSEG Data & Analytics, HFR and EFGAM Calculations. Data as of 03 January 2024. Past performance is not indicative of future results

For professional clients, qualified investors and accredited investors only

# What Mattered in 2023?

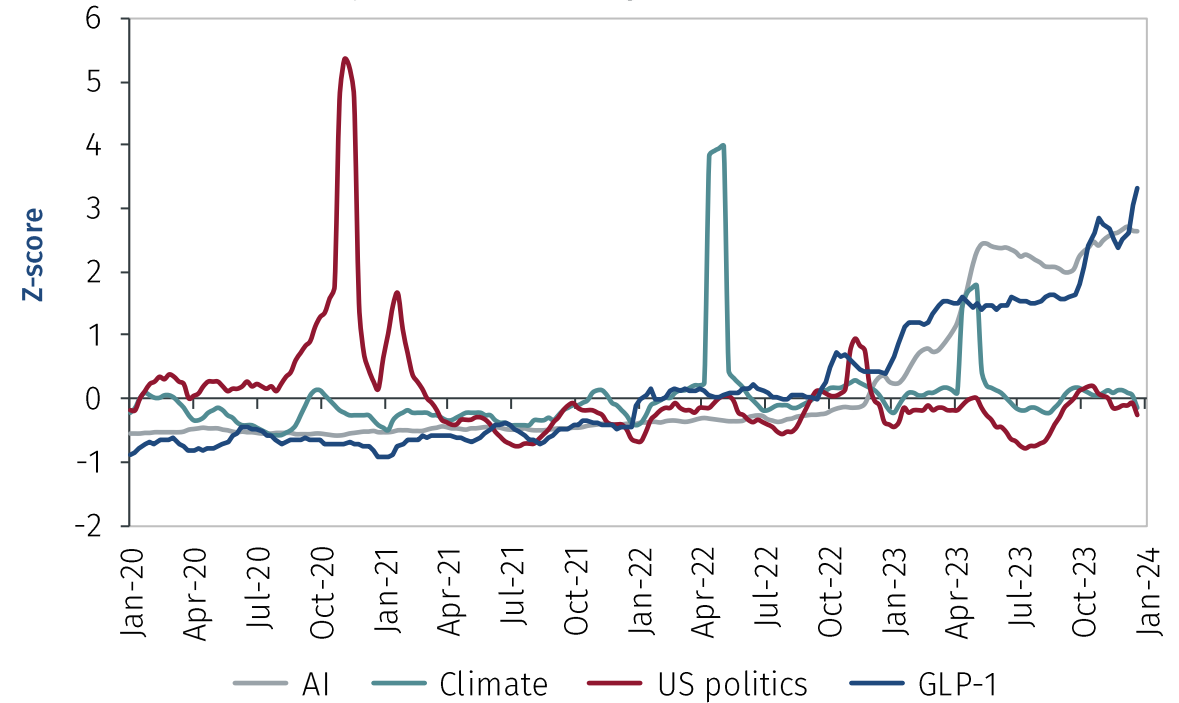
## Google search trends - Macro

(Normalised over 5 years) – 4-week average



## Google search trends - Thematic

(Normalised over 5 years) – 4-week average



- Recession fears peaked in 2022 and have come down since.
- Artificial intelligence (AI) was the key factor driving strength in tech sector in 2023.
- Impact of GLP-1 drugs\* for weight loss and blood sugar control have dented performance of consumer staples and healthcare stocks.

\*Glucagon-like peptide 1 agonists. **Past performance is not indicative of future results. The above data is based on projections. Certain assumptions have been made regarding the above information and such information is provided by way of illustration only. Any changes to these assumptions may have a material impact on the assessment presented.**

Source: Google and EFGAM Calculations. Data as of 02 January 2024. Past performance is not indicative of future results

# EFG Combined Valuation Model



02 January 2024

months ->	World			US			UK			Europe ex UK			Japan			Asia ex Japan			China H+B			Emerging Markets		
	36	60	120	36	60	120	36	60	120	36	60	120	36	60	120	36	60	120	36	60	120	36	60	120
All	-0.3	-0.1	0.1	-0.2	0.1	0.6	-1.1	-1.0	-1.2	-0.6	-0.5	-0.5	0.4	0.6	0.4	-0.7	-0.7	-0.5	-0.9	-1.0	-0.8	-0.6	-0.5	-0.4
Consumer Discr.	-0.8	-0.5	0.1	-0.5	-0.3	0.4	-0.5	-0.2	-0.3	-0.6	-0.4	-0.3	-0.5	0.1	0.3	-1.5	-1.8	-1.8	-1.6	-1.9	-1.1	-1.5	-1.8	-2.0
Consumer Staples	-1.5	-1.6	-2.0	-1.2	-0.9	-0.9	-2.0	-1.8	-1.4	-1.5	-1.6	-1.6	-0.5	-0.8	-0.9	-0.8	-1.1	-1.5	-1.1	-0.3	-0.9	-0.2	-0.7	-0.7
Energy	-0.7	-0.4	-0.5	-0.3	-0.2	-0.5	-0.5	-0.4	-0.4	-0.6	-0.5	-0.5	0.0	-0.1	-0.5	-0.3	-0.5	-0.8	-0.4	-0.6	-1.0	-0.4	-0.1	0.3
Financial	-0.3	-0.2	-0.5	-0.1	0.0	-0.2	-0.6	-0.6	-0.9	0.2	0.1	-0.1	1.9	1.3	0.5	-0.6	-0.6	-0.6	-0.2	-0.6	-0.8	-0.7	-0.5	-0.5
Health Care	-0.3	-0.2	0.3	-0.2	-0.1	0.3	-0.5	-0.4	-0.3	-0.2	0.0	0.3	-0.6	-0.5	0.0	-0.7	-0.8	-0.9	-0.8	-0.5	-0.3	-0.3	-0.2	-0.3
Industrials	-0.4	-0.2	0.1	-0.3	-0.1	0.5	-0.4	-0.2	-0.1	-0.5	-0.6	-0.6	-0.1	0.1	0.3	-0.1	-0.1	-0.4	-0.8	-1.1	-1.5	0.0	0.3	0.2
Information Tech.	0.6	0.9	1.5	0.5	0.9	1.5	0.0	0.2	0.1	-0.5	-0.4	0.2	0.0	0.4	0.9	-0.1	0.1	0.6	-0.9	-1.2	-1.0	-0.2	0.1	0.5
Materials	0.1	0.1	0.0	0.0	0.0	-0.2	-0.5	-0.7	-0.9	-0.2	-0.2	-0.5	0.1	0.3	0.1	1.1	1.3	1.6	-0.6	-0.5	-0.5	0.2	0.1	0.1
Telecom Services	-0.4	-0.4	-0.4	-0.3	-0.4	-0.1	-1.3	-1.3	-1.2	-0.9	-0.9	-0.9	0.6	0.7	0.9	1.6	1.2	0.6	-0.3	-0.7	-0.8	-0.2	0.3	0.4
Utilities	-0.7	-0.5	0.2	-1.4	-1.0	0.1	-1.0	-0.9	-0.8	-0.6	-0.8	-0.5	-0.1	0.0	-0.5	0.1	0.2	0.6	0.1	0.3	0.0	0.7	1.1	1.6
Real Estate (US)				-0.6	-0.6	-0.4																		

13 December 2021

months ->	World			US			UK			Europe ex UK			Japan			Asia ex Japan			China H+B			Emerging Markets		
	36	60	120	36	60	120	36	60	120	36	60	120	36	60	120	36	60	120	36	60	120	36	60	120
All	0.5	0.8	1.3	0.8	1.2	1.8	0.5	0.5	0.3	0.7	1.1	1.5	0.5	0.4	0.2	0.0	0.1	0.6	-1.5	-1.1	-0.3	0.3	0.5	1.0
Consumer Discr.	0.9	1.4	2.0	1.0	1.5	2.2	1.1	1.4	1.4	0.9	1.3	2.0	0.6	0.8	0.9	0.0	0.2	0.9	-0.8	-0.6	0.0	-0.5	-0.6	0.2
Consumer Staples	0.5	0.4	0.4	0.5	0.4	0.4	1.1	0.5	0.0	1.1	1.3	1.4	-0.5	-0.8	-0.1	-0.3	-0.4	-0.2	0.0	-0.5	-1.0	-0.6	-0.6	-0.6
Energy	0.5	0.6	1.1	0.6	0.2	0.3	0.4	0.2	0.0	0.5	0.6	1.2	-0.3	-0.6	-0.5	-0.4	-0.5	-0.5	-0.5	-0.8	-1.1	0.3	0.6	1.1
Financial	0.0	-0.2	-0.1	0.2	0.1	0.0	-0.5	-0.7	-0.7	0.3	0.0	0.0	-0.9	-1.3	-1.5	-0.5	-0.6	-0.3	-1.0	-1.0	-1.0	0.4	0.4	0.6
Health Care	0.2	0.5	0.7	0.1	0.3	0.6	1.0	0.9	0.6	1.4	1.9	1.8	0.0	0.4	0.9	-0.5	-0.3	0.5	0.7	1.3	1.3	0.5	0.9	1.1
Industrials	0.9	1.4	1.4	0.7	1.2	1.7	1.4	1.8	2.1	1.1	1.4	1.8	0.9	1.1	1.3	0.1	-0.1	0.0	-0.9	-0.8	-0.5	1.0	0.7	1.2
Information Tech.	1.1	1.6	2.2	1.4	1.9	2.4	1.4	1.6	1.2	-0.2	0.1	1.0	1.1	1.6	2.0	0.5	0.9	1.4	-0.5	-0.6	-0.7	1.1	1.6	2.2
Materials	-0.5	-0.4	-0.3	0.1	-0.1	0.5	-0.1	0.0	-0.2	0.1	0.1	0.3	0.3	0.1	0.2	0.2	0.2	0.4	-0.2	0.0	0.2	-0.4	-0.4	-0.5
Telecom Services	0.1	0.1	0.3	-0.2	0.1	0.5	0.1	-0.2	-0.6	-0.1	-0.2	-0.2	-0.6	-0.5	-0.1	-0.6	-0.9	-1.2	-1.2	-1.0	-1.3	1.8	1.8	1.8
Utilities	0.9	1.4	1.8	1.3	1.6	2.0	1.7	1.7	1.9	-0.2	0.5	1.0	0.0	-0.1	-0.3	1.1	1.3	1.1	1.1	0.7	0.1	0.9	1.1	1.3
Real Estate (US)				1.4	1.9	2.5																		

> 1.5	Very expensive
0.5 to 1.5	Expensive
-0.5 to 0.5	Neutral
-1.5 to -0.5	Cheap
< -1.5	Very Cheap

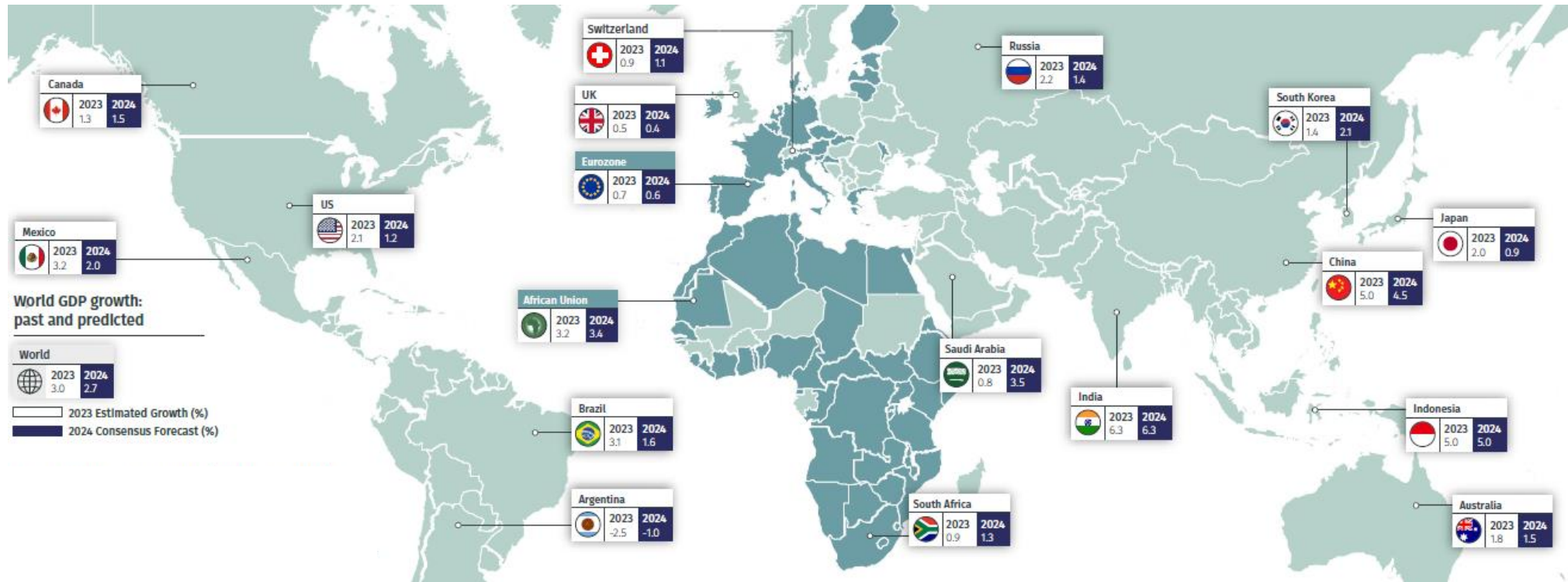
Source: LSEG Data & Analytics and EFGAM calculations. Data as at 02 January 2024.

For professional clients, qualified investors and accredited investors only

# Outlook 2024



# 1. World economy has a soft landing



Our most likely scenario is for a soft landing for the world economy in 2024. That would see global growth around 2.5%-3%.

- We think the US will avoid a marked recession and grow faster than most other advanced economies.
- Emerging and developing economies will outpace advanced economies, even though China will settle into a pattern of slower growth.
- A soft landing is by no means certain, however. There is a risk that prior aggressive increases in interest rates will cause a larger hit to economic growth and inflation than we expect in our baseline scenario.

Sources: IMF World Economic Outlook (2023 Estimated Growth); Bloomberg Consensus (2024 Consensus forecast). The above data is based on projections. Certain assumptions have been made regarding the information. The information is provided for illustration only. Any changes to these assumptions may have a material impact on the assessment presented. Past performance is not indicative of future results.



## 2. Productivity gains

### Annualised US productivity gains



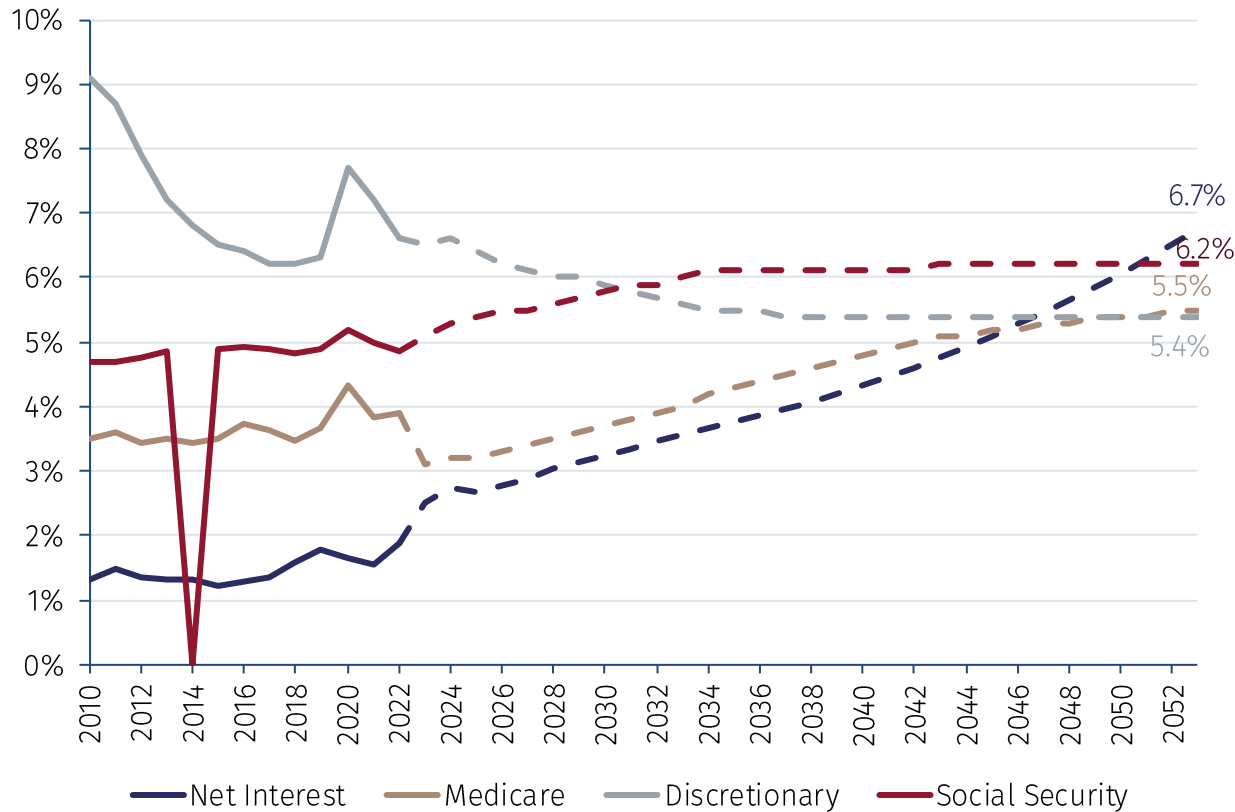
Source: LSEG and EFGAM calculations. 6 December 2023.

Economist Robert Solow famously said in 1987 that the computer age was everywhere except for the productivity statistics. It may finally have arrived.

- US productivity (output per hour in the non-farm business sector) grew at a rate of just 1.2% p.a. in the ten-years pre-pandemic. Its surge to an annualised rate of 5.2% in the third quarter of 2023 rekindled hopes of a technology-driven productivity renaissance.
- McKinsey estimates generative AI could boost labour productivity by 0.1% to 0.6% p.a. up to 2040. That suggests a modest improvement, to around 1.5% p.a., is feasible.
- The effects of generative AI in improving productivity are already seen in certain sectors such as consulting, legal services, creative industries and the education sector.

# 3. Fiscal fragility

## Federal spending on interest to exceed all other programs (% GDP)



Governments around the world are burdened with high budget deficits and debt levels. It is especially a problem in the US where there is a structural imbalance between revenues and spending.

- US fiscal conservatives stress the need to cut government spending or raise taxes. But reversing the tax cuts of recent years (technically, allowing them to expire on 31 December 2025) will be politically difficult.
- There are multiple pressures on government spending: the upward trend in health and social security spending in an ageing population are compounded by upward pressure on defence and infrastructure spending and, now, higher interest payments on government debt.
- The bond market vigilantes will continue to put pressure on governments running irresponsible fiscal positions in 2024.

Source: US Congressional Budget Office. Data as of 2 January 2024.

## 4. Political turbulence

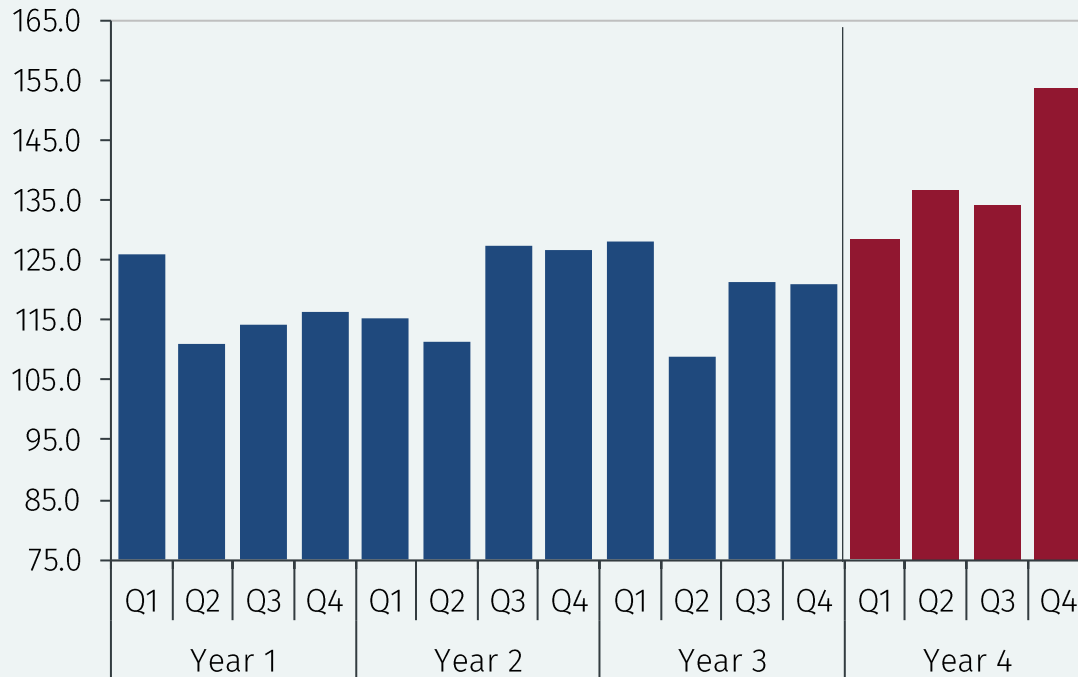


More than half of the world's population live in countries in which there will be national elections in 2024. The US elections – with the possibility of Mr Trump's return to the White House – will attract the most attention and are potentially the most consequential.

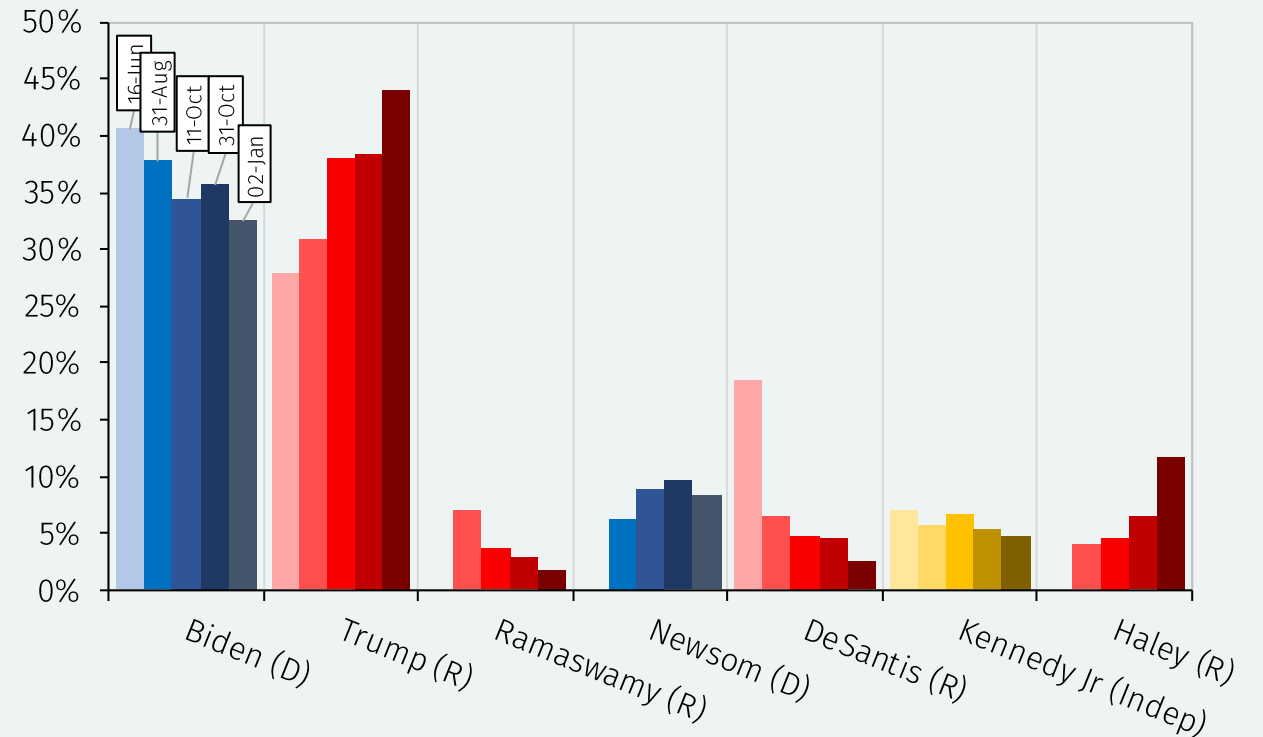
- Vladimir Putin is almost certain to be re-elected for a third consecutive term and 'strong men' will remain in charge elsewhere. Bucking that trend, Mexico will likely elect a woman president.
- Donald Trump has pledged an end to the Russia-Ukraine war "in 24 hours" if he returns to the White House. An easier regulatory environment for big tech and banking and the maintenance of low corporate and personal taxes are also likely on his agenda.

# 4. Political turbulence

Quarterly average of policy uncertainty levels by presidential cycle (1985-2023)



US Presidential Election 2024  
Average probability based on betting odds

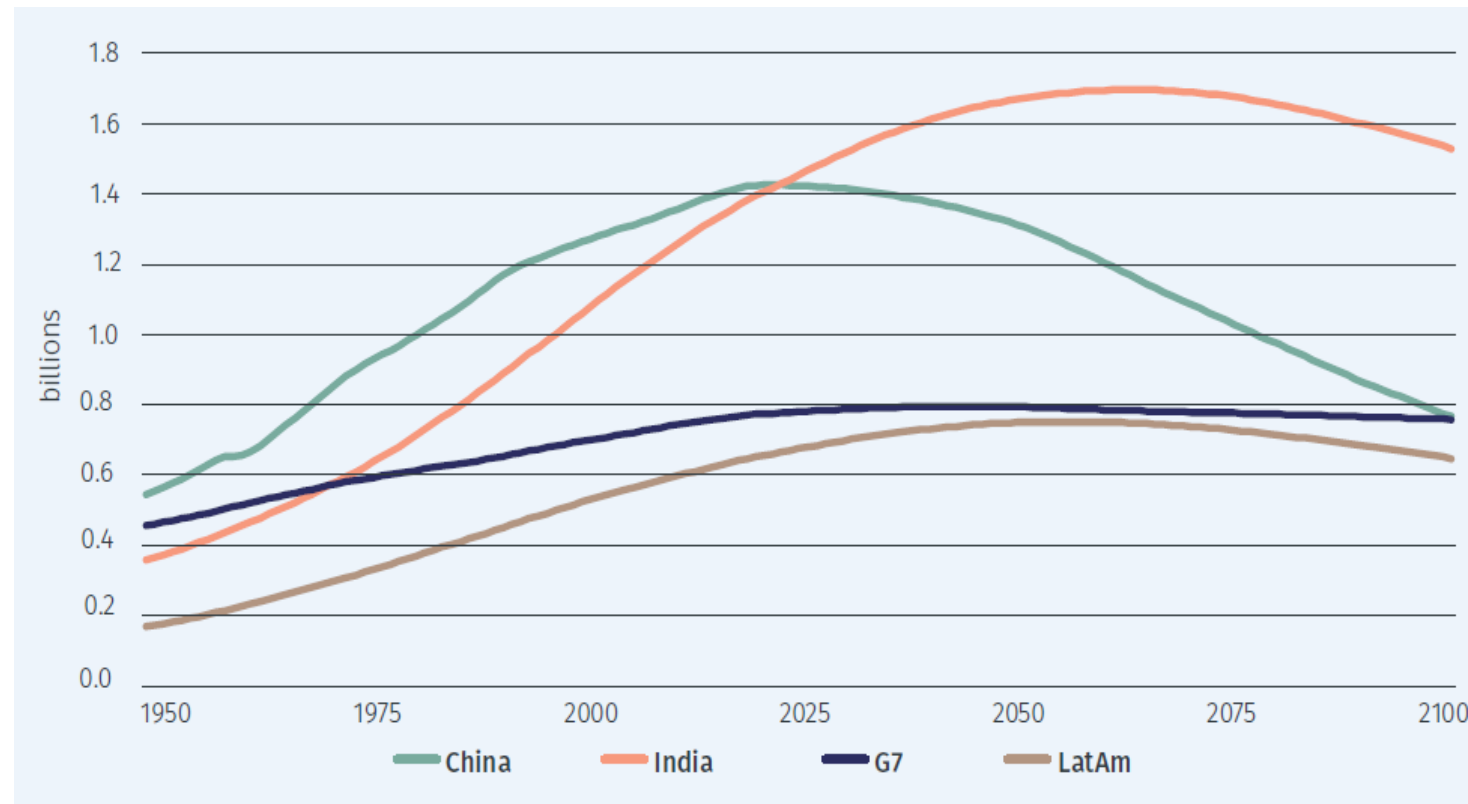


Source: LSEG Data & Analytics, Strategas and EFGAM calculations. Data as of 12 December 2023.

Source: Oddschecker.com and EFGAM. Data as of 2 January 2024.

# 5. Demography is (still) destiny

## Population trends



It has often been said that demographics is destiny: for any economy, the size of its population, its age distribution and how many people are working are key drivers of economic progress.

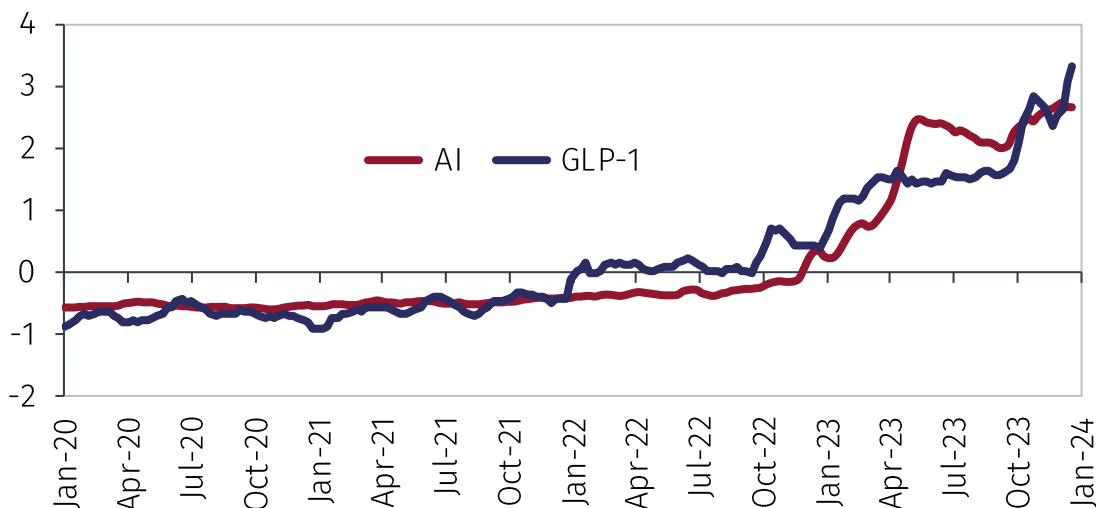
- Between now and 2100, China's population will shrink by 650m, according to UN population projections. It will lose as many people as the current population of Latin America.
- Countries can adapt to the challenges of a shrinking population:
  - Increase participation rates through later retirement and a higher female participation rate.
  - Measures to improve productivity can be encouraged.
- China faces the additional challenge posed by its greater recent emphasis on domestically-orientated growth.

Source: United Nations population projections, 2023 medium variant. Projections from 2023 onwards

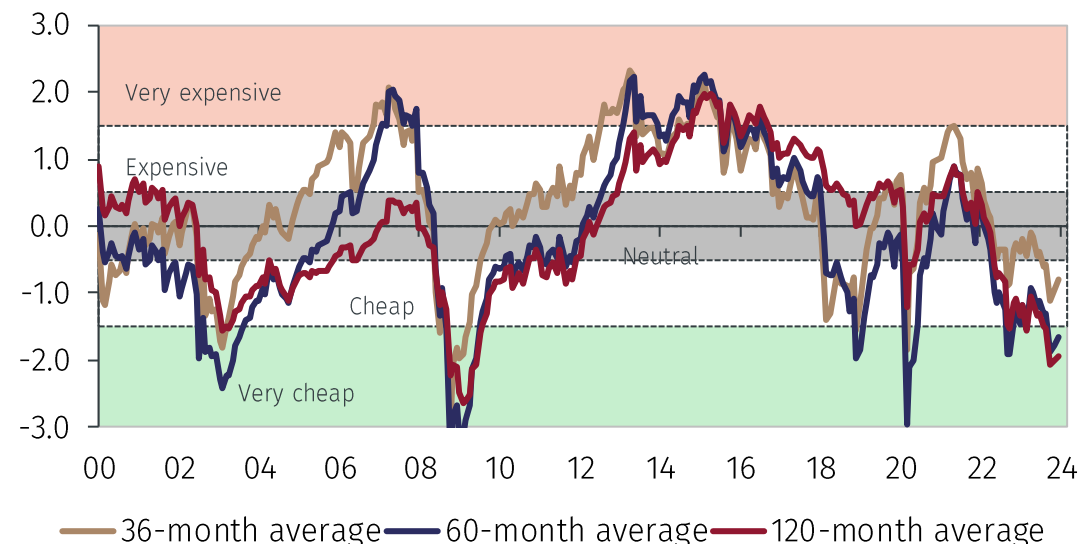
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# 6. Weight loss and consumer staples

Google trends data (normalised, 4 week average)



Consumer staples valuations



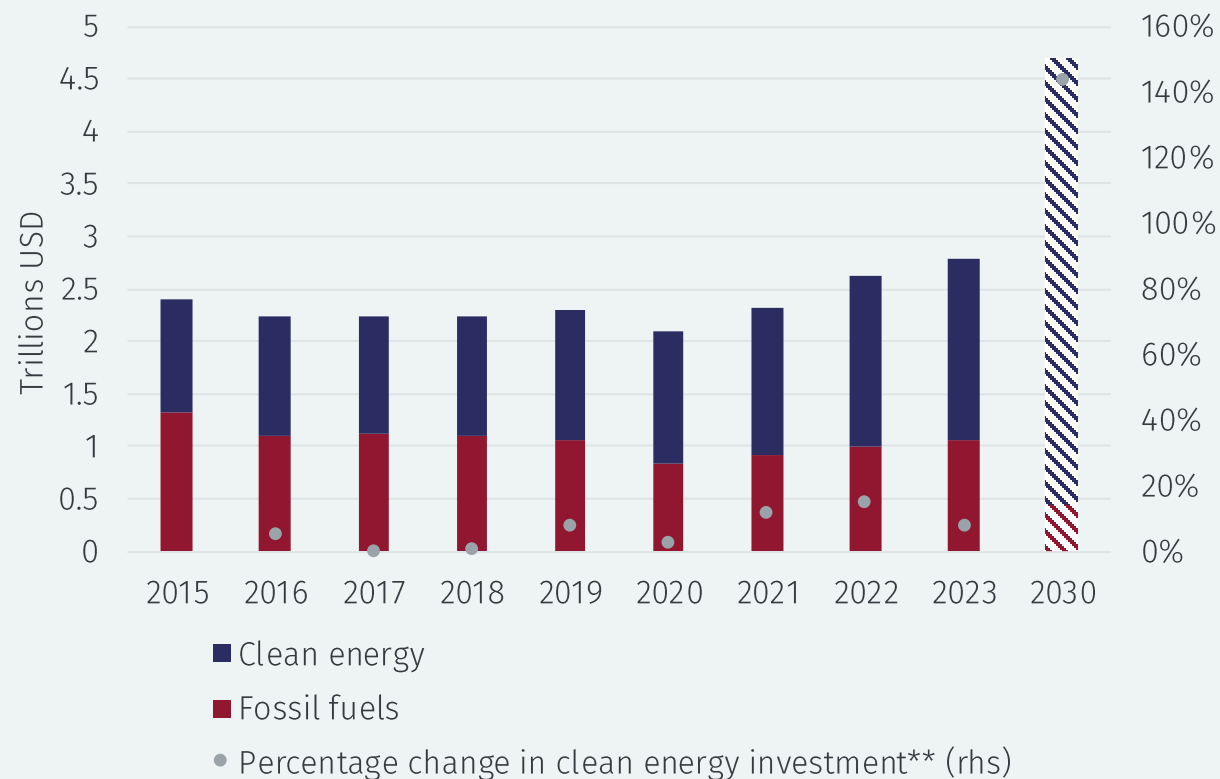
The popularity of weight loss drugs will, we think, surge in 2024. The potential market is huge. But the impact on the consumer staples sector has been exaggerated.

- Effective use of weight loss drugs can have far-reaching consequences: directly because of reduced demand for food; indirectly, due to potentially less pressure on healthcare systems.
- The potential effect of weight loss drugs in reducing food demand was a contributory factor to the performance of the consumer staples sector in 2023. The consumer staples sector is our contrarian pick for 2024, as we think valuations adequately reflect the risks involved.

Source: Left hand side chart - Google. Data as of 02 January 2024. Right hand side chart - LSEG Data & Analytics and EFGAM calculations. Data as of 4 January 2024.

# 7. Clean energy transition

Global energy investment projected by 2030 under NZE Scenario\*



The transition from fossil fuels to clean energy remains of utmost importance but progress stalled in 2023. We see it regaining momentum in 2024.

- The IEA’s latest projections see investment in clean energy rising from USD1.8 tr in 2023 to over USD4 tr per year in the 2030s.
- Wind, solar and battery storage projects were adversely affected by higher financing costs as interest rates rose in 2023.
- We see a much more positive outlook for 2024. Valuations of companies in those sectors price in little prospect of future growth, which seems highly unrealistic.

\*Capital investment required by 2030 to meet the objectives of the Net Zero Emissions by 2050 (NZE) Scenario which is a pathway for the global energy sector to achieve net zero CO2 emissions by 2050 and limit global warming to 1.5°C. \*\*Percentage change relative to previous period. Source: IEA (October 2023) and EFGAM calculations.

# 8. Undervalued currencies recover

## Dollar – yen divergence



The long upward trend in the dollar’s valuation on its nominal and real exchange rate indices came to an end, we think in late 2022.

- We expected a downtrend trend starting from then, which has occurred. But the pattern of dollar weakness has been uneven against different currencies. Indeed, the dollar has remained strong against the yen.
- The result is that the Japanese yen is undervalued on almost all measures of purchasing power parity and equilibrium exchange rates.
- 2024 will be a year when that undervaluation of the yen is, we think, corrected. The move away from Japan’s zero interest rate policy, a continued recovery in the Japanese economy and renaissance in Japan’s corporate sector will drive the appreciation.

Source: LSEG and EFGAM calculations; 1 December 2023. Past performance is not indicative of future results. For professional clients, qualified investors and accredited investors only



# 9. Bond opportunities

## Bond returns by sector and year

22.4%	8.2%	1.5%	14.3%	17.3%	1.0%	22.8%	54.5%	6.0%	-9.4%	14.6%
7.3%	7.5%	1.3%	10.7%	14.3%	-0.4%	14.5%	11.0%	3.1%	-9.9%	14.0%
-1.4%	6.1%	-0.3%	9.9%	10.4%	-1.2%	13.1%	9.9%	1.0%	-10.3%	9.1%
-1.5%	4.8%	-0.7%	6.1%	8.2%	-1.3%	12.6%	9.5%	-1.0%	-12.3%	8.5%
-2.6%	3.6%	-1.4%	5.9%	7.4%	-1.8%	9.5%	9.2%	-1.0%	-13.6%	6.9%
-4.1%	0.6%	-2.7%	4.7%	7.3%	-2.5%	8.4%	7.0%	-1.6%	-14.9%	5.7%
-4.3%	0.0%	-3.2%	2.1%	6.4%	-2.5%	6.8%	6.5%	-1.7%	-14.7%	5.0%
-4.3%	-0.8%	-3.3%	1.7%	3.0%	-3.4%	6.4%	5.3%	-4.7%	-16.2%	4.2%
-8.6%	-1.9%	-10.4%	1.7%	2.5%	-4.1%	5.6%	3.9%	-6.6%	-18.5%	3.9%
<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>

We see three interesting opportunities in bond markets for 2024.

- First, shorter-dated maturities offer protection against the reinvestment risk associated with declining short term interest rates. We favour three-five year maturities in government and investment grade corporate debt.
- Second, inflation-linked bonds are attractive because of the high real yield which they now offer and the fact that they do not already price in too high an inflation outlook.
- Third, selected convertible bonds provide, as always, the security of fixed income exposure and the upside potential from (especially small cap) equities.



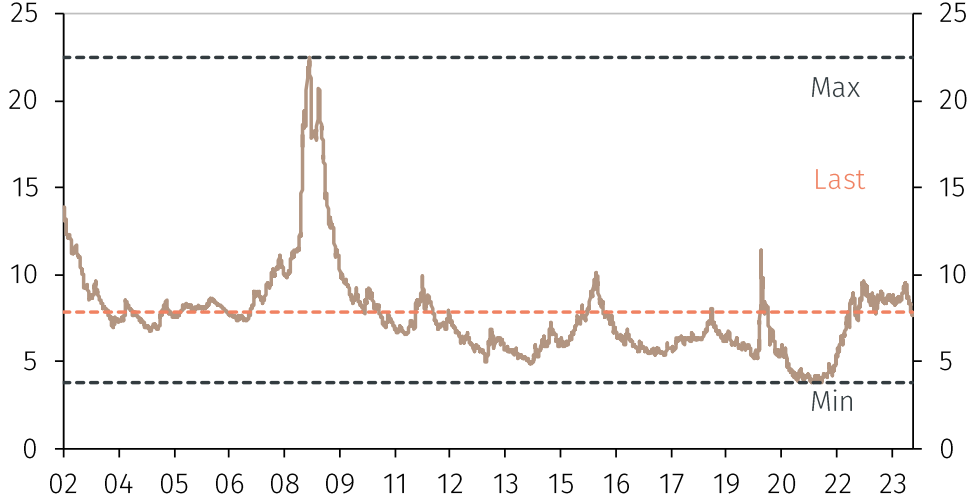
Source: Bloomberg. Data as at 31 December 2023. Past performance is not indicative of future results.

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# Fixed Income Markets: US



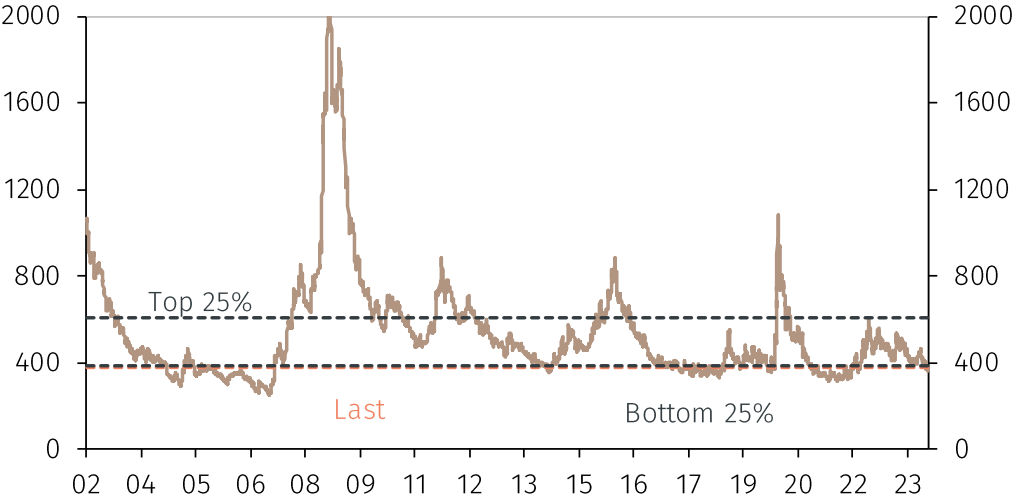
YTW (%) - ICE BofA US High Yield Index



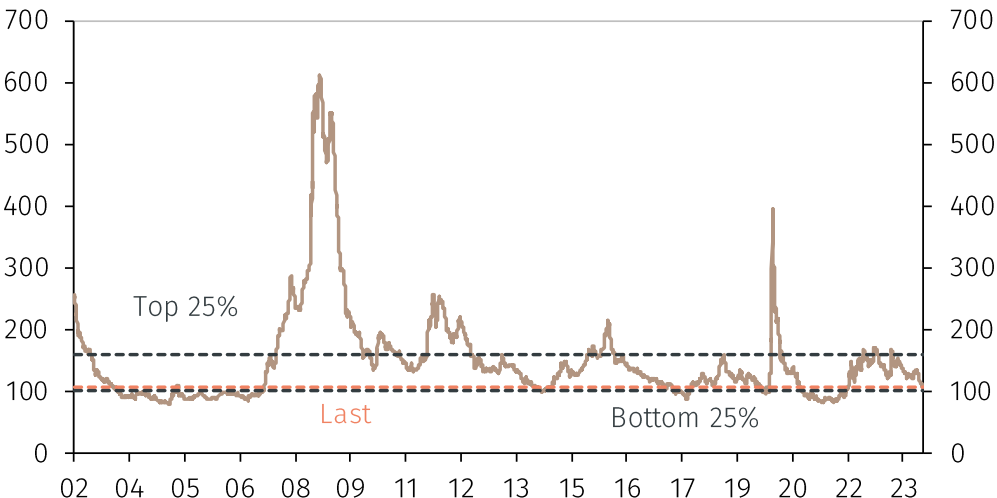
YTW (%) - ICE BofA US Corporate Index



Spread to Worst - ICE BofA US High Yield Index



Spread to Worst - ICE BofA US Corporate Index

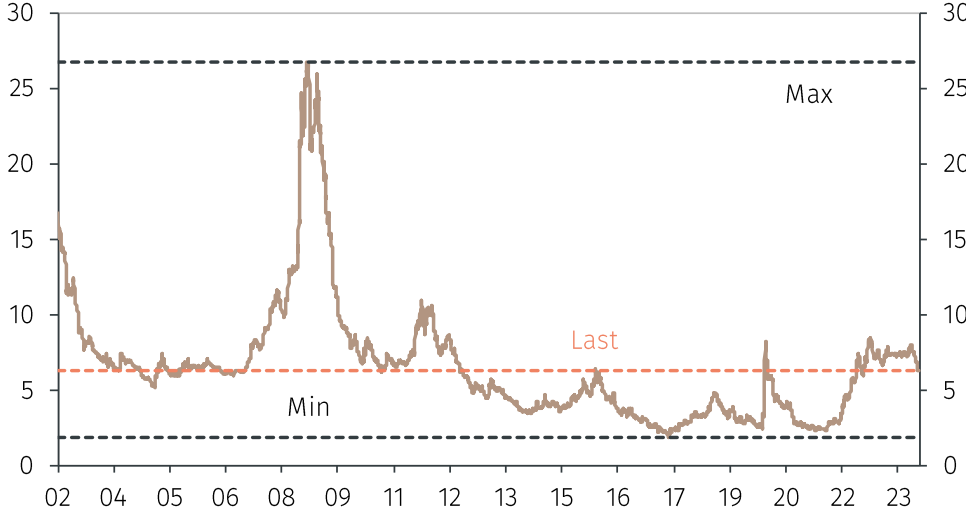


Source: Bloomberg and EFGAM calculations. Data as at 03 January 2024.  
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# Fixed Income Markets: Europe



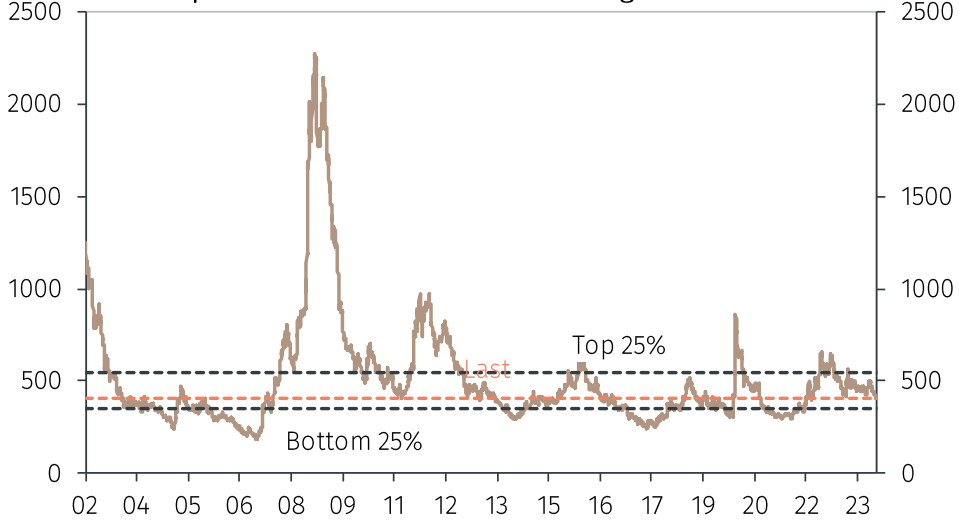
YTW (%) - ICE BofA EUR High Yield Index



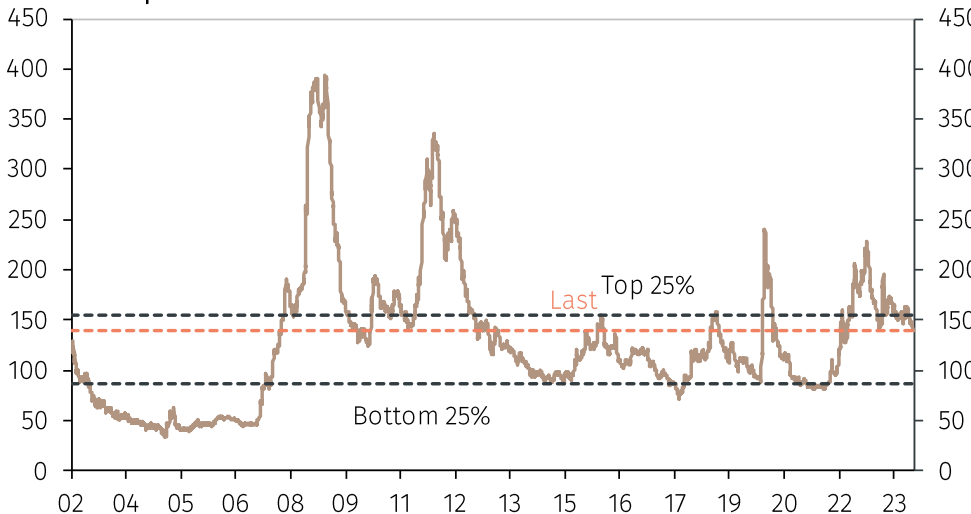
YTW (%) ICE BofA EUR Investment Grade Index



Spread to Worst - ICE BofA EUR High Yield Index



Spread to Worst - ICE BofA EUR Investment Grade Index

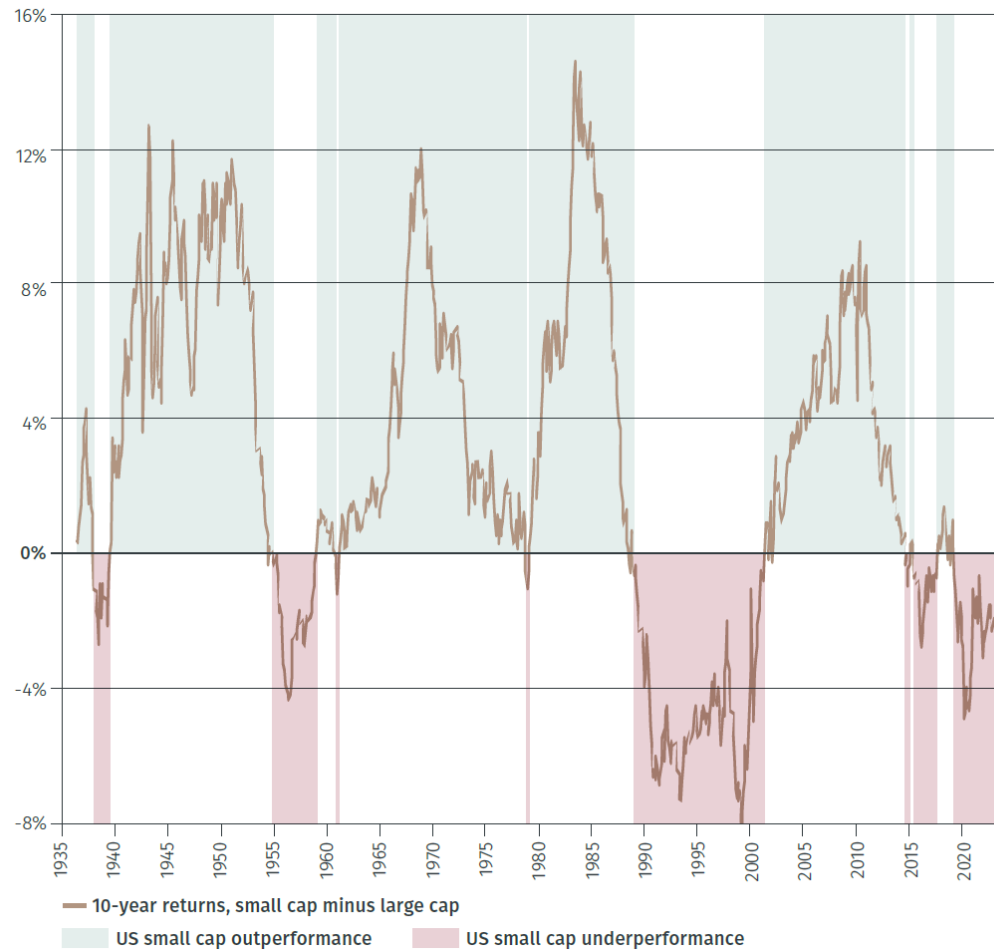


Source: Bloomberg and EFGAM calculations. Data as at 03 January 2024.

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# 10. Favour small cap stocks

## US small cap returns



A favouring of small cap stocks, one of our themes for 2023, did not work out too well, but we maintain that theme for 2024.

- Small cap stocks tend to produce higher returns than large cap stocks over time: the so-called small cap effect.
- An alternative to outright small cap selection is to favour an equally-weighted broader index which gives less weight to the very large cap tech stocks (which drove the US equity market appreciation in 2023) and more weight to smaller cap stocks.

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ASIC Class Order CO 03/1099

EFG Asset Management (UK) Limited notifies you that it is relying on the Australian Securities & Investments Commission (ASIC) Class Order CO 03/1099 (Class Order) exemption (as extended in operation by ASIC Corporations (Repeal and Transitional Instrument 2016/396) for UK Financial Conduct Authority (FCA) regulated firms which exempts it from the requirement to hold an Australian financial services licence (AFSL) under the Corporations Act 2001 (Cth) (Corporations Act) in respect of the financial services we provide to you.

UK Regulatory Requirements

The financial services that we provide to you are regulated by the FCA under the laws and regulatory requirements of the United Kingdom which are different to Australia. Consequently any offer or other documentation that you receive from us in the course of us providing financial services to you will be prepared in accordance with those laws and regulatory requirements. The UK regulatory requirements refer to legislation, rules enacted pursuant to the legislation and any other relevant policies or documents issued by the FCA.

Your Status as a Wholesale Client

In order that we may provide financial services to you, and for us to comply with the Class Order, you must be a 'wholesale client' within the meaning given by section 761G of the Corporations Act. Accordingly,

by accepting any documentation from us prior to the commencement of or in the course of us providing financial services to you, you:

- warrant to us that you are a 'wholesale client';
- agree to provide such information or evidence that we may request from time to time to confirm your status as a wholesale client;
- agree that we may cease providing financial services to you if you are no longer a wholesale client or do not provide us with information or evidence satisfactory to us to confirm your status as a wholesale client;
- and agree to notify us in writing within 5 business days if you cease to be a 'wholesale client' for the purposes of the financial services that we provide to you.

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