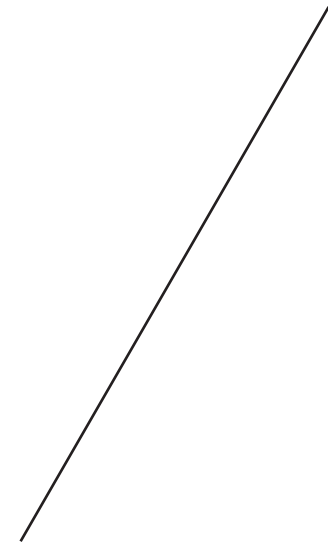


Q4 2023

FALLING
WITH STYLE



GLOBAL
MARKET
OUTLOOK

SYNOPSIS

We believe a mild U.S. recession is more likely than not in 2024, although a soft-landing scenario where the U.S. avoids an economic downturn altogether can't be ruled out. We think equities may remain supported by soft-landing expectations for the next few months, while government bonds continue to look attractive with most central banks nearing the end of their tightening cycles.

KEY MARKET THEMES

Airline pilot Sully Sullenberger achieved the miracle landing on the Hudson River in New York in 2009. U.S. Federal Reserve (Fed) Chair Jerome Powell's attempt at a soft landing for the U.S. economy may have an even higher degree of difficulty. While the unusualness of this pandemic-induced business cycle demonstrates that anything is possible, lessons from previous cycles suggest that sticking the landing is a challenge. After all, history shows that once the U.S. economy starts to slow in response to aggressive Fed tightening, it usually overshoots into a recession. This is why we believe that a mild U.S. recession before the end of 2024 is the most likely outcome, although the complexities caused by the pandemic make forecasting difficult.

Markets, however, are betting that a soft U.S. landing is likely. Case-in-point: Industry consensus expectations are for a rebound in corporate earnings next year, and interest-rate markets are pricing only modest central-bank easing. Amid this backdrop, our cycle, value and sentiment process favors a slightly cautious approach to U.S. markets, with selective opportunities in quality equities, front-end Treasuries, curve steepeners and agency mortgage-backed securities.

In Europe, the region's economy is under pressure, with Germany, France, Italy and Spain all flirting with recession. Bank lending and money supply are declining, reflecting the impact of European Central Bank (ECB) monetary tightening. Manufacturing indicators are contracting, and China's economic downturn is spilling over into Europe through weak export demand. While eurozone equities have performed strongly so far this year, we expect they'll soon face the cycle challenges of tight monetary policy and recession risk.



In the UK, the economy continues to track sideways. While large-cap UK equities currently offer good value, we think they could face headwinds due to their relatively large exposure to health, financials and consumer staples, coupled with their small exposure to technology firms.

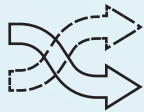
In China, the country's debt and property-market problems are intensifying, and the government still seems reluctant to undertake aggressive stimulus measures. Our analysis of sentiment for Chinese equities shows the market is oversold, but it has not yet hit the level of panic that would represent a strong contrarian buying opportunity.

In Japan, the post-lockdown rebound has boosted the nation's economy, with services-sector spending back to pre-pandemic levels and inbound tourism recovering. These trends are likely to continue. We expect the Bank of Japan (BoJ) will further relax its yield-curve control policy over the next six to 12 months, but an increase in the cash rate will require much more evidence that inflation is sustainably at the BoJ's target.

In Australia, the economy is slowing, but we think recession risks are lower there than in the Northern Hemisphere. The Reserve Bank of Australia's monetary policy is not as restrictive as central banks in other regions, and it has probably finished tightening.

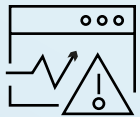
Aggressive rate hikes by the Bank of Canada (BoC) have raised debt-service costs in Canada and forced households to make budgetary compromises. We think the BoC is near the end of its rate-hiking campaign, as the Canadian economy continues to downshift.

ECONOMIC VIEWS



U.S. UNEMPLOYMENT VS. INFLATION

We think U.S. unemployment will likely need to rise above 4% for the nation's inflation rate to decline to the Fed's 2% target.



CHINA OUTLOOK

We believe China's economy will probably need to deteriorate further before there is meaningful stimulus. That said, while the country has its near-term challenges, we aren't as pessimistic about its longer-term growth prospects.



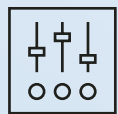
EUROZONE MONETARY POLICY

Although the ECB has signaled it may hold rates at high levels for a longer period of time, we think rate cuts are possible in the second half of 2024, due to weakness in key economic indicators and a downward trend in food and energy prices.



ARTIFICIAL INTELLIGENCE (AI) RISKS AND OPPORTUNITIES

While investor enthusiasm for AI-related equities could offset cycle headwinds, we also think it could create a larger downside risk if recession fears prick the AI hype.



BANK OF ENGLAND RATE HIKES

Markets expect the BoE will keep interest rates unchanged until late 2024, but we suspect that a sluggish economy could see the central bank reverse course earlier next year.

ASSET CLASS VIEWS

Equities: Limited upside

We believe equities have limited upside with recession risks on the horizon. Although non-U.S. developed equities are cheaper than U.S. equities, we have a neutral preference until the Fed becomes less hawkish and the U.S. dollar weakens significantly. Within equities, we prefer the quality factor, which tracks stocks that have low debt and stable earnings growth.

Fixed income: Government bond valuations are attractive

We see U.S., UK and German bonds as offering reasonable value. They have the potential to rally, as investors become confident that central banks have finished tightening, inflation has peaked and economies are slowing. It's also likely that the U.S. Treasury yield curve can steepen in coming months. The spread between 2-year and 10-year bond yields is close to an extreme, and the yield curve tends to steepen after the Fed has completed raising interest rates and markets start looking toward monetary easing.

Currencies: U.S. dollar has strengthened

The U.S. dollar (USD) has strengthened over the past couple of months as investors speculate that the economy could have a soft landing that would delay rate cuts. The U.S. dollar is expensive in real trade-weighted terms and will be under downside pressure if markets lose faith in this scenario. Meanwhile, the Japanese yen looks attractive from a cycle and value perspective, while the euro appears significantly undervalued relative to its purchasing power parity value.



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IMPORTANT INFORMATION

The views in this Global Market Outlook report are subject to change at any time based upon market or other conditions and are current as of Sept. 25, 2023. While all material is deemed to be reliable, accuracy and completeness cannot be guaranteed.

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Keep in mind that, like all investing, multi-asset investing does not assure a profit or protect against loss.

No model or group of models can offer a precise estimate of future returns available from capital markets. We remain cautious that rational analytical techniques cannot predict extremes in financial behavior, such as periods of financial euphoria or investor panic. Our models rest on the assumptions of normal and rational financial behavior. Forecasting models are inherently uncertain, subject to change at any time based on a variety of factors and can be inaccurate. Russell believes that the utility of this information is highest in evaluating the relative relationships of various components of a globally diversified portfolio. As such, the models may offer insights into the prudence of over or under weighting those components from time to time or under periods of extreme dislocation. The models are explicitly not intended as market timing signals.

Forecasting represents predictions of market prices and/or volume patterns utilizing varying analytical data. It is not representative of a projection of the stock market, or of any specific investment.

Investment in global, international or emerging markets may be significantly affected by political or economic conditions and regulatory requirements in a particular country. Investments in non-U.S. markets can involve risks of currency fluctuation, political and economic instability, different accounting standards and foreign taxation. Such securities may be less liquid and more volatile. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and political systems with less stability than in more developed countries.

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Investments in non-U.S. markets can involve risks of currency fluctuation, political and economic instability, different accounting standards and foreign taxation.

Bond investors should carefully consider risks such as interest rate, credit, default and duration risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield (“junk”) bonds or mortgage-backed securities, especially mortgage-backed securities with exposure to sub-prime mortgages. Generally, when interest rates rise, prices of fixed income securities fall. Interest rates in the United States are at, or near, historic lows, which may increase a Fund’s exposure to risks associated with rising rates. Investment in non-U.S. and emerging market securities is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries.

Performance quoted represents past performance and should not be viewed as a guarantee of future results.

The S&P 500® Index, or the Standard & Poor’s 500, is a stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.

The FTSE 100 Index is a market-capitalization weighted index of UK-listed blue chip companies.

The Bloomberg Global Treasury Index tracks fixed-rate, local currency government debt of investment grade countries, including both developed and emerging markets. The index represents the treasury sector of the Global Aggregate Index. The index was created in 1992, with history available from January 1, 1987.

Indexes are unmanaged and cannot be invested in directly.

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UNI-12293

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