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ANNUAL

THE
TWILIGHT
ZONE



GLOBAL
MARKET
OUTLOOK

SYNOPSIS

We believe markets may be overly optimistic about a *soft-landing* scenario in 2024 and that recession risks remain elevated for most developed economies in the year ahead. While this is likely to create headwinds for equity markets, we expect a more positive environment for government bonds.

KEY MARKET THEMES

A recent survey by Bank of America found that 74% of fund managers expect a *soft landing*—where economic growth slows but a recession is avoided—for the global economy in 2024. This optimism is evident in bottom-up consensus expectations for 11% earnings growth by S&P 500® companies in 2024, and in spreads on high-yield corporate bonds that are below their long-term average.

We're not as confident that the all-clear can be sounded on recession risks, however, as households will soon exhaust their excess savings from the pandemic. Up until now, these savings have acted as a strong defense against U.S. Federal Reserve (Fed) tightening. In addition, significantly higher interest rates have become a constraint on new borrowing, which will create refinancing issues.

All told, this business cycle may be a case of *this time is longer* rather than *this time is different* with regards to the lagged impact of aggressive Fed tightening on the economy. While a recession in 2024 might be avoided, we see the risks as elevated. The world will likely enter the new year in a twilight zone between slowdown, possible recession, and recovery—where nothing is likely to be quite what it seems.

In the U.S., slower economic growth and the threat of a recession provide a cautious equity market backdrop. We think 10-year Treasury yields around 4.5% offer good value and expect recession risks to provide cycle support for bond returns.

Europe has been hard hit by the global manufacturing downturn and demand weakness from China. Although eurozone equities have been strong performers in 2023, they'll likely battle tight monetary policy and recession risks in 2024.



We believe the UK has the most challenging outlook of the major economies—and the greatest risk of recession in 2024. With inflation declining more slowly than elsewhere, the Bank of England will likely be slower to start easing than other central banks.

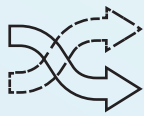
In China, fiscal policy is likely to be a dominant factor through 2024 as the government continues with incremental new policies to support the economy. Chinese equities look cheap across most metrics, but we remain cautious for now, looking for clearer signs of a commitment to policy measures that will resolve the debt issues in the property market and meaningfully boost the economy.

We expect economic growth in Japan to slow next year as reopening dynamics fade. A key focus for Bank of Japan (BoJ) policy is whether there are further improvements in wage growth. We expect more incremental tightening from the BoJ, with yield-curve control likely to be removed through 2024.

In Australia, we anticipate the economy will slow through 2024, but that a recession will be avoided due to strong population growth and less restrictive policy relative to other developed markets.

We expect the Bank of Canada to resist further tightening amid significant inflation declines and rising uncertainty over the economic outlook. We see rate cuts as likely in Canada next year as recession risks intensify.

ECONOMIC VIEWS



FED POLICY

Amid slowing U.S. jobs growth and declining inflation, we believe the Fed has probably finished lifting interest rates and may contemplate rate cuts during the first half of 2024.



CHINA GROWTH OUTLOOK

We expect growth of around 4.5% in China next year, underpinned by government spending and some improvement in consumer standing.



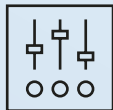
EUROPEAN ECONOMY

We believe the eurozone is on track for another year of below-trend growth in 2024, with elevated recession risks.



U.S. FISCAL POLICY

With the U.S. debt-to-GDP (gross domestic product) ratio on the rise, we think the era of big fiscal expansions is over. Going forward, politicians will likely be constrained by the realities of debt burdens and interest costs.



BANK OF ENGLAND (BoE) EASING

In the UK, fixed income markets have 75 basis points (bps) of BoE easing priced for next year. This seems like an underestimate to us, given the underlying weakness of the nation's economy.

ASSET CLASS VIEWS

Equities: Limited upside

We believe equities offer limited upside as valuation multiples are expensive amid elevated recession risks. From our viewpoint, the quality factor is a preferred exposure within the equity market. It trades at a reasonable relative valuation to the market, and the style's emphasis on profitable companies with strong balance sheets can offer useful defense if the economy slows and interest rates decline.

Fixed income: Government bonds offer attractive value

With yields trading well in excess of expected inflation, we see government bond valuations as attractive in the U.S., the UK, Canada, Germany, and Australia. U.S. Treasuries are a preferred overweight exposure for us. Our fixed income strategy team sees particularly good value in the five-year segment of the yield curve, and the potential for the curve to re-steepen if more aggressive rate cuts are delivered in 2024 and 2025.

Currencies: Neutral stance on U.S. dollar

The U.S. dollar is expensive on a purchasing-power-parity basis, which suggests potential for the greenback to depreciate over the medium-term. However, the potential for a global recession in 2024 could result in further upside for the dollar in the short-term as investors flock to the relative safety of U.S. assets. From our vantage point, these two-sided risks warrant a neutral stance.



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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 December 4, 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.

Currency investing involves risks including fluctuations in currency values, whether the home currency or the foreign currency. They can either enhance or reduce the returns associated with foreign investments.

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. 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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