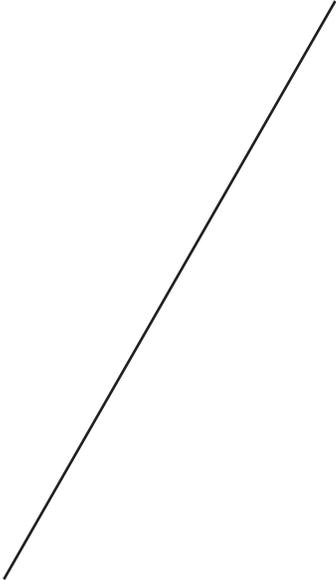


Q2 2024

PENT-UP
EXUBERANCE



GLOBAL
MARKET
OUTLOOK

SYNOPSIS

We believe optimism over a *soft-landing* scenario—where economic growth slows but a recession is avoided—may deliver more near-term market gains, as inflation declines and central banks look to start easing around mid-year. However, we think the risks of a sharper economic slowdown later in 2024 are elevated, as the lagged impact of previous interest rate rises has yet to be fully felt.

KEY MARKET THEMES

Raphael Bostic, president of the U.S. Federal Reserve Bank of Atlanta, coined the phrase *pent-up exuberance* in a recent speech. While Bostic was referring to the risk of renewed economic acceleration, we believe the term also captures the mood of markets, as exuberance about the surprising robustness of the economy spills over into investor enthusiasm. Coupled with declining inflation and solid corporate profits—particularly for AI (artificial intelligence)-themed mega-cap stocks—investors who were fearful of a recession in 2023 are being drawn into the market, with the positive momentum having the potential to push the S&P 500® Index to further record highs.

While a *soft landing* is possible, we think the risks of economic growth eventually disappointing markets are underappreciated. President Bostic’s warning of pent-up exuberance is one that we believe investors should carefully consider, as this year’s optimism could eventually prove to be excessive.

We still think some of the impacts of the Federal Reserve’s (Fed) aggressive rate-tightening campaign are continuing to work their way through the U.S. economy—just at a slower pace than usual. Our concern is that the Fed’s caution about inflation being sticky will further delay rate cuts. In our opinion, this increases the likelihood that the *soft landing* currently priced by markets overshoots into a mild recession. We expect the Fed to start easing in the middle of the year, but will become more concerned about the longer-term outlook if rate cuts are delayed to the end of the year.



We believe it’s more likely than not that the U.S. avoids a recession in 2024, but economic uncertainty remains high with the economy running at full capacity, household savings diminishing, the labor market slowing down, and the U.S. Treasury yield curve still inverted.

In Europe, economic activity indicators are surprising to the upside, while core inflation is tracking toward the European Central Bank’s (ECB) 2% target. The ECB has hinted that rate cuts are likely to commence in June in response to the downward trend in core inflation.

The outlook for the UK continues to be challenging. GDP (gross domestic product) growth is stagnant, and inflation is declining at a slower pace than in other developed economies. Market expectations are for the Bank of England to begin lowering interest rates in the third quarter, which would provide some relief.

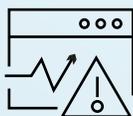
China has announced a 2024 GDP growth target of around 5%. Unlike last year, its economy will not benefit from a post-pandemic reopening, which leads us to believe that this target will be difficult to achieve.

Japan is beating expectations in economic activity and corporate profits growth, as well as in financial markets, where the Tokyo Stock Price Index (TOPIX) has reflected the best performing market year-to-date. We anticipate trend-like growth from Japan through the rest of the year.

We expect the Australian economy to continue with below-trend growth, but think a recession will be avoided. The Reserve Bank of Australia will likely lag other central banks in cutting rates, and we expect the first rate cut at the end of the third quarter.

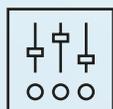
In Canada, we believe a recession is more likely than not over the next 12 to 18 months, with the Bank of Canada likely to start cutting rates by mid-year.

ECONOMIC VIEWS



U.S. INFLATION

We think 2%-2.5% inflation is in store for the end of 2024. This should allow the Fed to start gradually transitioning policy back to a more normal setting around mid-year.



BANK OF JAPAN POLICY

Wage growth and inflation expectations have moved toward levels that are consistent with the Bank of Japan's (BoJ) inflation target. We believe this should allow the BoJ to normalize policy slowly through 2024.



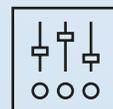
EUROPEAN RESILIENCE

We believe that the recovery in bank lending in Europe suggests that the region's positive economic momentum can be maintained over the next quarter.



CHINA STIMULUS

From our vantage point, China's 5% GDP growth target for 2024 suggests that more meaningful policy moves will be forthcoming.



BANK OF ENGLAND (BoE) EASING

Fixed income markets expect the BoE to deliver two to three 25-basis-point rate cuts this year. This seems like an underestimate to us, given the underlying weakness of the UK economy.

ASSET CLASS VIEWS

Equities: Neutral

The equity market outlook appears constrained by expensive valuation multiples, optimistic industry-consensus earnings growth expectations, and overbought sentiment. Our portfolio strategies are neutral across major equity regions. While non-U.S. developed equities still trade at a steep discount to U.S. equities, we think there is significant uncertainty around the ability for these markets to deliver differentiated earnings.

Fixed income: Government bonds provide attractive value

We believe government bonds offer attractive value for investors, as yields still trade well in excess of expected inflation. U.S. Treasuries are a preferred overweight exposure for us, as we see particularly good value in the five-year point of the yield curve. We also see potential for the curve to re-steepen if more aggressive rate cuts are delivered in the next few years.

Currencies: Neutral stance on U.S. dollar

The U.S. dollar is expensive, which suggests potential for the greenback to decline 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. We believe 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 March 25, 2024. 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 Tokyo Stock Price Index, commonly known as TOPIX, tracks the entire market of Japanese companies and covers most stocks in the Prime Market and some stocks in the Standard Market. It is calculated and published by the Tokyo Stock Exchange.

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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