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Monthly Letter: Equities in the year ahead

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In our latest Monthly Letter, we take a deeper look at what 2024 may bring for equity markets—and how investors can position.

Next week, we will publish our *Year Ahead 2024* outlook, including our views across economies and asset classes, and answers to some of the key questions investors will face in the year to come. In our latest monthly letter, we provide a glimpse of key views ahead of that publication and take a deeper look at equities, including changes to our positioning in the asset class.

Global stock market indexes have had a volatile ride over the course of 2023—with major indexes rallying in the first half of the year, powered by a few big technology stocks, before giving up some of that ground in the second half on a combination of fears about high interest rates and a slowing economy.

As we look to the next year, that leaves us with three big questions:

- How should investors adapt stock portfolios to account for slowing economic growth?
- What is the outlook for the technology sector, and how should investors position?
- What will moves in the bond market mean for stocks?

First, while we expect slower economic growth to weigh on earnings growth among cyclical companies, we think quality companies—those with a high return on invested capital, strong balance sheets, and reliable income streams—will still grow earnings despite a tougher operating backdrop. History shows that quality stocks tend to outperform in environments of slowing economic activity, when the economy is in “late cycle.”

Second, we like the US information technology sector and upgrade it from neutral to most preferred. This partly reflects our bias for quality stocks; many of the companies with the highest returns and the strongest balance sheets are in the IT sector. But it also acknowledges the signs from the latest earnings season that smartphone and PC demand is improving. The sector also offers exposure to one of the most compelling long-term investment opportunities today: artificial intelligence.

Concurrent with this move, we upgrade the US equity market from least preferred to neutral within our regional preferences. We continue to like emerging market (EM) stocks, including China and India. Economic surprises have been improving since July, and China is adding more ammunition to stimulate domestic demand. The MSCI EM is attractively valued at 11x forward price-to-earnings, and we expect 16% earnings growth next year.

Third, in our base case we expect bonds to rally further in the year ahead, and we believe that lower bond yields should be supportive of stocks, provided they do not coincide with a particularly sharp slowdown in economic growth.

Fixed income remains our preferred asset class, given the combination of attractive yields and the potential for capital appreciation if interest rate expectations fall. We prefer the higher quality segments of the fixed income market, including high grade (government) and investment grade bonds. Our December 2024 forecast for the 10-year US Treasury yield is 3.5%.

But we also see upside for equity indexes in the year ahead, supported by earnings growth among quality companies. Overall, we believe 2024 should be a good year for investors who put their money to work in balanced portfolios, with positive prospective returns across stocks, bonds, and alternative investments.

Read more in our monthly letter, "[Equities in the year ahead.](#)"

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