NAHMANI GRUNDER

WEALTH MANAGEMENT & MULTI-FAMILY OFFICE

NG Market Insights

2023 Review

2024 Outlook

Executive Summary: Markets have embraced a perfect Soft Landing outcome

Asset Allocation

- GDP growth/inflation mix better than feared, especially in the US.
- However, Equity/Credit markets priced to near-perfection after Q4 2023 rally.
- Expect flattish returns for developed markets (DM) equity indices in 2024, albeit with high volatility.
- Credit should outperform Equities.
- Positive on commodities, especially on Copper, Crude Oil and Gold.
- IPO market to re-open in 2024 - Private market exits back on agenda.

Equities

- For developed markets, our base case calls for -5% to +5% returns in 2024.
- With valuations at multi-year highs, be ready to act on drawdowns.
- In the US, we expect Mag7 and Healthcare to outperform the S&P 500.
- Sectorally, emphasis on Semiconductors, Internet, Health care, the high-end Consumer, as well as Commodity stocks exposed to Copper and Oil.

Fixed Income

- Focus on USD (up to 5 years) and CHF/EUR (up to 2 years) sovereign bonds.
- Expect the US yield curve to steepen and the 10-year Treasury rate at or above 4.0% by end-2024.
- Position in global IG credit, notably USD/EUR/CHF low A-to-BBB rated within the 5 years duration bracket.

Commodities

- Copper and Crude Oil are our favorites, with demand holding up and supply growth curtailed. Copper treatment charges (TC) have collapsed in H2 2023, boding well for Copper price upside.
- Gold should remain above $ 2,000/oz., with a rising safe haven premium and ongoing purchases by BRICS central banks.

Currencies

- In line with our expectations that markets will have to dial back some of their optimism for aggressive rate cuts in the US in 2024, we expect the USD to appreciate against EUR/CHF during the year.
- The BoJ should exit YCC and its negative rates policy during the year, with USDJPY potentially weakening from its multi-decade highs.

2023 Review

The global tightening cycle ended during 2023 with rates peaking for this cycle

- The post-Covid inflationary surge of 2021 and 2022 resulted in a truly global tightening cycle, led by the FED with its rate lift-off in March 2022.

- By Q3 2022, inflation in Western economies had surged to levels not experienced since the early 1980s, and the result was one of the sharpest hiking cycles in history, taking policy rates well into restrictive territory by early 2023. During this hiking cycle, the FED and ECB both increased their respective policy rates by at least 450bps within a period of 16 months.

- At the same time, we can now state that this synchronized tightening cycle has come to an end, with current interest rates in strongly restrictive territory enough to bring inflation down towards the 2.0% target over the next 2 years.

- The FED hiked interest rates by 4 more 25bps increments during 2023, with the FED Funds rate peaking at 5.30% by July 2023. The ECB deposit rate reached a peak of 4.0% by September 2023, with the BOE base rate peaking at 5.25%.

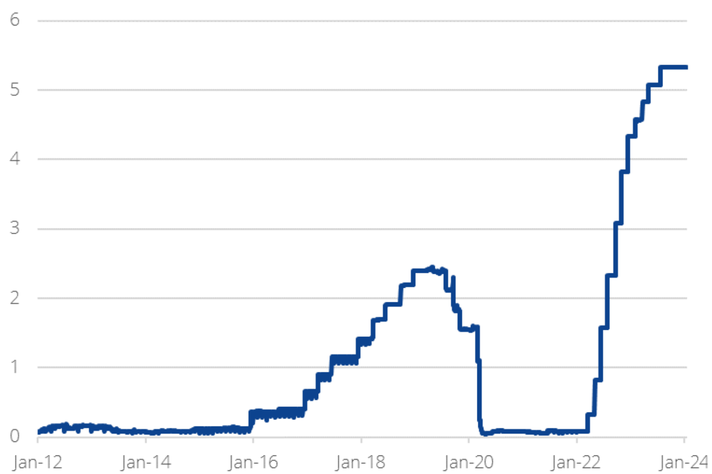
- During the last FOMC meeting of 2023 on 13 December, the FED officially opened the door for the potential start of a rate cutting cycle during 2024 if the perfect soft landing outcome does eventually take hold with reasonable GDP growth and further moderation in inflation to well below 3.0%.

Central Bank	Current policy rate	Mar 2022
FED	5.30%	0%
ECB	4.00%	-0.50%
Bank of England (BoE)	5.25%	0.50%
SNB	1.75%	-0.75%
Bank of Japan (BoJ)	-0.10%	-0.10%

Source: Nahmani Grunder.

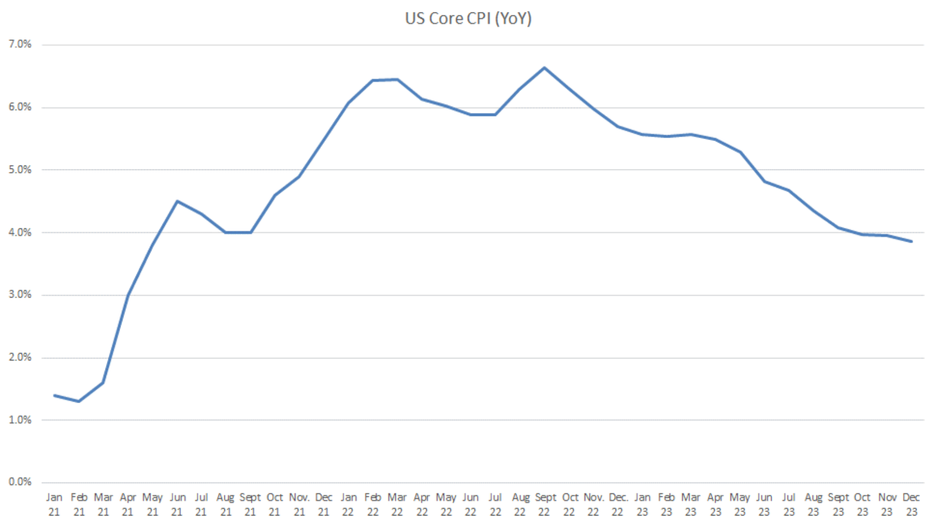
«While we will move carefully, rate cuts are something that begin to come into view and clearly a topic of discussion.» FED Chair Jay Powell, 13 December 2023

Effective Fed Funds rate (in %), 2011 - 2023



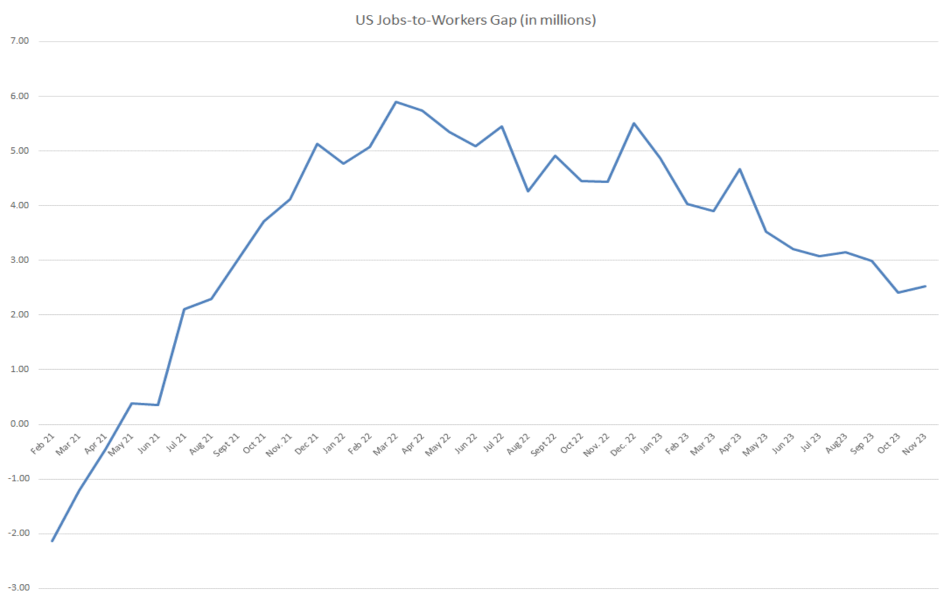
US inflation moderating with tame Goods prices & Labor market tensions easing

US Core CPI, 2021 - 2023

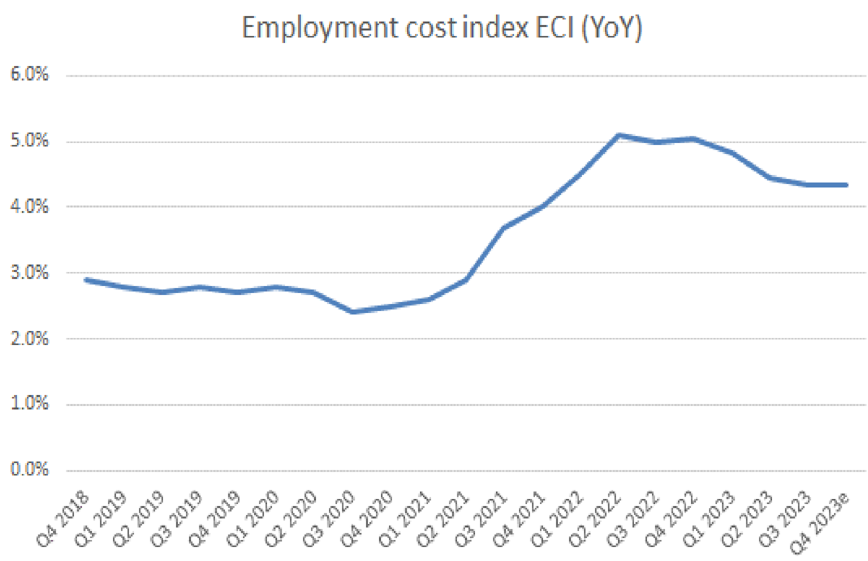


US Unemployment rate at 3.7%, still close to cycle lows…

.. but US Open-jobs-to-available workers ratio down to 1.4x (peak of 2.0x)



US Wage growth lower but still elevated at +4.3% YoY by Q4 2023



US growth/inflation mix much more favorable than expected in 2023

- Our biggest worry into 2023 was a US/Global economic recession, since aggressive tightening cycles have historically always resulted in growth damage. As such, the biggest surprise of 2023 was the underlying strength in the US economy with real GDP growth even accelerating, despite the extraordinary monetary tightening. Against all odds, the US economy is on track to grow by +2.4% year-on-year (YoY) in 2023, versus +2.0% in 2022.

- Better than expected US economic growth was based on the resilience of the US consumer, which came out of Covid with an artificially strong balance sheet as well as ongoing fiscal expansion by the US government. The latter pushed US public debt to balloon to $ 34.0 trillion by the end of 2023 (from $ 31.4 trillion at end-2022), or a debt-to-GDP ratio of 126%.

- At the same time, despite this growth upside, the US disinflation theme remained perfectly on track, with core CPI finishing 2023 at 3.9%, versus 5.7% at the end of 2022 and a peak of 6.6% in this cycle in September 2022. Goods prices were up only +0.1% YoY by end-2023 (versus +2.8% by-end 2022) with Chinese deflationary trends helping. Services inflation also slowed from +7.1% to +5.3% YoY by the end of 2023 with labor market imbalances starting to improve.

- On a global basis, though, while the disinflation story of 2023 was quite sychronized across regions, overall global economic growth did slow down to +2.7% YoY (from 3.0% in 2022) mainly due to the clearly weak trends in G7, ex-US. Germany, the largest economy in Europe, even reported a real GDP decline of -0.3% YoY in 2023.

GLOBAL REAL GDP GROWTH MAP

	2017a	2018a	2019a	2020a	2021a	2022a	2023e	2024e
US	**2.2%**	**2.9%**	**2.2%**	**-3.4%**	**5.7%**	**2.0%**	**2.4%**	**1.5%**
Japan	1.7%	1.1%	0.7%	-4.6%	1.6%	1.2%	2.0%	1.1%
Germany	2.5%	1.9%	0.6%	-4.9%	2.9%	1.9%	-0.3%	0.1%
France	2.3%	1.6%	1.5%	-8.0%	7.0%	2.5%	0.9%	0.7%
UK	1.7%	1.4%	1.3%	-9.7%	7.5%	3.9%	0.4%	0.4%
Italy	1.5%	1.2%	0.6%	-9.0%	6.6%	3.8%	0.7%	0.6%
Canada	3.0%	2.1%	1.5%	-5.3%	4.6%	3.4%	1.1%	0.7%
G7-ex US	**2.1%**	**1.5%**	**0.9%**	**-7.0%**	**4.9%**	**2.8%**	**0.9%**	**0.7%**
China	**6.9%**	**6.7%**	**6.1%**	**2.3%**	**8.1%**	**3.0%**	**5.2%**	**4.5%**
Developed Mkts (DM)	2.3%	2.4%	1.7%	-5.0%	5.5%	2.5%	1.8%	1.2%
Emerging Markets (EM)	4.7%	4.7%	4.2%	-1.9%	6.9%	3.6%	4.0%	3.3%
Global GDP growth	**3.7%**	**3.7%**	**3.1%**	**-3.2%**	**6.3%**	**3.0%**	**2.7%**	**2.1%**

Source: Nahmani Grunder.

… with the benchmark 10-year US rate completing a full U-turn during the year

- Against this macro background, global financial markets in 2023 were marked by two distinctive parts:

- The initial period took place between January and October, during which markets worried about the growth/inflation outlook and a potential recession with sticky inflation, rates remaining "higher for longer" as well as the untenable US fiscal position. During this period, the entire Western yield curve complex shifted higher, with 10-year US Treasury rates reaching a cycle high of 4.99% by 19 October, with 10-year real rates hitting +2.5% (versus 1.6% at the end of 2022).

- The second period with a massive duration rally started in earnest on 1 November with the US Treasury's Quarterly Refunding Announcement (QRA) which showed a much larger Bills-to-Bonds skew than originally communicated. Markets took this as a clear intervention by the Treasury into long-dated rates, with the 10-year rates subsequently collapsing to 4.33% by the end of November. The FED officially blessed a potential rate cutting cycle on 13 December during the last FOMC of the year, which subsequently helped rates complete a perfect U-turn during the year: the US 10-year started 2023 at 3.87% and ended up finishing the year at 3.88%, -111bps lower than its cycle peak only 10 weeks earlier.

10-year US Treasury rate (in %) during 2023; Extreme rates volatility was a key aspect of the year

...and with markets generating robust returns, helped by the Generative AI theme

- As of the end of 2023 and especially post the FOMC meeting on 13 December, financial markets clearly embraced a perfect soft landing outcome with ongoing 2+% real US GDP growth, further linear moderation in inflation and clear prospects for falling rates without a recession as 2024 progresses.

- Against this constellation and despite a lot of intra-year volatility, 2023 overall ended up being shaped by a pro-risk backdrop especially in the last 2 months of the year with Equities, Credit and Gold all generating robust positive performances for the year.

NG RISK RADAR 29.12.2023

GLOBAL EQUITIES	S&P 500	SMI	EuroStoxx 600	MSCI World	MSCI EM
29-Dec-23	4 769.8	11 137.8	479.0	3 169.2	1 023.7
30-Dec-22	3 839.5	10 729.4	424.9	2 602.7	956.4
% return, in local currency terms	**24.2%**	**3.8%**	**12.7%**	**21.8%**	**7.0%**
FX impact	*0%*	*9.9%*	*3.1%*		
in USD terms	**24.2%**	**14.1%**	**16.3%**	**21.8%**	**7.0%**

GLOBAL BONDS	BBG Global Credit TR	US BBB spread	US High Yield spread	10-year Treasury rates	US yield curve 2s/10s
29-Dec-23	266.8	1.34%	3.71%	3.88%	-0.37%
30-Dec-22	244.3	1.86%	5.09%	3.87%	-0.55%
% return (USD terms)	**9.2%**				
	10-year breakeven	**US Equity Risk Premium**	**10-year US REAL rates**	**US Financial conditions**	**Fed Funds rate, end-23e**
29-Dec-23	2.17%	0.91%	1.72%	99.27%	5.33%
30-Dec-22	2.30%	1.88%	1.58%	100.20%	4.65%

CURRENCIES	EURUSD	CHFUSD	GBPUSD	USDJPY	BTCUSD
29-Dec-23	1.1039	1.1885	1.2731	141.04	41 935
30-Dec-22	1.0705	1.0817	1.2083	131.12	16 579
% change	***3.1%***	***9.9%***	***5.4%***	***7.6%***	***152.9%***

COMMODITIES	Global BBG index	Gold	Copper	Iron ore	WTI Crude Oil
29-Dec-23	98.6	2071.8	8559.0	130.9	71.7
30-Dec-22	112.8	1826.2	8372.0	111.7	80.3
% change	**-12.6%**	**13.4%**	**2.2%**	**17.2%**	**-10.7%**

Source: Bloomberg, Nahmani Grunder.

Noteworthy financial markets facts in 2023:

- With the strong rally in markets, US financial conditions experienced the largest easing in 4 decades during November and December, such that US financial conditions index (FCI) declined by -146bps between 27 October and 29 December. If sustained, this considerable easing could create some tailwinds to GDP growth with a 6-month lag from mid-2024.

- US equity markets once again outperformed the rest both in local currency and USD terms, aided by its relative overweight of Technology companies. Generative AI (GenAI), as the next large technology platform transition, was the key theme dominating equity markets in 2023. The initial beneficiaries of this new GenAI wave are the listed Megacap Technology companies, as defined by the Magnificent 7 (Mag7) (MSFT, AAPL, GOOGL, AMZN, NVDA, META, TSLA). Mag7 collectively closed 2023 with a 28% weight in the S&P 500 index, aiding the S&P 500 to deliver a return of +24.2% for 2023. This was significantly above the Equal-weighted S&P index return at "only" +11.6% for the year, with all its returns coming in the last 2 months of the year. The Mag7 recorded a return of +106.6% during the year, also leading the Nasdaq-100 (NDX) to +53.8%.

- From a valuation perspective, the S&P 500 finished 2023 at a P/E of 21.7x, implying a multiple expansion of 4.3 turns in a year when the 10-year US real rates even expanded to close the year at +1.72%. This is fundamentally counter-intuitive, but should be explained by the initial euphoria around GenAI. With major indices showing no EPS growth on both sides of the Atlantic, equity returns were thus purely driven by a re-rating in valuation multiples, leading to a considerable compression in equity risk premiums (ERP). US ERP tightened further in 2023 to 0.91% only, versus a historical average of around 3.0%.

- Global credit markets also staged a massive rally from early November to finish the year with a return of +9.2% for 2023, with global High-yield even delivering +14.0%. Prior to the duration rally, the Barclays Global Credit index was actually down by -0.6% in USD terms at the end of October, which would have been the 3rd consecutive down year for the index. The rates rally as of November as well as even tighter corporate credit spreads (at multi-decade lows) ultimately helped the index break the negative annual trend by the end of the year.

- Gold finished 2023 close to an all-time high delivering a return of +13.4% in USD terms for the year, despite the further upward re-pricing in US real rates. Growing geopolitical tensions as well as incremental natural demand by BRICS central banks have been a tailwind for Gold prices since 2022, breaking Gold's inverse correlation with real rates. While most other markets started to price in a soft landing with ongoing robust growth, Crude Oil (-10.7%) and Copper (+2.2%) prices were interestingly lackluster in 2023 despite constructive supply-side dynamics.

2024 Outlook

"The world is beautiful for the ignorant"

Our macro base case is muted GDP growth with more bumpy disinflation

- With financial markets priced to near-perfection following the year-end rally and very tight risk premiums factored into both Equity and Credit markets, the central theme in 2024 will remain to be the Growth/Inflation mix, as well as the growing geopolitical tensions during a year of major elections globally.

- We see three possible macro scenarios during 2024 and into 2025:
  1. A soft landing with muted real GDP growth (below trend) but also a bumpier path to further disinflation
  2. A soft landing with robust 2+% real GDP growth and further linear disinflation to below 3%
  3. A hard landing/recession

- We see financial markets have increasingly tilted towards pricing in scenario 2, and thus investors will want to make sure during 2024 that the perfect Soft Landing view priced into markets remains on track. Let's bear in mind that further evidence of moderating inflation will only be good for Equities and Credit as long as it is not accompanied by very weak growth or a recession.

- On the other hand, scenario 1 is now our base case scenario. While we got the US growth outcome wrong in 2023, we still see more muted and decelerating GDP growth this year especially as the US consumer balance sheets are more stretched and excess savings have been spent. More importantly, we are comfortable to make a call that, after a lot of good progress during 2023, the disinflation path in 2024 will become more bumpy and much less linear.

- Inflation upside risks: Fiscal deficits (US deficit at 7% of GDP), de-globalization as well as the green energy transition, whose negative impacts were less visible during 2023, are all inflationary to the West. These represent potential upside risks to the inflation outlook with potentially more fiscal expansion in the US after the November Presidential elections as well as less deflation in China export/goods prices. The Chinese deflator, a broad measure of prices, fell by -1.5% YoY in Q4 2023, the 3rd straight quarter of declines and the longest streak of deflation since 1999.

- Inflation downside risks: We acknowledge the significant potential deflationary effects of GenAI on the services economy. These deflationary forces unleashed through increased automation will take time to play out.

NG predictions for 2024 (I)

1. With very tight risk premiums priced into markets and heightened geopolitical tensions only accelerating de-globalization tendencies, 2024 is prone to more volatility than in 2023 during which high rates volatility surprisingly did not translate into larger swings in equity indices.

2. Scenario 1 as our macro base case calls for flattish (-5% to +5%) overall equity and credit market indices for the year. At the same time, the current optimism in markets will surely be challenged during the year with valuations at multi-year highs, presenting better buying opportunities on drawdowns.

3. Financial markets have run too far with their assumption that FED cuts will be steep and front-loaded. The FED should cut interest rates by much less than the 5 cuts currently priced into markets for 2024. Moreover, we see any potential cutting cycle to commence by mid-year at the earliest, versus the current market consensus of March 2023. We also think it is likely that the ECB will start reducing rates earlier than the FED, precisely because of major recession concerns in the eurozone, as opposed to the FED performing normalization cuts towards the neutral rate of 3.0% - 3.5%.

4. Yield curves remain inverted in the US, Germany and Switzerland. The US 2s10s spread was at -27bps as of 19 January. Yield curves usually steepen before the start of a cutting cycle, especially if rate cuts come after a period of high levels of inflation and aggressive tightening into a soft landing. We see a positively sloped US yield curve by the end of 2024, and US fiscal irresponsibility can only be a further tailwind to a steeper yield curve via higher term premium. German and Swiss yield curves should remain inverted.

The US yield curve has been inverted since July 2022 (in bps)

NG predictions for 2024 (II)

5. We think the 10-year US Treasury rate will be at or above 4.0% by the end of 2024 (versus 3.88% by end-2023), with 10-year real rates remaining between 1.5% - 1.75%, unless the economy does slip into a recession and/or we get a financial accident.

6. In a flattish return scenario for the S&P 500 in 2024, we think Mag7 will outperform the S&P 500, albeit with higher dispersion among themselves. Our focus within Mag7 lies on Alphabet (GOOGL), Nvidia (NVDA), Meta (META) and Microsoft (MSFT) in this order. Stock picking will be even more important than ever during 2024.

S&P 500 EPS per calendar year with P/E bands, 2015a - 2024e

	2015a	2016a	2017a	2018a	2019a	2020a	2021a	2022a	2023a	2024e
Operating EPS	118.2	119.1	133.0	162.9	164.6	144.6	212.5	220.6	220.2	228.5
growth (YoY)		*0.7%*	*11.6%*	*22.5%*	*1.0%*	*-12.2%*	*47.0%*	*3.8%*	*-0.2%*	*3.8%*
Price low	1867.6	1829.1	2257.8	2351.0	2447.9	2237.4	3700.7	3577	3808.1	4688.7
Price high	2130.8	2271.7	2690.2	2930.8	3240.0	3756.1	4793.1	4796.6	4783.4	4783.8
Price close	**2043.9**	**2238.8**	**2673.6**	**2506.9**	**3230.8**	**3756.1**	**4766.2**	**3839.5**	**4769.8**	4766
P/E low	15.8	15.4	17.0	14.4	14.9	15.5	17.4	16.2	17.3	20.5
P/E high	18.0	19.1	20.2	18.0	19.7	26.0	22.6	21.7	21.7	20.9
P/E close	17.3	18.8	20.1	15.4	19.6	26.0	22.4	17.4	21.7	20.9
P/E range	15.8 - 18.0	15.4 - 19.1	17.0 - 20.2	14.4 - 18.0	14.9 - 19.7	15.5 - 26.0	17.4 - 22.6	16.2 - 21.7	17.3 - 21.7	

Source: Nahmani Grunder.

7. Health care stocks had an annus horribilis in 2023, with US Pharma (XLV) showing the widest underperformance to S&P 500 in the last 30 years. We expect some degree of mean reversion in 2024 with US Health care outperforming the S&P 500. The GLP1-based Obesity segment should still remain a key focus.

8. Consumer credit card delinquency rates in the US are clearly on the rise. For example, Discovery (DFS US) reported in mid-January that the delinquency rate (30days+) among its customers has risen from 2.5% in Q4 2022 to 3.9% in Q4 2023. As the US consumer balance gets increasingly stretched, there will be increasing bifurcation among the various consumer segments, in our view. High-end, luxury consumer stocks should be relatively isolated from weakening spending patterns, and should continue to perform positively during 2024, also given some of the worries priced into these stocks during H2 2023. Another factor will be whether the Chinese consumer finally awakens after a difficult 2022 and 2023.

9. Within Credit, we continue to focus on the investment grade (IG) space with a duration of up to 5 years.

10. Commodities had a lackluster 2023, but 2024 should prove to be a better year with demand holding up and supply growth curtailed especially in Copper and Crude Oil. Gold should continue see a rising safe haven premium as well as central bank buying remaining strong into 2024, such that Gold prices should remain easily above $ 2,000 per oz.

LME Copper prices (in $ per ton) in a trading range since H2 2022; Clearly not pricing in a Soft Landing

11. There seems to be a strong consensus amongst investors on being short US dollar (USD) into 2024, with the thesis that FED rate cuts assumed by markets start to trickle through into FX pairs. We think this might only work with the USDJPY rate especially as the BoJ exits yield curve control (YCC) and subsequently also its negative interest rate policy with a first rate hike since 2007. On the other hand, we see EURUSD closing 2024 lower than its end-2023 level of 1.1039, as real rate differentials widen to the benefit of the USD.

EURUSD to reverse some of the gains from H2 2023, in our view

Summary Outlook 2024

Asset Class	Positive	Neutral	Negative
Fixed Income & Cash	US Treasuries (up to 5 years Sov. EUR/CHF (up to 2 years) Global IG Corp (up to 5 years)	US Treasuries (7-to-10 years)	EU Sov. Bonds EU HY Corp US HY Corp
Equities (sectoral view)	Semiconductors Internet Health care High-end consumer Commodities	Software Consumer Staples Financials	Industrials Chemicals Autos
Commodities	Copper Crude Oil Gold	Iron ore Nickel	

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