Macro Outlook Summary

December 2023

The November rally has continued through into December, buoyed by the US Fed now talking openly about three rate cuts in 2024. Government bonds and credit have been on a wild ride as investors try to picture where the natural fed funds rate will rest late in 2024. Without doubt there are participants who believe rates will return to near zero levels, possibly because they regard that structure of rates as normal. More sanguine investors see rates getting back down to 3-4% and following a slower trajectory downwards. That is more in line with our expectations but we are painfully aware of every market's ability quickly to hurtle beyond fair value as investors scramble to get on board. Recent performance may well draw even more participants into the bond market fray and future events may well vindicate such a decision.

With this change in US interest rate outlook, the possibility of a weaker USD index resurfaces once again and with it some potentially important consequences for global capital allocation. As every investor knows, emerging markets have been spurned by investors for over a decade and as a result are cheap on numerous relative and absolute metrics. They also offer the opportunity to invest in select economies which are growing faster than the DM average, are ahead of the pack with rate hikes, are already embarking on rate cuts and have significant currency appreciation potential.

Identifying the inflection point in the capital flow cycle where allocators shift back into these assets is something we believe worth monitoring very closely over coming months and quarters because like so many recent market moves, the change may be quite sudden.

Long duration tech investments are another market segment now capable of springing back into life with zero warning, while there continues to be many categories of reliable predictable investments which have completely fallen out of favour with investors such as UK infrastructure trusts and clean tech investment trusts where some are now trading on historically their widest discounts to NAV.

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