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Invesco 2024 Midyear Global Markets Outlook: Is it time to reset, rethink, and refresh?

London, 13 June 2024 Invesco, one of the world's largest global asset managers, yesterday hosted its 2024 Midyear Investment Outlook, which saw experts from across the business share insights on how the events of the year so far have shaped markets and their predictions for what the second half of 2024 may bring.

Featuring experts from Invesco's Global Market Strategy office, and specialists from Invesco's Fixed income, Private markets, and Asian equities teams, the event provided a cross-asset perspective on the learnings and trends that are shaping the global investment landscape.

Macro outlook: All eyes on technology and trade policy

By Kristina Hooper, Chief Global Market Strategist

"2024 has so far picked up where 2023 left off, with inflation, rate cuts, and geopolitical tensions continuing to shape macro sentiment. But with long-anticipated cuts on the horizon, and imminent elections bringing policy into sharp focus, the second half of the year should bring a very different picture.

"The impact of tariffs on markets remains a key development to watch. When Donald Trump first enforced tariffs in 2018, markets had a visceral and negative reaction to them. But in 2024, talk of tariffs is more commonplace, with the Biden administration keeping them in place. A second Trump term would likely see more tariffs, particularly relating to China, and although this could potentially shock markets once again, markets appear more accepting of them. However, the risk remains that further tariffs may increase costs for consumers and contribute to rising inflation.

"But although tariffs remain one policy area with the potential to shape the macro environment, I believe industrial policy could be just as impactful, and have potential to be a positive for markets. In recent years, we've seen individual economies take a more active and supportive role in certain industries, by investing in them and finding ways to support them. In 2023 about 70% of industrial policy came from developed companies, with a particular focus on semiconductors. We've seen China make that a big focus, via its 'Made in China' policy platform, the USA CHIPS Act, and similar stimulus from countries like South Korea.

"A key reason behind this is of course AI, which itself may act as a powerful driver of growth. Although its early days, we're already seeing AI tools drive productivity gains in sectors like call centres, and its application to areas like coding are the subject of exciting studies. We're still scratching the surface, but it's possible we could see very significant total factor productivity gains as AI is invested in and adopted. We can look to the 1995-2005 period, when we saw the internet play a very significant role in increasing total factor productivity, as an example of its potential."

Macro outlook: Divergence, disinflation, and the commodities rally

By Paul Jackson, Global Head of Asset Allocation Research

“Divergence and disinflation have been the key macro themes to watch in 2024. Although divergence has, in recent years, primarily referred to the growth of the US outpacing the rest of the world, 2024 has so far provided signs of this trend abating. Whilst the US has slowed down, Europe and China have accelerated and are beginning to close the gap.

“Disinflation remains a focus, and after months of anticipation, it appears that inflation is finally on its way down in the US, and is well underway in Europe, setting the stage for rate cuts. However, the likely order of these cuts is not what we would have predicted at the beginning of the year. We think it is likely that we see the ECB move first in cutting rates, with strong signals this could come as early as June. After this, we expect either the Fed or the Bank of England to follow. The BofE will likely cut in June or August, and the Fed in July. However, if this July target is missed, it is possible we don’t see any US rate cuts until after the November election. I expect the ECB to cut 2 or 3 times this year, the BofE maybe twice, and the Fed once or twice. But looking forward I wouldn’t be surprised to see 4 or 5 cuts amongst those major central banks over the next 12 months.

“Earlier this year we moved to an overweight position on commodities, after that it was one of the few economically sensitive asset classes that had not been rising along with equities and high-yield. Since then, 2024 has seen significant movements in the commodity markets, with gold, silver, and copper all up around 15, 20, and 30% respectively. These movements reveal several factors at play. Copper is a typical cyclical metal: when the economy is strong, demand for copper tends to be high, and vice versa. Copper is also a key resource in the renewable transition, so demand may also have a speculative component. Although global growth has not been exceptional this year, I believe the demand for copper stems from markets anticipating that growth will pick up towards the end of the year and early next.

“The rally in the price of gold, however, is another thing. Given the strength of the dollar and high bond yields, I would normally expect the price to be much lower. However, high levels of central bank purchases in response to conflict and geopolitical instability is likely a factor in gold’s rise to record highs. At these levels gold remains expensive, so I’m concerned it may not be able to continue at this pace. Copper has more of a case for an enduring rise, due to its role in the net-zero transition.

“Overall, I remain wary about the strength of the global economy. We may currently have a ‘goldilocks scenario’ of neither being too hot or cold, but the growth rates we’re seeing are currently mediocre, and I think it won’t be until the end of the year at the earliest that we see the full twin effects of falling interest rates and falling inflation come through.”

Fixed income: Elections and rate cuts to mark a turning point in Europe and the US

By Thomas Moore, Co-Head of Invesco Fixed Income Europe

“Although the return on cash is the best it’s been in years, we’re coming to the end of the cycle of tighter money. In a matter of months, central banks will start easing again, providing a boost to assets. Those who have yet to make the transition out of cash are effectively leaving future returns on the table.

“It looks very likely that the ECB is going to start easing imminently, with the Fed to follow slightly later in the year. However, as we anticipate a second rate cut from the ECB towards the end of the year, we are viewing Europe as the more attractive market for bond investors looking to lock in higher yields and take advantage of attractive spreads.

“In 2024, fixed income markets have been characterised by resilience, with low default rates and tight credit spreads. Given this, the opportunity cost of moving from high-yield to investment grade is relatively low. By positioning themselves at the upper end of their chosen rating spectrum, investors aren’t giving up much upside by opting for fewer risky assets. When markets next hit choppy waters again, investors will appreciate taking advantage of the opportunity to construct a higher quality portfolio.

“Another key trend to watch in 2024 will be how the fiscal position of the United States develops in a higher rate environment. There are concerns that a second Donald Trump term would negatively impact the US’ fiscal position, but it’s important to note that the Biden administration hasn’t exactly been stingy when it comes to public spending.

“The key determinant of the US’s fiscal position will be whether it has a divided government. If Congress and the White House are controlled by different parties, we will likely see less ambitious spending, whereas a unified government would have more licence to invest. This latter scenario has positive implications for growth, but whatever happens in the US elections, I don’t believe the US fiscal position will do anything but worsen over the coming years.”

Private Credit: Opportunities in liquid and illiquid assets

By Raman Rajagopal, Senior Client Portfolio Manager

“2024 has seen a continuation of the positive private credit environment, with interesting opportunities across liquid and illiquid assets continuing to emerge. Lending to US and European corporates continues to provide attractive qualities, including high levels of income, senior secured status in the capital structure, and a floating rate feature.

“Floating rate loans have been particularly prominent and have comfortably outperformed duration assets. These loans tend to do better in times of rate uncertainty, and provide high levels of income, with yields of around 8-9% on offer. Fundamentals in this category have also remained strong, with low default rates and distress ratios. Crucially, these opportunities come with the added benefit of a more senior position in the capital structure, with certain strategies also offering liquidity.

“For investors willing to take on more illiquid opportunities, such as direct lending, they can enjoy a 100-200 basis points spread premium.

“Historically, investors looking for opportunities in private markets have looked to private equity. But where high rates have caused uncertainty for private equity, the current macro environment is creating favourable opportunities for private credit.

“As companies adapt to a higher rate environment, there remains a significant opportunity for investors to provide recapitalisation, with the equity owners effectively subsidising these positions. Special situations and capital solutions are continuing to draw investor interest, by providing returns that are comparable high-end equities, with lower downside risk.

Investing in the ‘New India’: structural opportunities with runway for growth

By Shekhar Sambhshivan, Indian Equities Investment Director

“The strong performance of Indian equities in 2024 is testament to how it has handled the recent shifts in the macro environment. India was one of the earliest economies to hike interest rates, and subsequently one of the earliest to pause. By moving fast to get a grip on inflation it has set itself apart from many emerging market peers and should be one of the earliest to cut rates, likely in 6-8 months’ time.

“Although China’s slight resurgence has caused concerns that some global investors will reallocate out of India, this has yet to meaningfully alter the trajectory of Indian stocks. In November 2023, India’s total market cap was close to $4trillion, but in 2024 it has already touched $5 trillion.

“This rally has been fuelled in part by structural changes that have given rise to a new class of domestic investors, and unlocked household savings to be deployed in India’s equity and capital markets. To invest in India, consumers need a ‘DEMAT’ account, and a bank account. Pre-covid, in 2018/2019 there were around 30 million DEMAT accounts. Today, there are almost 150 million, a fivefold increase in just 5 or 6 years. In addition, India has rapidly become a largely cashless society, and also most of the payment gateway is linked through the mobile, which is driving consumption.

“The new generation of Indian investors are aspirational, save less, invest more, and consume more. This group are providing liquidity, boosting valuations, and are giving rise to new investment opportunities for both local and global investors.

“Demographics are one such tailwind. With a population of 1.4 billion, and a median age of 29, there is a fast-growing population of aspirational consumers who are powering growth. For example, 9-10 million Indians are getting married each year, more than the population of Hong Kong. We assessed the entire wedding market, and estimate it is already worth close to 160 billion dollars. This sector is highly underpenetrated, and we are seeing some very interesting ideas in this space, with a long runway for growth.

“Further opportunities are arising from India’s manufacturing renaissance. Through government policy, India is enticing multinational companies like Apple and Micron to establish production facilities, providing boosts to the local economy. Similarly, India’s reputation as ‘The World’s Back Office’ is creating attractive opportunities in AI, with the power and real estate demands of the sector providing a boost to domestic industries.”

Chinese equities: identifying growth in ‘reglobalisation’

By Raymond Ma, Chief Investment Officer, Hong Kong & China

“Despite recent years bringing challenges to the Chinese market, we believe that since the low of last November, we have already passed the bottom. In 2024, policy interventions have been frequent, and have been positively received by the market.

“Although the risk of further tariffs and escalating trade disputes remain present, we are positioning our portfolios for growth by focusing on a few key themes.

“The first is ‘reglobalisation’. By identifying Chinese companies which have a role in the reorganisation of global supply chains, and that are expanding their market share globally and domestically, the risk of tariffs on Chinese goods impacting the business is reduced. These companies have diverse supply chains, for example, selling Chinese-made goods in China, Vietnamese-made goods in the US, and Cambodia-made goods in Europe, limiting the impact of tariffs.

“As more Chinese businesses diversify their manufacturing internationally, it’s possible that in the future China’s GNP, not GDP, will become the metric that matters for global investors.

“The other theme we’re watching in 2024 is companies that are crucial to the electrical revolution. With demand for electricity-intensive industries like wind and solar energy, electric vehicles, and data centres growing, so too does the pressure on the grid. Therefore, we’re picking stocks who can power the electric revolution.”

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Media contact:

Michelle Ballington, Invesco
michelle.ballington@invesco.com
+44(0)1491 416353

Beth Hall, Invesco
Beth.hall@invesco.com
+44(0)1491 417324

Notes to editors:

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