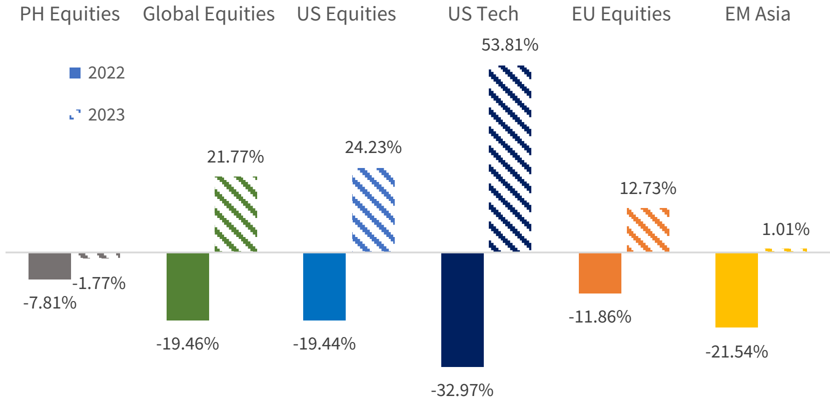
Trendspotting

January 2024

The year 2023 proved to be challenging for all markets. With high inflation and interest rates dominating headlines, heightened geopolitical tensions, expectations for slow economic growth, and even a recession in some major markets, made for a cloudy view for the year. Fortunately, markets showed incredible resiliency, with the US leading the way as corporate profits rise on the back of mega-cap stocks. Inflation has also begun to settle lower in most economies, and while central banks haven't begun cutting rates yet, this has set the stage for 2024. This year, easing inflationary conditions will lend itself to looser monetary policy, thus opening the doors for economic growth to continue.

Global Index Performance *(FY 2023 vs FY 2022)*



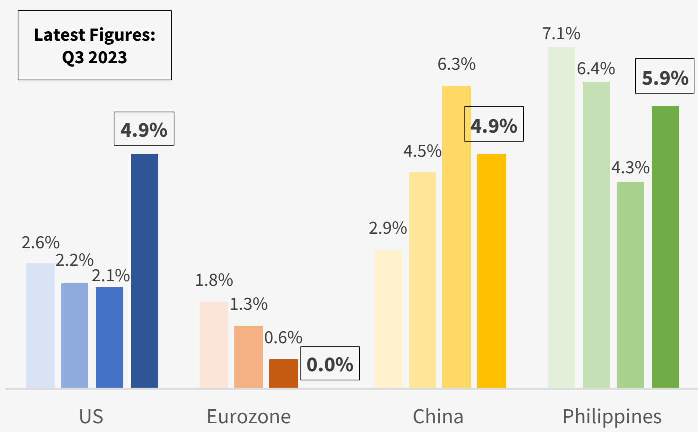
2023 Highlights

ECONOMIC ACTIVITY

GDP growth in major markets has generally provided good results in 2023 as most economies showed resilient economic activity even amidst tight monetary conditions.

The US in particular was able to avoid a recession despite many investors fearing one heading into the year. Shanghai was in two-month lockdown from March until May 2022 according to news reports from The Guardian and Al Jazeera. There was also a COVID outbreak in Shanghai from February to August 2022 due to the Omicron variant that affected China's economy. Meanwhile, the Philippines has a chance to hit the government target for the year of 6-7% growth with a good 4th quarter figure. On the other hand, the Euro Area GDP has not performed because of the effects of the geopolitical tensions present in the area. The slow industrial output to end the year has slowed down GDP performance.

YoY GDP Growth (Q4 2022 - Q3 2023)

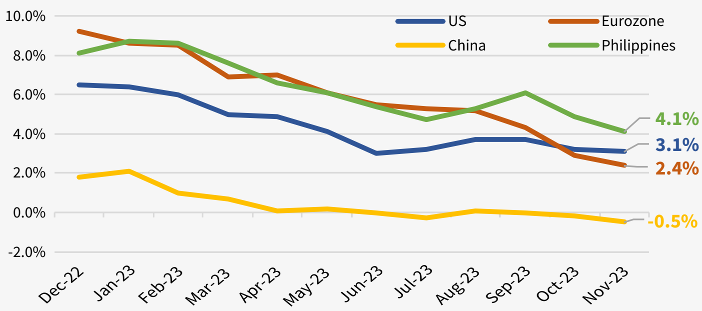


INFLATION

Inflation has been steady throughout 2023, with major economies, including the Philippines, experiencing a downward trend.

Oil prices ended the year at a lower rate amid demand concerns, helping to lower production costs for oil-related businesses. For emerging markets, easing conditions and supply chain issues coming from lockdowns in some countries like China and Hong Kong in early 2022 supported the disinflation. This also paved way to lower food and transport costs.

Inflation Rate (Dec 2022 - Nov 2023)



MONETARY POLICY

Major central banks spent most of the year raising their key rates to bring inflation levels within respective government targets. The decreases in inflation towards the end of 2023 has proven the monetary policy tightening supportive in this regard.

This resulted in rate pauses by most central banks later in the year, a signal that the peak of interest rates may have been reached.

2023 Monetary Policy Decisions:

1. US Fed hiked 4 times by a total 1.00% to bring the rate to a range of **5.25% to 5.50%**
2. European Central Bank hiked 6 times by a total 2.00% to bring the key rate to **4.00%**
3. People's Bank of China cut its key loan prime rate 2 times from 3.65% to **3.45%**
4. Bangko Sentral ng Pilipinas hiked 3 times by a total 1.00% to bring its key rate to **6.50%**

Outlook

ECONOMIC ACTIVITY

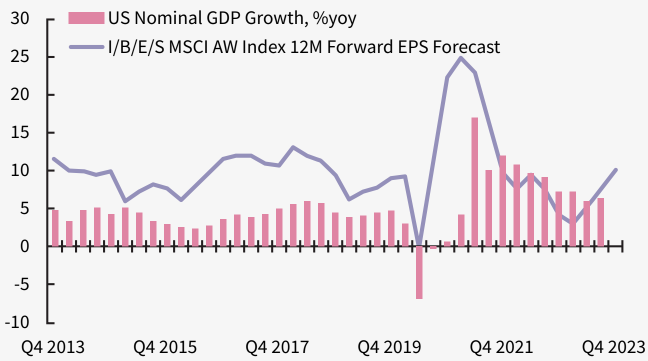
GDP growth to carry on in 2024; slightly muted vs 2023

Following 2023, we saw the resiliency of the US economy when they avoided a recession. As we enter 2024, growth is still expected, but at a slower pace due to an expected slowdown in consumer spending.

European economies are facing a tougher test. Ongoing supply constraints continue to impact Eurozone economies. There is also a greater economic risk in Europe than in the US with the ongoing geopolitical conflict in the area and surrounding regions.

Easier financial conditions coming from slightly lower interest rates and bond yields, coupled with sustained and continued positive real growth, could sustain positive sentiment towards stocks. We could see that result reflected in earnings.

Equity Earnings and US Nominal Growth



Sources: Bloomberg, LSEG Datastream and AXA IM Research, 20 November 2023

INFLATION & MONETARY POLICY

Inflation to continue to drop; Central banks to begin rate cuts

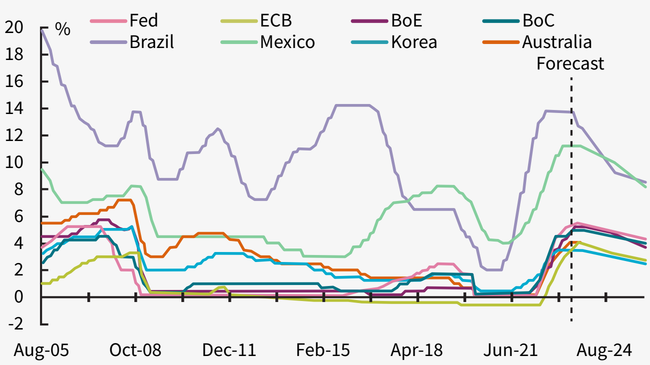
Central banks are likely to ease policy in the face of further disinflation but most will manage restrictive policy rather than introducing new measures to support the economy.

Interest rates may have peaked, but inflation will remain above target in 2024. The "higher for longer" narrative from central banks will prevail and there will only be limited scope for rate cuts until there is evidence of easing labor market pressures.

Interest rates reaching their peak means a higher yield starting point, which is a positive for bonds.

If interest rates and bond yields move lower, and growth continues, investors could see the positive equity momentum sustained. Bias is skewed towards bonds as here the risk premium has emerged. Overall, yields are attractive relative to where short rates and inflation are expected to end up in 2024.

Central Bank Policy Rates Forecast



Source: National Central Banks, Refinitiv and AXA IM Research, November 2023

Sources of information and data:

Bloomberg data (Global index performance)

https://www.reuters.com/ (Current GDP, Inflation, Monetary Policy Decision data)

https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.mp230727~da80cfcf24.en.html (ECB policy)

https://www.bsp.gov.ph/SitePages/PriceStability/MonetaryPolicyDecision.aspx (BSP Policy)

AXA IM Market Outlook (2024 Outlook views, projections)

https://www.adb.org/news/philippine-economy-post-robust-growth-2023-2024-despite-inflation-pressures-adb (PH GDP/Inflation Forecast)