DECEMBER 2023

Consensus Outlooks 2024

Investment and Portfolio Advisory

Rothschild & Co
Wealth Management

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Executive Summary

1.1 Summary of Rothschild & Co and the Street's view

For 2024, brokers are cautious whilst Rothschild & Co maintains a constructive view

Key drivers

- Central bank actions drove markets in 2023. Whilst consensus expected the rate hiking cycle in the US and Europe to end in Q1 2023, we have seen central banks continue to raise rates throughout the year to combat inflation, so far without a major setback to global growth. Additionally, advances in Artificial Intelligence drove US equity market performance this year. As we write, the "Magnificent Seven Stocks" account for 70% of the S&P 500's returns.

- In 2024, inflation is expected to continue normalising, but to remain above target. Rates remain the key focus and the year will be shaped by the impact of higher yields on growth and the business cycle. A global slowdown in growth is projected across the board. Central banks are expected to start cutting rates in H2. Brokers caution that the soft landing scenario is now priced by the market, leaving little room for manoeuvre in case the health of the economy deteriorates.

- Geopolitics may cause an increase in volatility, with elections in the US, UK, India and Taiwan cited by brokers. Additionally, ongoing conflict in the Middle East and in Ukraine could impact energy supply and inflation. Finally, tensions between the US and China continue to be in focus.

- There is little consensus on the direction of corporate earnings in 2024. Some brokers point to the challenges arising from disinflation combined with high labour costs, which could in turn negatively impact margins. Another broker cites flat to low earnings growth with downward revisions to growth estimates, whilst the broader market prices the end of the earnings recession end-2023, with a recovery expected in 2024.

- In terms of asset allocation, brokers are cautious. Government bonds are favoured by most, whilst views on credit are mixed. In equities, broker positioning is neutral or underweight, contrasting to the Rothschild & Co overweight in equities. Finally, conviction is low among brokers on commodity positioning.

Rates & Fixed Income

- The increase in yields combined with inflation normalisation has allowed fixed income to return as a source of inflation-beating return to investor portfolios.

- Consensus expects yields to come down in 2024, and the short end of the yield curve to fall faster than the long end (bull steepening).

- Consensus favours longer duration, higher quality segments such as government bonds. Whilst Rothschild & Co maintains an overweight in European High Yield, some brokers have turned more negative on lower quality credit on the back of a deteriorating macro picture.

Equities

- In equities, we see no clear direction from the Street. Rothschild & Co argues that expected profitability may still be too low, and that growing dividends should further support equities as the most likely source of long-term inflation-beating returns. We remain overweight equities.

- In terms of regions, Rothschild & Co retains a positive view on equity markets in the US and Emerging Asia, whilst consensus favours Japan. Broker conviction is low on the US and Europe, expecting broadly flat returns from both regions.

Commodities

- Gold could remain volatile in 2024, driven by the evolving macro picture. Falling interest rates in H2 would support gold, as would increased geopolitical tensions. Oil should remain range bound.

Currencies

- Whilst Rothschild & Co has a muted view on the dollar, consensus expects the USD to stay strong. On the positive side, a more resilient US economy compared to other regions would favour the USD. Conversely, a recession could fuel risk-off sentiment, also pushing the safe-haven USD higher.

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Our view – Rothschild & Co

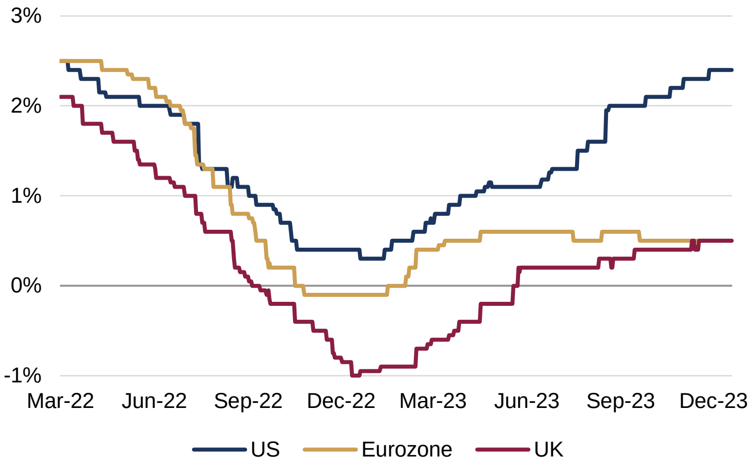
2.1 Economic overview

Geopolitics and the business cycle

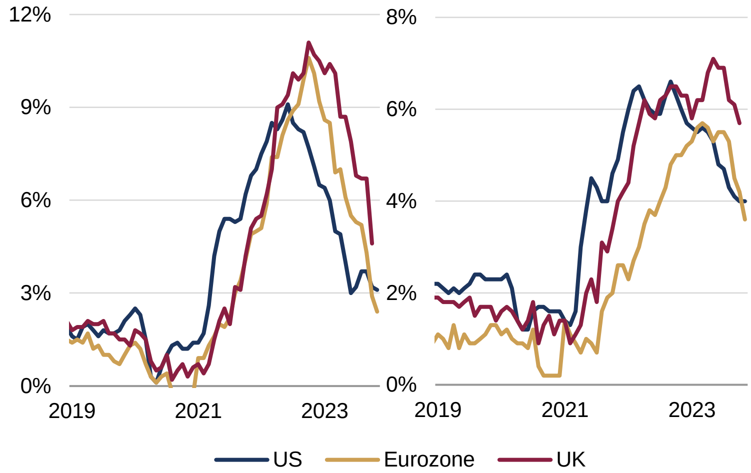
Middle East conflict and the US presidential election loom over the outlook for 2024. However, while these events *might* affect portfolios, the business cycle certainly *will* – and the jury is still out on whether the fight against inflation has been won without the need for a significant economic setback. We continue to think it can be. This could mean, however, that interest rates may not fall quickly or far: they may not need to.

- In narrow economic and financial terms at least the ongoing conflict in Ukraine, and the more recent trauma in the Middle East, may remain containable. Also, we learned after 2016 that even the most idiosyncratic US president need not have a major economic impact. As we see it, the most important geopolitical threat remains a deterioration in China-US relations, where if anything, there has been a modest thawing of late. Taiwan's election on January 13 could be significant.
- Meanwhile, widespread expectations (not ours) that it would take a significant economic downturn to regain control of inflation have been mistaken – perhaps because recent inflation had a substantial supply-side component to begin with, and perhaps because Western labour markets are more passive these days.
- Time will tell whether this resilience will continue. Higher mortgage rates have not yet made themselves felt fully, and it is hard to believe that we have yet seen all the potential financial debris surface after one of the sharpest tightening cycles on record. Nonetheless, we think it can, and as we write, real wages on both sides of the Atlantic are growing again and business surveys seem to be stabilising.
- Having belatedly recognised the risks they'd run, central banks have returned interest rates to more normal levels (arguably, perhaps even to slightly above-normal levels). With both headline and core inflation rates having peaked convincingly, we are now likely at, or close to, the end of monetary tightening. However, we doubt that inflation is about to return sustainably to target, and if economies remain resilient then central banks may not cut interest rates soon – or far.

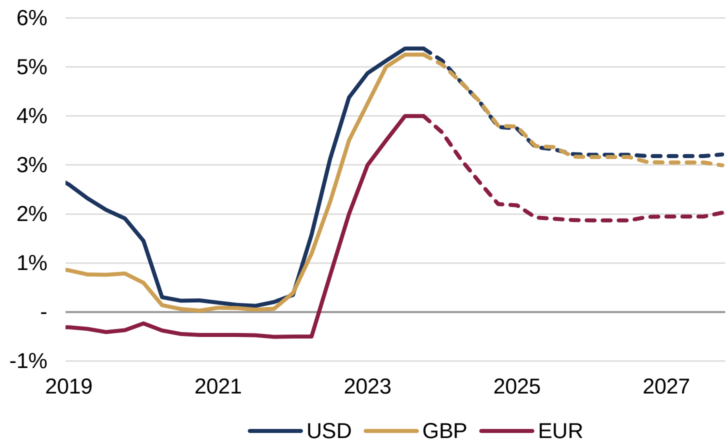
Consensus 2024 GDP forecasts (%)



Headline (LHS) and core (RHS) inflation rates (y/y, %)



Market-implied policy rate trajectories (%)



Source: Rothschild & Co, Bloomberg
Past performance is not indicative of future performance and the value of investments and income from them can fall as well as rise

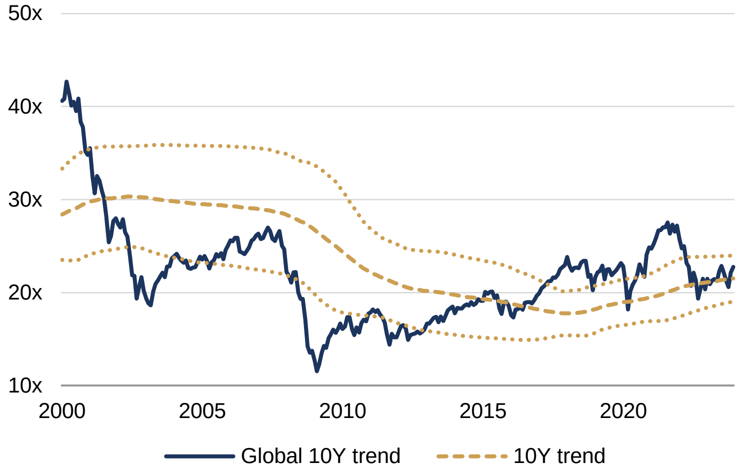
2.2 Stocks preferred – but there's a new alternative asset

Equities still offer the best chance of inflation-beating returns, but bonds may not be far behind

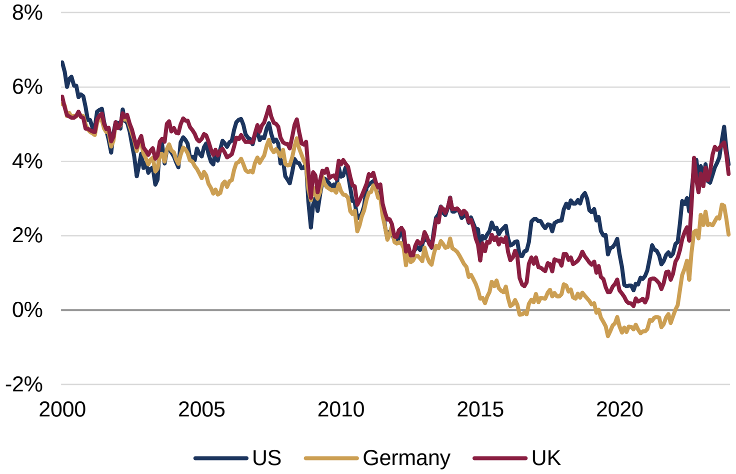
Stocks had a better 2023 – and, after a further sell-off, so did bonds. For the first time in many years, bonds are not expensive, and may offer inflation-beating returns. But if corporate profitability stays resilient, stocks likely still have most long-term headroom.

- Much of 2023 saw a further reappraisal of real interest rates as investors and central banks recognised they had been far too low for too long, and that economies might indeed be able to live with significantly higher levels. As real yields rose, inflation-indexed securities again struggled alongside conventional bonds, a reminder that they are unreliable inflation "hedges". In 2022 we had closed a long-standing underweight in bonds in US portfolios. In 2023 we moved overweight in duration in US portfolios, and eventually felt able to close an underweight in bonds, and to move from short to longer duration, in European portfolios too. For the first time in many years we can imagine moving overweight bonds – but not quite yet.
- For stocks, usually the most volatile asset class we cover, geopolitical and recession risks again made themselves felt alongside rising interest rates. However, in contrast to 2022, for much of 2023 stocks decoupled positively from bonds as the widely-predicted dramatic fall in corporate earnings failed to materialise. With bond yields higher, relative valuations are no longer attractive, and prospective returns on the two assets are closer than they have been for some time. However, absolute valuations are unremarkable and expected profitability may still be too low. We think today's starting yields, and growing dividends, still make stocks the most likely source of long-term inflation-beating returns. We returned to an overweight stance – from cash – in the summer.
- Economies have not been weak enough to generate the scale of corporate defaults and losses needed to jeopardise high-yield credit, and we retain a long-standing overweight there in European and Swiss portfolios.
- At the portfolio level, increases in bond yields have offset slightly lower starting yields for stocks, and prospective overall returns remain above likely inflation, even if it remains a little more elevated than in the previous decade.

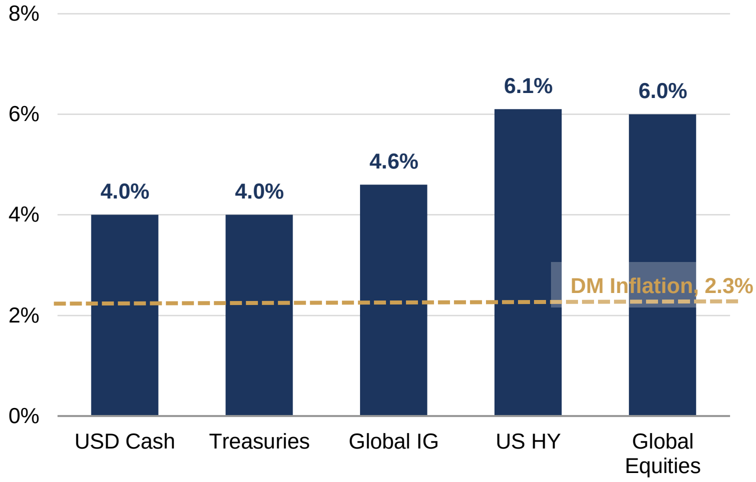
MSCI ACWI Cyclically-Adjusted Price to Earnings (CAPE) ratio



10-year government bond yields (%)



Forward returns (next 10 years, annualised, nominal terms)



Source: Rothschild & Co, Bloomberg, Datastream, IMF
Past performance is not indicative of future performance and the value of investments and income from them can fall as well as rise

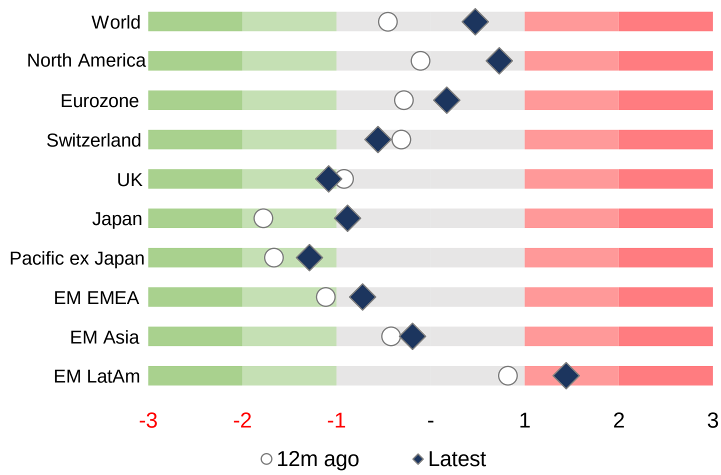
2.3 Equity regions and sectors

Our positions have become a little more pro-cyclical as leading indicators have stabilised

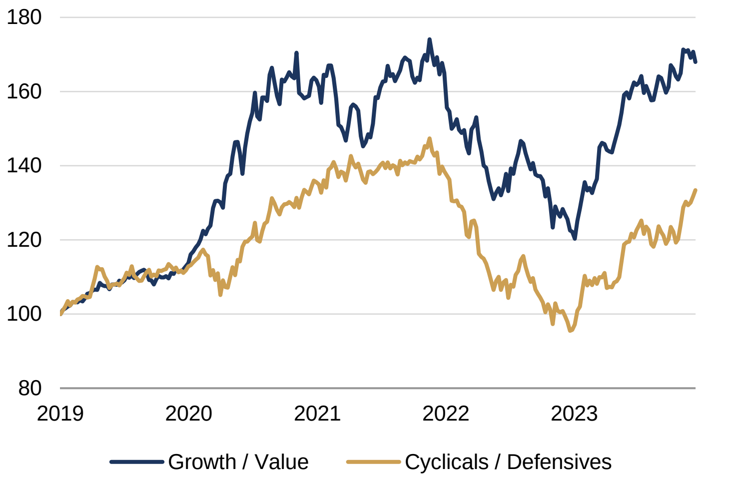
A year ago we thought the long period of US and technology outperformance might be drawing to a close. In the event, it wasn't, and we stayed overweight. A rotation into more cyclical regions may be more likely in 2024, and we have moved a little in this direction, raising emerging Asia to overweight and cutting defensive Switzerland to underweight

- **US: Overweight.** Profitability is above average, often beats expectations, and valuations are unremarkable. However, recent gains have been narrowly based, and if the wider global economy were now to surprise positively, other regions might outperform. The Fed is not the only central bank that may soon be done raising rates. Again, then, we start the year wondering how much further this call can run.
- **Switzerland: Underweight.** Its defensive consumer staples weighting looked less attractive as 2023 progressed.
- **Emerging Asia: Overweight.** China's economy eventually rebounded (again) from its covid concerns. Property and regulatory-related issues continue to dog sentiment there, but valuations are now very competitive. Emerging Asia remains the most dynamic part of the global economy, and we still think this matters.
- **Sector-wise,** we favour a mix of cyclical and secular growth: in 2023 we added industrials to technology and healthcare, cut defensive consumer staples, and remained wary (for now) of bond proxies like utilities and real estate.

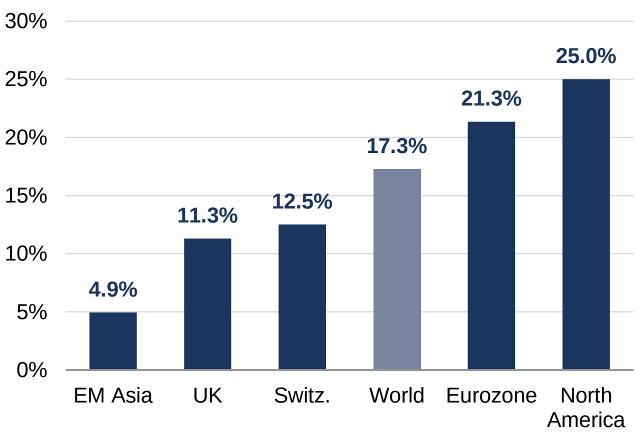
Regional stock valuations (CAPE ratios)



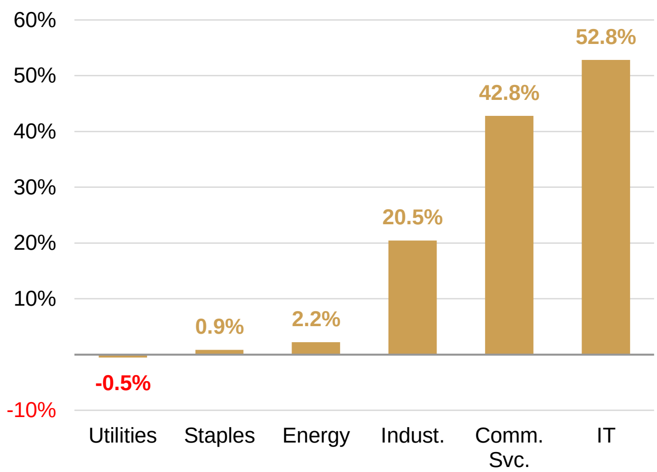
US Growth vs Value; Cyclicals vs Defensives (2019 = 100)



Selected regional returns (USD, year-to-date)



Selected DM sectors returns (USD, year-to-date)



Source: Rothschild & Co, DataStream, Bloomberg. Performance figures as of 19.12.2023
Past performance is not indicative of future performance and the value of investments and income from them can fall as well as rise

2.4 Fixed income and currencies

Bonds no longer offer "return-free risk". The dollar remains relatively expensive

Interest rates effectively normalised in 2023, and many bonds are once again offering yields which we think exceed likely inflation. They have not yet looked compellingly cheap however.

- **Central banks have been rebuilding their tattered credibility.** Policy rates are now if anything a little above what we used to think of as "normal" levels, and earlier bond purchases (QE) are being reversed. However, we doubt rates will fall as fast or as far as the money markets seem to expect. Inflation has rolled over, but may remain above target for some time, and economies have been resilient.

- **Bond valuations are no longer expensive.** Prospective real yields are positive again, and even in the eurozone we have now felt able to close underweight positions and move longer on duration (as in US portfolios).

- **We have a "barbell" approach to credit quality.** Defaults may not surge if economies remain resilient, and in European portfolios we stay overweight high yield credit, where carry is attractive. But we have also warmed to government bonds, which once again have meaningful yields. Investment grade credit, in the middle ground, has little appeal.

Currency conviction again stays low

Currency volatility has fallen back again, at least for the major exchange rates. We think the dollar still looks expensive, but would not shape multi-asset portfolios around this view: FX conviction should stay low.

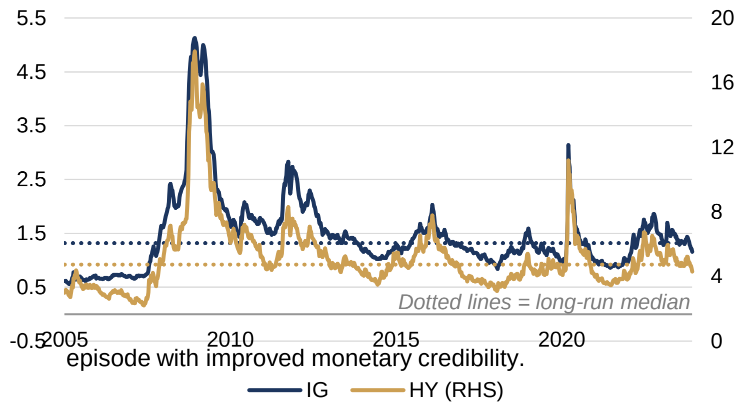
- **Most major FX crosses have been rangebound.** Interest rates have risen almost everywhere and there are few big valuation misalignments. Is noisy FX commentary a thing of the past?

- **The dollar didn't fall – again.** The Fed remains the least unconvincing central bank, and US interest rates are still the biggest (just). An initial faltering in the USD didn't lead anywhere. Nonetheless, we still think it is running out of momentum – especially if the global economy improves and risk appetite revives. It remains relatively expensive.

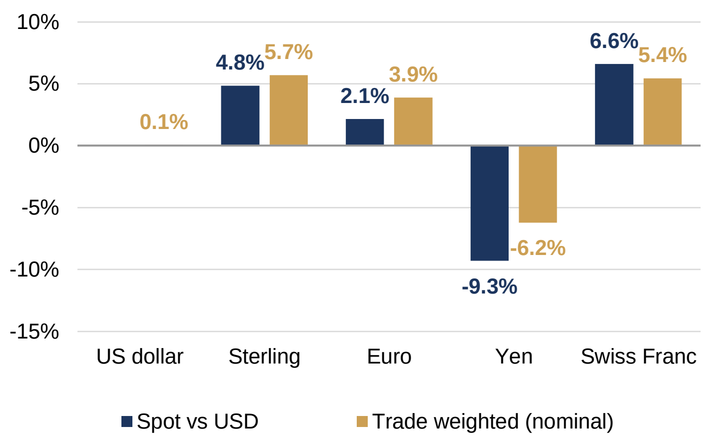
- **Emerging markets are still likely to benefit most if the dollar does soften.** Dependency on borrowed dollars is easier to bear if interest rates stop rising and the dollar weakens. Some EMs may emerge from this inflation

Composite government bond yields (US, UK, GER average)

Global credit spreads (OAS, option adjusted spreads)



Currency performance summary (YTD, %)



Source: Rothschild & Co, Bloomberg
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2.5 Rothschild & Co Asset Allocation

As of December 2023

Source: Rothschild & Co, Bloomberg
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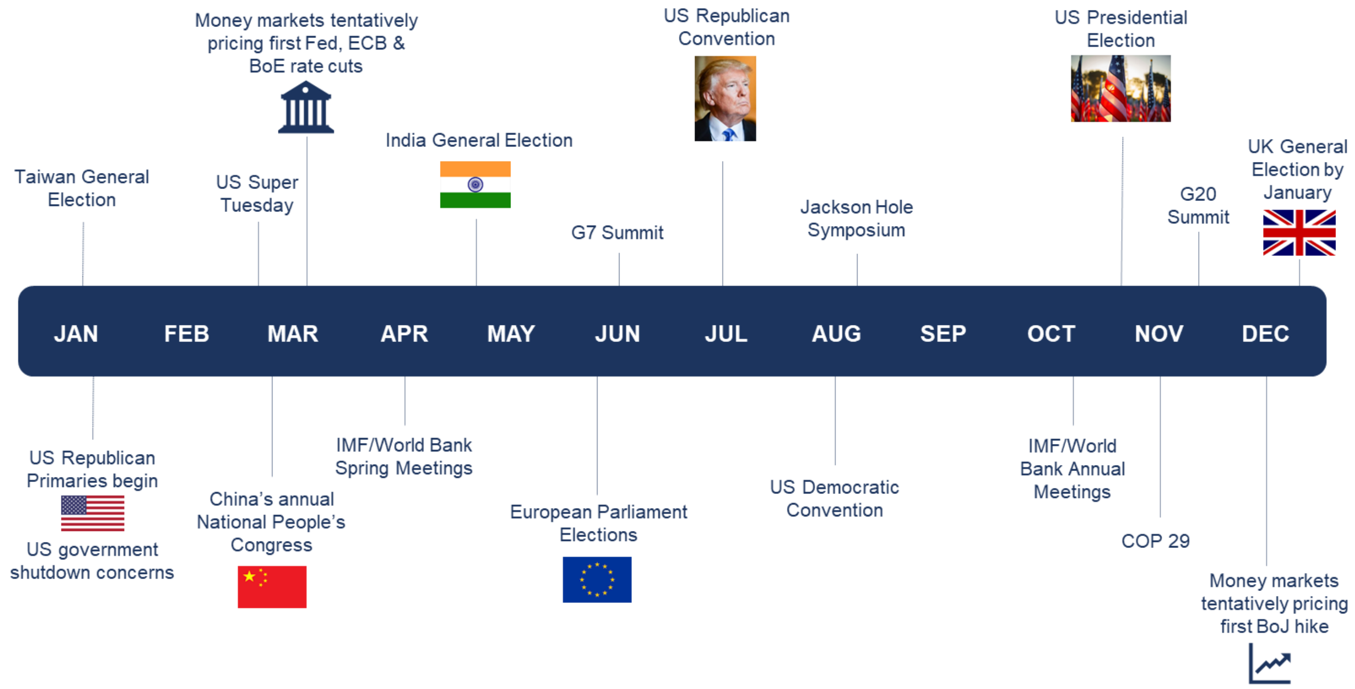
2.6 2024 timeline

Political and economic events calendar



Source: Rothschild & Co, public domain

Sources: Rothschild & Co, public domain

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3

Consensus – Rates & government bonds

3.1 US rates & government bonds

The Fed starts a rate-cutting cycle in 2024 in a soft-landing scenario

- **Soft-landing of the US economy:** Most brokers share a base case scenario of soft-landing – cooling growth, labour market and inflation – in the US and the end of monetary tightening in 2023.

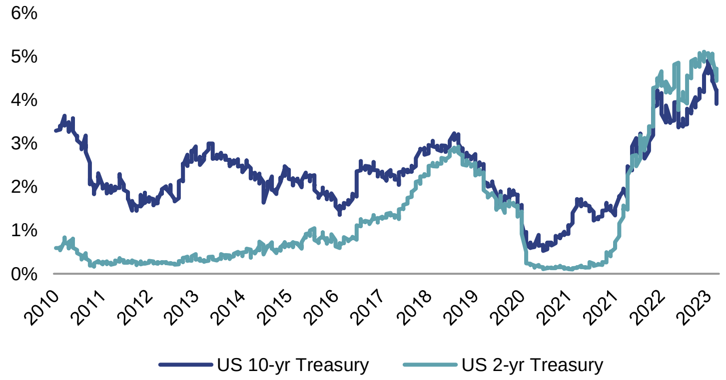
- **Start of the Fed's easing cycle:** In this context, brokers expect the Fed to start cutting rates in the second half of 2024 but they diverge on 1) the timing of the first cut, 2) the cumulative cuts for next year. The view that the timing of the first market-implied rate cut is too early resonates with most.

- **Impact on Treasury yields:** In this context, most brokers expect yields to decrease from current levels and the yield curve to bull-steepen (the short-end of the curve falling faster than the long-end). Looking at historical performance, they show that positioning on the asset class ahead of cuts was an outperformance driver. And, in case rates do not fall as much as expected by consensus, US Treasuries will nonetheless deliver attractive yields to income-focused investors compared to recent history.

- **Fed balance sheet reduction:** Quantitative Tightening (QT) is underway. Consequently, US Treasury bond demand starts shifting from the Fed, a price-insensitive buyer, towards other buyers, who are more price sensitive (such as pensions, asset managers) and expect to be compensated by higher yields for taking long maturity positions. Ultimately, that could impact the long rates dynamics.

- **Supply concern:** Additionally, the Treasury debt management strategy to fund the US deficit will be all the more scrutinized in 2024, after it triggered concerns and rates reactions in 2023.

Price development



Sources: Rothschild & Co, Bloomberg

2024 forecasts

	12m target 10y US Treasuries
J.P. Morgan	3.75%
Goldman Sachs	4.00%
Morgan Stanley	3.95%

Current level as of **18.12.2023: 3.93%**
Targets as of November 2023
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3.2 European rates & government bonds

Weak growth and disinflation should allow the ECB to start cutting rates next year

- **Low growth and lower inflation:** Brokers expect growth to remain low in the EU next year. Disinflation, which has been helped by lower energy prices and bottlenecks easing, should continue.

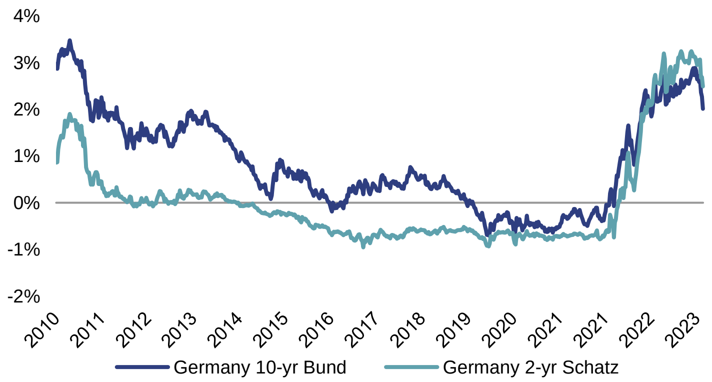
- **ECB on hold for now before cutting:** The ECB started its hiking cycle in July 2022, after most developed markets Central Banks (4 months after the Fed, for example). Brokers anticipate that the 0.25% rate hike in September 2023 was the last. They expect the ECB to start cutting rates in the second semester of 2024 although, similar to their expectations regarding Fed cuts, they differ on the exact timing of the start and the subsequent path.

- **Energy risk to headline inflation**: Brokers emphasize another spike in natural gas, triggered by weather or geopolitics, as an upside risk to headline inflation in Europe.

- **Quantitative tightening:** The ECB has engaged into a balance sheet unwind too, which will continue in 2024 (targeted longer-term refinancing operations (TLTROs) will run down, assets in the asset purchase programme (APP) – will mature). One broker also draws attention to uncertainty surrounding the future of the Pandemic Emergency Purchase Programme (PEPP) reinvestments.

- **Fiscal sustainability:** Despite the expected relief provided by monetary normalization, challenges will remain for sovereign spreads (lower growth environment, absorption of elevated supply by the market). Here, brokers mainly hint at the deterioration of Italian fiscal fundamentals.

Price development



Sources: Rothschild & Co, Bloomberg

2024 forecasts

	12m target 10y Bunds
J.P. Morgan	2.00%
Goldman Sachs	2.25%
Morgan Stanley	1.80%

Current level as of **18.12.2023: 2.07%**
Targets as of November 2023
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4

Consensus – Credit

4.1 US credit

A soft landing and the end of monetary tightening point to a good year for income investors

- **Economic moderation allowing for policy easing:** Growth and inflation are expected to moderate in the US, which will allow the Fed to cut rates in the course of 2024. At the same time, stronger yield support versus 2023 allows for higher total returns in 2024 despite tight credit spreads.
- **Focus on quality:** Treasury bonds and investment grade corporate credit will allow for attractive real returns in a world of slowing growth, less inflation and eventual central bank rate cuts. Investment grade spreads are expected to move sideways. Balance sheet metrics remain strong, and companies were proactive in terming out debt at attractive rates.
- **Rising defaults for lower rated credit:** While higher interest rates did not yet have an impact on leveraged credit, still-high rates are likely to slow growth and erode credit quality. This will eventually result in a rising number of defaults and downgrades. Consensus expects high yield credit spreads to rise in 2024.
- **Maturity wall not (yet) an issue:** So far, high yield issuers have successfully managed to refinance their debt, but the bulk of maturities comes due only in 2025. While this provides room for further outperformance of high yield bonds in 2024, unexpected refinancing stress could negatively impact the market.
- **The risk of higher for longer:** Consensus expects that major central banks start to cut interest rates in 2024. It is not about if but when the first cuts will happen. There is room for disappointment in that respect in case inflation does not grind lower as expected. If interest rates remain at high levels, this would weigh on bond performances across the rating spectrum, not especially on high yield.

Price development

Source: Rothschild & Co, Bloomberg

2024 credit spread forecasts (current → target)

	US Investment Grade	US High Yield
J.P. Morgan	131 → 125 [1]	431 → 475 [2]
Goldman Sachs	101 → 95 [2]	363 → 325 [2]
Morgan Stanley	125 → 125 [4]	398 → 475 [4]

[1] J.P.Morgan. US High Grade Credit 2024 Outlook. North America Credit Research. 20-Nov- 2023.
[2] J.P.Morgan. 2024 High Yield Bond and Leveraged Loan Outlook. North America Credit Research. 21-Nov- 2023.
[3] Goldman Sachs. Global Credit Trader: Tighter spreads and a narrower range. 14-Dec-2023.
[4] Morgan Stanley. 2024 Global Strategy Outlook. Threading the Needle. 12-Nov-2023.

2024 total return forecasts

	US Investment Grade	US High Yield
J.P. Morgan	12.4%[1]	11.0%[2]
Goldman Sachs	6.0%[3]	8.9%[3]
Morgan Stanley	8.8%[4]	6.9%[4]

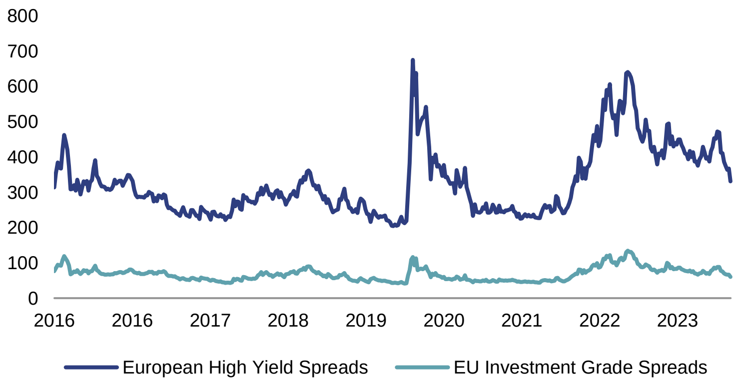
[1] J.P.Morgan. US High Grade Credit 2024 Outlook. North America Credit Research. 20-Nov- 2023.
[2] J.P.Morgan. 2024 High Yield Bond and Leveraged Loan Outlook. North America Credit Research. 21-Nov- 2023.
[3] Goldman Sachs. Global Credit Trader: Tighter spreads and a narrower range. 14-Dec-2023.
[4] Morgan Stanley. 2024 US Credit Strategy Outlook. North America. 17-Nov-2023.

4.2 European credit

A similar outlook as for the US but a weaker economy poses higher recession risk

- **A more uncertain outlook:** The range of potential outcomes seems broader in Europe than in the US, with recession risk particularly heightened. However, peak policy rates are also providing a positive outlook for total returns.
- **Healthy carry in investment grade:** While spreads may drift a touch wider on increased recession risk, investment grade credit is unlikely to experience a significant spread widening. Against the backdrop of falling interest rates and resilient credit spreads, long-duration and high-quality credit is broadly considered attractive.
- **Deteriorating fundamentals in high yield are not a major concern:** Like in the US, European high yield credit is expected to deliver another year of resilience despite a worsening economic environment and deteriorating fundamentals. Furthermore, low cash prices in high yield credit provide attractive downside protection. However, given the elevated macro uncertainty, the opportunity set is considered more attractive in the investment grade space.
- **Corporate hybrids offer a risk premium:** Subordination risk is broadly preferred over lower-rated credit risk. Going down the capital structure is a possibility to enhance returns while sticking to investment grade issuer risk.

Price development



Source: Rothschild & Co, Bloomberg

2024 credit spread forecasts (current → target)

	EUR Investment Grade	EUR High Yield
J.P. Morgan	165 → 175 [1]	450 → 500 [1]
Goldman Sachs	155 → 135 [2]	417 → 390 [2]
Morgan Stanley	156 → 160 [3]	458 → 525 [3]

[1] J.P.Morgan. European Credit Outlook & Strategy 2024. 15-Nov- 2023.
[2] Goldman Sachs. Global Credit Trader: Tighter spreads and a narrower range. 14-Dec-2023.
[3] Morgan Stanley. 2024 European Credit Outlook. Europe. 17-Nov-2023.

2024 total return forecasts

	EUR Investment Grade	EUR High Yield
J.P. Morgan	7.5%[1]	8.0%[1]
Goldman Sachs	7.4%[3]	9.3%[3]
Morgan Stanley	-	-

[1] J.P.Morgan. European Credit Outlook & Strategy 2024. 15-Nov- 2023.
[2] Goldman Sachs. Global Credit Trader: Tighter spreads and a narrower range. 14-Dec-2023.

5

Consensus - Equities

5.1 US equities

Flat returns are expected in the US over the next twelve months. The path may prove volatile with higher pressure on the first half.

- **Consensus agrees on a challenging outlook for equities:** Brokers cite concerns about global growth, slowing consumption, restrictive monetary policy and further USD appreciation. There is a shared acknowledgement of a slowdown that was deferred in the current year, with expectation that it will impact equities during the next year. In other words, current elevated corporate earnings have set the bar high. The consensus view is slightly negative – analysts do not anticipate a significant correction but also do not foresee upside potential.

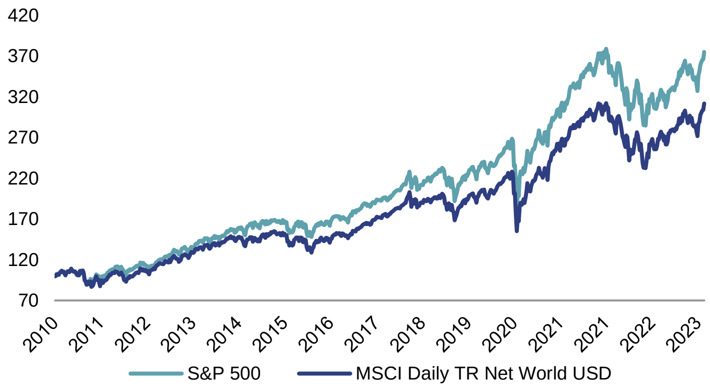
- **Attention on earnings**: Forecasts imply investors should be cautious about the near-term backdrop for US stocks amidst downward adjustments in earnings forecasts and cyclical headwinds, especially in H1. Investors should pay close attention to interest rate sensitive areas which have higher borrowing costs. Concerns have been raised about a possible earnings recession into early next year before a more durable recovery.

- **A dovish Fed** stance has shifted one broker's view, now anticipating market support for P/E multiples greater than 19x. If the consensus base case of a soft landing materialises and the Fed cuts rates, 2024 could turn more positive for US equities than previously anticipated according to this broker.

- **Look for defensive growth and late –cycle cyclicals**: Analysts recommend a defensive growth (healthcare and consumer staples) approach and late-cycle cyclicals (industrials and energy) barbell for U.S. stocks, suggesting a cautious approach in the short-term.

- **There are some catalysts**: Factors such as positive operating leverage and tech-driven productivity growth are expected to contribute positively in 2024.

Total return development



Source: Rothschild & Co, Bloomberg

2024 forecasts

	US Equities	Upside
J.P. Morgan	4,200	-11%
Goldman Sachs	5,100	+8%
Morgan Stanley	4,500	-5%

Forecasts as of November 2023, and refer to S&P500 Index as of close 18.12.2023
Spot price = 4740

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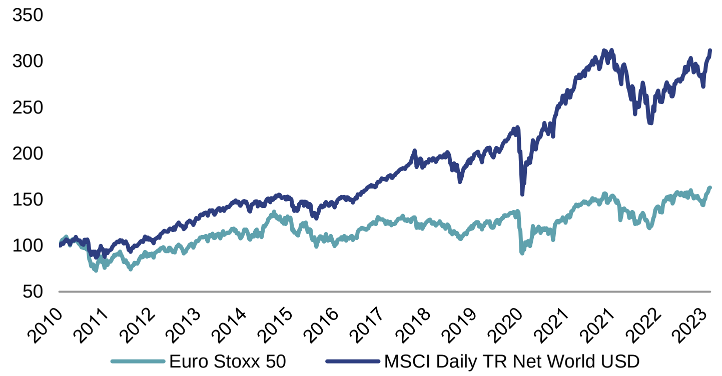
5.2 European equities

A slow recovery is expected in 2024, impacted by earnings challenges and geopolitical crossroads. Strong buybacks and growth in consumption will support the region.

- **Europe is still facing challenges in the macro-economic environment:** The conflict between Ukraine and Russia, and the frictions between China and the U.S. represent a tricky situation for Europe. The consensus view is slightly less negative than in the US, but analysts remain neutral with no strong conviction for either over or underweighting the region.
- **Modest improvement in growth is expected:** Despite restrictive monetary policy and weakened global trade, there is some anticipated growth in consumption which will offset some of the economic weakness. Real disposable income is expected to receive a boost as headline inflation slows and nominal wage growth remains firm.
- **Relative valuations remain attractive**: Europe remains relatively cheap. However, any potential re-rating is expected to be marginal. On the other hand, buybacks and dividend yields will continue to support European stocks in the coming year and the downside risk is also limited.
- **Positioning by global mutual funds remains low:** Inflows into European equities could be a catalyst for the region.
- **Defensive sectors continue to be preferred:** Special focus on healthcare, staples and utilities is consensus among analysts.
- **"Higher for longer"** interest rates represent a threat to stocks around the globe including Europe. There is a negative correlation between the US 10 year-yield and Europe's P/E.

Total return development



Source: Rothschild & Co, Bloomberg

2024 forecasts

	European Equities	Upside
J.P. Morgan	256	-6%
Goldman Sachs	500	+5%
Morgan Stanley	1810	-5%

Forecasts as of November 2023, spot prices as of close **18.12.2023**
J.P. Morgan uses MSCI Eurozone Index, spot price = **271.95**
Goldman Sachs uses STOXX Europe 600 Index. Spot price = **475.32**
Morgan Stanley uses MSCI Europe Local Index. Spot price = **1,906.14**
Past performance is not indicative of future performance and the value of investments and income from them can fall as well as rise.

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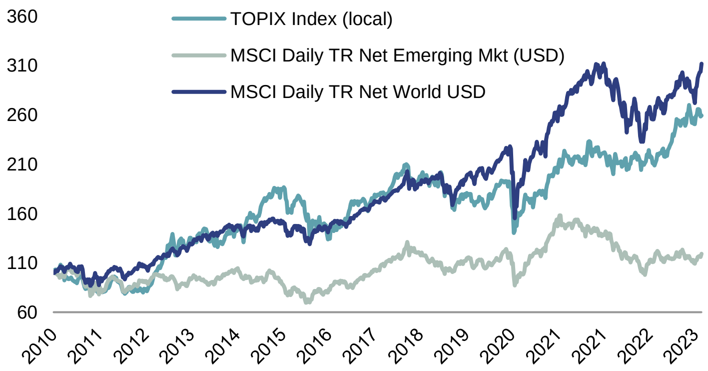
5.3 Japanese & emerging market equities

Japan is expected to outperform the rest of the world. Meanwhile, a defensive stance is advocated in EM amidst global headwinds and political uncertainty.

- **Japan**: A top-pick market for 2024. Reports anticipate solid earnings growth in the region, with 10% year-on-year growth. The country is expected to withstand policy adjustments by the BoJ, which is seen as responding to stronger nominal growth. There is a consensus that the region will outperform the rest of the world, driven by inflation and reforms. Inflation is a welcome sign in Japan after fighting deflation for decades. Reforms should improve corporate governance and will shift the focus of companies towards shareholder returns. The currency is not seen as a threat, and analysts recommend considering unhedged equity allocations in JPY. There is a strong preference for banks and life insurance companies, favoring domestic stocks over exporters.

- **Emerging markets**: The stance has become more defensive in EM amidst headwinds such as a slowing global growth backdrop, higher interest expense burdens, and challenges in certain sectors affected by China's slowdown. Further, consensus cites weakness in EM exchange rates against the USD as a headwind. Valuations are not particularly cheap and interest rates are unlikely to loosen significantly. Elevated geopolitical uncertainty in countries such as India, Taiwan, Indonesia or Mexico represent a tail risk for these regions. On the other hand, North Asia, EM Europe and South Africa could be potential outperformers according to some analysts. Within EM, there is a consensus preference for favouring defensive sectors.

Total return development



Source: Rothschild & Co, Bloomberg

2024 forecasts

	Japanese Equities	Upside
J.P. Morgan	2500	+8%
Goldman Sachs	2650	+14%
Morgan Stanley	2600	+12%

	EM Equities	Upside
J.P. Morgan	1070	+7%
Goldman Sachs*	550	+7%
Morgan Stanley	1000	+0%

Forecasts as of November 2023, spot prices as of close **18.12.2023**
For Japan index used is Topix, spot price = **2,321.35**
For EM, index used is MSCI Emerging Markets, = **997.91**
*) MSCI Asia-Pacific ex Japan ($), spot price = **513.77**

6

Consensus – Commodities and FX

6.1 Commodities

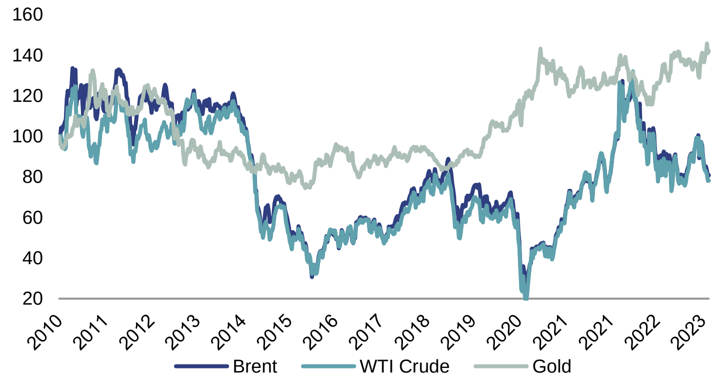
Geopolitics and Fed policy will drive prices in 2024.

- **Gold could remain volatile:** In 2024, the gold price will be driven by the evolution of yields and geopolitical risk. Gold currently appears richly valued versus underlying rates – such as US 10yr real yields – and could experience a pull-back in the short to medium term if geopolitical tensions ease or if the Fed maintains rates high for longer than priced by the market. However, most brokers agree that any retracement should be limited in scale, supported by central Banks buying, geo-political risk and slowing US growth. One broker highlighted that a harder economic landing in the US would likely result in a positive move for the asset class, even though this scenario could push gold down in the short term if sharp equity losses drive gold selling to cover margins.

- **Oil will likely stay range-bound**: Consensus largely expects the oil price to remain flat over the next year. Rising demand – robust emerging market economies, resilience in the US and weak but stable EU growth – should meet non-OPEC supply, led by the US, and allow the OPEC+ alliance to maintain its production cuts to balance oil markets. While one broker cites support for the oil price from supply constraints such as OPEC pricing power and refining underinvestment, they acknowledge that OPEC spare capacity will likely limit the potential upside. A substantial number of elections in oil producing countries next year – Russia, the US and Venezuela – could heighten volatility of oil prices.

- **The green economy supports other metals**: Consensus is generally constructive on copper and aluminum, supported by China's green economic push and further sustained by an emerging recovery in ex-Chinese demand.

Price development



Source: Rothschild & Co, Bloomberg

2024 forecasts

	Q4 24 Target WTI	Upside
J.P. Morgan	$81	+12%
Goldman Sachs	$89	+23%
Morgan Stanley	-	

	Q4 24 Target Brent	Upside
J.P. Morgan	$85	+9%
Goldman Sachs	$94	+21%
Morgan Stanley	$85	+9%

	Q4 24 Target Gold	Upside
J.P. Morgan	$2,175	+7%
Goldman Sachs	$2,050	+1%
Morgan Stanley	$1,950	-4%

Forecasts as of December 2023, spot prices as of **18.12.2023: WTI: $72.4 Brent: $77.9 Gold: $2027**
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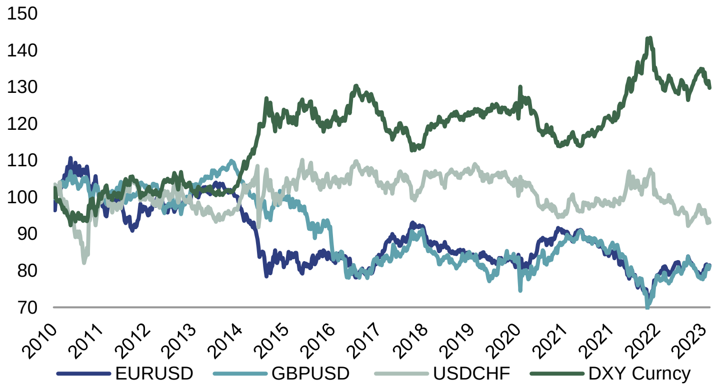
6.2 Foreign exchange

The end of the rate hike cycle is not necessarily negative for the USD. The CHF should remain strong.

- Consensus expects the **USD** to stay solid in 2024, driven by continued US economic resilience and rate divergence versus the rest of the world. Conversely, if the global economy enters a recession, this would fuel risk-off sentiment and also push the safe haven USD higher.
- A weaker dollar requires two conditions: i) Fed rate cuts in response to a weakening economy and & ii) an economic recovery in other parts of the world. As a result, some brokers expect volatility for the USD in the middle of the year.
- The **EUR** may continue to be under pressure, mainly due to economic vulnerabilities in the Eurozone and the impact of the energy shock in the region. A healthier European economy versus the rest of the world would be supportive for the EUR.
- The **GBP** has rallied from October lows in 2023, but brokers continue to see a weaker trend, due to initial signs of an upcoming UK recession combined with a new narrative of the BoE cutting rates next year (despite still high levels of inflation).
- The **CHF** may continue to outperform the EUR, due to its safe-haven status versus the continued economic fragility in the Eurozone. Outperformance of the USD relative to the EUR should also be beneficial to the CHF. Moreover, brokers see the CHF as positively correlated with European and geopolitical risks, therefore well-positioned to act as a hedge.
- Consensus agrees that the **JPY** currently looks cheap versus rate differentials. Some brokers, however, continue to have a bearish view on the JPY as no rate hikes are expected by the Bank of Japan (BoJ) in 2024. The JPY may show some recovery in case the BoJ exits yield controls and if the Fed starts easing monetary policy.

Exchange rate development



Source: Rothschild & Co, Bloomberg

2024 forecasts

	EUR/USD	GBP/USD	USD/CHF	USD/JPY
J.P. Morgan	1.08	1.22	0.88	149.5
Goldman Sachs	1.12	1.35	0.85	140
Morgan Stanley	1.02	1.14	0.93	142

Forecasts as of November 2023 for J.P. Morgan and Morgan Stanley, December for Goldman Sachs
Spot prices as of **18.12.2023: EUR/USD 1.09, GBP/USD 1.26, USD/CHF 0.86, USD/JPY 142**
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Notes and terminology

BoE = Bank of England
BoJ = Bank of Japan
DM = Developed Markets
ECB = European Central Bank
EU = Europe
EM = Emerging Markets
EPS = Earnings per Share
Fed = Federal Reserve
FX = Forex
GDP = Gross Domestic Product
GER = Germany
HY = High Yield
IG = Investment Grade
OPEC = Organization of the Petroleum Exporting Countries
Magnificent Seven Stocks = Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla
P/E = Price to Earnings ratio
YTD = year-to-date
Consensus / the "Street" – refers to J.P. Morgan, Morgan Stanley and Goldman Sachs only for the purpose of this paper

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Note: We select, when available, the closest target to the end of 2023, depending on the counterparty (stated as *end of 2023, 4Q2023, 12-month forecast* or, alternatively, *2H2023*). Forecasts might be changed by counterparties depending on market circumstances.